

Planning to thrive

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I want to be extra careful with the company's money this year. What are some mistakes I could make and how do I avoid them?

This year there will be less room for error, and fewer outside ways to bail out problems. Don't expect things to work out according to plan. Watch what's going on and adjust fast. Don't run too close to the margin. Don't wait to get your fiscal house in order. Be straight with employees.

Rarely do things work out exactly as planned. Unfortunately, most business owners wait until they get into trouble and have to figure out something. Other owners simply expect that things will just work out in the end. In times like these, having a reserve fund and plans to handle emergencies is just plain smart.

What goes into a backup plan? It depends on whether you're talking about customers, vendors, cash flow, loans, employee needs. Each group requires its own set of solutions and preventive actions.

In the case of customers, expect they won't pay, and that some may cut back. Give someone the job of staying on top of accounts receivable. Put someone else in charge of supporting customer relations, getting new and replacement customers. Set aside reserve funds to make up for any temporary shortfall and to fuel a rapid action sales program if necessary.

Plan on vendors failing or at least failing to deliver to spec, on time, in budget. Have a roster of back-up vendors you can call on to quickly step in. Know who will be your best solution / least cost alternative. Put some cushion into your bids or pricing, to allow for switching out vendors if necessary. Watch out for the hidden costs, such as shipping, last minute rush requests and priority handling.

If cash flow tightens up, you'll need to draw on your cash reserves, assuming you have some. Now is the time to put cash aside for emergencies, if you haven't already done so. If you think you can't afford to build up cash reserves in an already tight market, think again. Making cuts now, to shore up cash, may save your business down the road from even bigger problems.

If you have loans outstanding, accelerate paying them down if at all possible. Any time you get big payments in, put 50 percent into cash on hand, and the other 50 percent into paying off credit lines. Get your monthly carrying costs as low as possible, as you build up your cash cushion. This year, cash will be king.

Employees may come to you with requests for pay increases, bonuses, personal loans and help with personal situations. Be careful. If you are not sure your cash on hand is enough (three months of expenses is minimum), then you may not want to expand your payroll expenses right now.

Remember, as CEO, it's your job to protect the company, and keep everyone who works for it as safe as possible. I know it's tough to look an employee in the eye and say "no", but saying "no" now may make the difference between the company surviving and thriving during this challenging year. Also keep in mind that if you have to do layoffs or reduce hours later on this year, your chances of getting paid back on outstanding employee loans goes down dramatically. Tell your employees the truth - that you're doing everything in your power to ensure the company is positioned to stay in business and keep people employed. And that you expect their cooperation in these tough times.

Be sure to watch carefully what's going on. If ever there was a year to have a sales forecast and an expense budget, this is it. Put together a picture of how you think things will go financially. Check reality against the budget monthly and make adjustments to the picture going forward. Prioritize funds for sales and marketing efforts that you know are most likely to boost sales. Make sure your margins - gross and net profit - stay healthy, or make immediate changes.

In the past a lot of business owners have survived by pulling a financial rabbit out of the hat. Either they got a loan at the last minute, or they got in a new customer or a payment came in just in time. It's not that those things can't still happen.

It's just that if something goes wrong and you don't have a safety net under the business, you may be out of luck, out of work and out of business. There are fewer places to turn for help. Better to learn to play it conservative and safe.

Looking for a good book? Try "Financial Management 101: Get A Grip On Your Business Numbers," by Angie Mohr.

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