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#5 | Avoid the evil temptation. Say “NO” to using credit cards, the equity in your home, or any other borrowing.

STAYING AFLOAT

SURVIVAL TACTICS FOR A TOUGH ECONOMY

EDITORIAL | THOMAS HOUCK, CPA, CFP

THOMAS HOUCK, CPA, CFP

Thomas E. Houck, CPA, CFP, is a speaker, author and consultant whose program, “Your CFO Advantage” helps business owners grow their businesses, reduce their taxes and lower their stress level. His book, **The Top 10 Mistakes Business Owners Make (and How to Fix Them)**, helps business owners develop strategies to lead a better life by running a better business. For more information visit his website at heritagebusinesssolutions.com.

Jim is a small business owner who’s been watching the economy evaporate right in front of his eyes. Stress isn’t the word to explain how he feels. His business bears the entire financial burden of funding his mortgage and lifestyle. If the slowdown continues, not only will his nightly tossing and turning get worse, he may have a full-blown nervous breakdown.

Jim is fortunate to have a neighbor, Ken, who helps small business owners “lead better lives by running better businesses.” Since his business had gone so well for the past 10 years, Jim never felt he needed a consultant — until now. His gracious neighbor, Ken, offered Jim two hours of his time gratis to share the “Top 10 Survival Tactics in a Tough Economy.”

Cash flow is king. As a small business owner, you must know how your cash flows. This isn’t fancy accounting; it’s simply tracking how cash comes in vs. how it goes out. Take two hours and use your QuickBooks or check register to get a grasp of this monetary movement.

Trim the fat. Many small businesses experienced a tremendous run in the last 10 years. Since they had good cash flow coming in the door, they allowed fat to accumulate in the things going *out* the door. Now is the time to look at where your money is going, and eliminate unnecessary items. This includes the business Hummer, that expensive copier lease and the T1 connection instead of basic cable modem. You may need to make some tough decisions about eliminating employees. It’s critical that you get your cash outflows to a manageable level ASAP.

Look into the future. When clients and projects were rolling, most entrepreneurs believed that new business would materialize whenever things temporarily slowed down. Those times are gone. Analyze what money is coming in during the next three months, specifically from where, and when. Compare this to the new cash outflows that you assessed in the step above. If things are tight, that’s fine; if more is going out than coming in, trim more and find additional income. Do this exercise each month, always looking at least three months out.

Get back to basics. When you first went into business, you may have had to fight and claw to make ends meet. Make a list of the things you did back then to bring in revenue. You probably moved away from many of those strategies when business improved. This is the time to aggressively return to them.

Avoid the evil temptation. It’s tempting to use credit cards to borrow your way through slow times. Since no one knows how long this slump will last, borrowing may result in the demise of your business. Say “NO” to using credit cards, the equity in your home, or any other borrowing. Resolve that you’re going to scratch and claw your way through this using the cash flows of the business. You’ll come out stronger in the end.

Establish emergency cash reserves. You absolutely *must* have cash reserves, just in case. If you have any money right now, create an emergency fund that equals one, two, or three

months of your cash outflows. Put this in an account, and don’t use it unless it’s life or death for the business. This provides a cushion just in case something bad comes along at the worst possible time. If you don’t have cash now, do everything you can to build up such a reserve.

Communicate with your banker. Your banker is probably as scared as you are. If you’re having trouble keeping up with your obligations, steer clear of him until you can show him a concrete plan for getting cash flows back in shape. Use the steps above to create the basics for the plan and ask your CPA to help you format it. Once it’s complete, communicate to your banker clearly and ask him to help you implement it. If it’s a quality financial institution, they’ll want to see you make it, and help you any way they can.

Remember who lays the golden eggs. Don’t forget who’s paying your bills right now — your customers. Although you want *new* customers, it’s imperative that you keep your *existing* ones. Your competition is desperate, and they may try *anything* to get your customers. Call your clients yourself. Ask them how they’re doing, and if there’s anything you can do to help them out. Ask if they’re happy with your service, and what can you do to provide them with an even better experience going forward.

If you don’t work on the important things, the important things won’t get done. Many business owners are in the same predicament as you. The ones who survive will do so because they’ll do the things above ASAP and get their ship righted. You must make time to work on your cash flows, and improve the customers’ experience NOW. Set aside a full day within the next week to work on the items above, without interruptions and excuses. You might even consider a Sunday, when things are quiet.

Reduce stress. The difference between which businesses get through this slowdown and which don’t has a lot to do with the decisions they make. To make great ones, you must think clearly. When you’re stressed, it’s nearly impossible to make big decisions and show the leadership that’s needed to survive. Some suggestions to lower your stress level include: a daily 10 minute relaxation CD that walks you through deep breathing and stretching; yoga, exercise, or outdoor activities with your family. Anything that allows you to get your mind off things and relax is good.

Entrepreneurs have a sink or swim, do or die mentality. Focus on the right things and you’ll get through this.

Jim left Ken’s house knowing he had a tough road ahead of him but he felt he had the necessary tools to face the challenges head on. ■