

## Survival Tips for Managing During an Economic Downturn\*

*U.S. Small Business Administration*

Running or managing a small business often leaves little time to keep track of national, and even regional, economic indicators that might affect your industry and your specific operation. Yet conditions such as interest rates, inflation, gross national product, stock prices and consumer confidence have direct impact on your profitability and on relationships with vendors, customers and even employees.

During periods of economic decline, whether widespread or cyclical for a particular type of business, entrepreneurs are most likely to bear the brunt. Yet the fact that conditions are changing opens up opportunities for resourceful firms to outsmart larger competitors who, during a downturn, carry on business as usual or are unable to adapt quickly -- except to fire employees. Such innovative small firms can:

- Gain market share by taking it away from competitors unable to adjust to shifting market conditions.
- Maintain a strong cash stream throughout the downturn, in contrast to other companies that may have liquidity problems.
- Become a leaner, more cost-effective and more efficient operation, better positioned to do well when the market improves.

The challenge is to be aggressive and imaginative. Entrepreneurs who survive and even prosper during hard times must be able to look beyond the present, to overcome the constraints of tradition, to see the firm from a new perspective, and to do business differently.

**Here are 14 specific recommendations for small business owners and managers to follow during economic upheavals:**

**1. Watch your inventories carefully, but don't hold them down so tight that you'll lose sales.** Typically during a slowdown, there is an imbalance between slumping retail sales and bloated inventories -- don't be saddled with leftover merchandise that ties up your cash flow.

One possibility is converting inventories into cash. If your business traditionally stocks 250 units of each of its slowest-moving products, consider cutting that number to 100 each. Monitor the results, keeping an eye out for those products that can tolerate even leaner inventories or that should be eliminated from your stock. This way if sales nosedive, less of your cash is locked into unproductive assets.

**2. Taking that point further, monitor your cash flow very diligently, and forecast it monthly to ensure that expenses and planned expenditures are in line with accounts receivable.** Make sure your financial statements provide information that is timely, relevant and accurate. Cash flow statements are superior in this regard to income statements and balance sheets. Be able to project where you will stand three months in advance.

Negotiate with suppliers, contractors and landlords for better prices or short-term reductions, and even consider trading goods and services on a barter exchange for credits instead of for cash. Take advantage of supplier discounts for prompt payment, and don't pay checks for no-discount bills before they're due.

If the cash bind has already surfaced, talk to creditors before the bills are past due to persuade them to extend payments of your current bills. Your chances of getting their cooperation will lessen if you wait until they send collection memos. Keep in mind that suppliers' credit managers will be more receptive if your payment history is a solid one, and you can assure them future bills will be paid on time.

**3. Separate the "nice to do" from the "have to do," and eliminate nonessential expenses as much as possible.** Ask yourself, is that activity necessary? If not, don't do it. Also consider cutting personal spending. Simple solutions such as brown bag lunches and car pooling can make a difference.

**4. Reduce or stretch out debt, and build up your capital reserves.** Watch the credit-worthiness of your customers, even bread and butter accounts. Remaining close to existing customers, and checking to see how they are getting on during the economic downturn, not only helps avoid unpleasant surprises but could also lead to new opportunities.

Besides, when sales are sluggish, keeping in touch with customers (always a sound business practice) becomes vital to head off eager competitors. If appropriate, encourage sales people to call on every customer on a regular basis, and set aside some of your own time to do the same. Frequent face-to-face meetings with your client base provides an excellent opportunity – probably your only one -- to pacify disgruntled customers and win back lost ones.

Try to lock up long-term contracts with your most important customers at anything approaching acceptable terms. Offer prepayment incentives, for example, and discounts on long-term buys.

**5. Get aggressive with collections.** According to the partner of a consulting firm, "when business is good, companies tend to become lazy about collecting on receivables. This can prove dangerous in a recession." Assume that the average collection period for your industry is 45 days, but your company is at 51 days. After bringing that collection period down to the industry average, keep working to get it down to 40 days. Being tough with customers may be unpleasant, but it's an important safeguard against the effects of a prolonged economic slowdown.

**6. In a related vein, look hard at capital spending.** Consider delaying both the purchase of high ticket items and expansion plans that take a long time to pay off. At the same time, make sure you have enough capacity to start filling orders again when the economy stabilizes.

**7. Strengthen your banking relationships, which includes letting lenders know the company's financial position.** Banks are looking for business to boost their income, but are also trying to minimize risk, so they are careful about what kind of loans they undertake. Most experts agree, however, that seeking additional credit

during a recession is not advisable.

**8. Look for opportunities to reduce rented space.** If, similar to many companies, you acquired space in anticipation of staff expansion that ultimately proved unnecessary, this may be a good time to sublet that space -- thus reducing overhead and generating extra income.

With this in mind, commit yourself to subleasing a set percentage of your company's space. By consolidating operations and removing unused equipment, you may find that much of the space you thought you had to have was simply draining the bottom line.

**9. Now is the time to be prudently aggressive in the marketplace.** Actively seek out new business, and perhaps add a salesperson or two or an extra service to give you an edge over competition.

**10. Similarly, don't skimp on service and quality by being understaffed.** Options include freelancers, consultants and part-time employees. One advantage of a slowdown is that hiring gets easier because there are more candidates from which to choose due to layoffs and other cutbacks.

**11. In strategizing how to build your customer base and induce current customers to raise revenues, the importance of good service cannot be overstressed** -- especially as their buying power or willingness to spend is lessened during tough economic times. Studies show that perception of service is fixed primarily in terms of time in a customer's mind. Three examples are: waiting time to obtain service; reaction time to deliver service; and length of time of the service. In banks or stores, or phoning in orders or for information, prospective customers will walk out or hang up if their time perception is strained.

According to management consultant Donald Blumberg, author of *Managing Service as a Strategic Profit Center*, customers will temper their time demands when they see store employees busy helping other customers. But they will not be so tolerant when clerks are chatting with one another or on the phone while waiting customers are ignored. An informal, friendly attitude by owner-managers is key to a happy workplace, with emphasis clearly placed on the important role all employees play in meeting customer needs for attentive, timely service.

**12. Historically, many businesses reduce advertising and promotional expenditures rather than slash fixed costs during hard times.** However, studies have shown that those maintaining or increasing ad outlays during slowdowns wind up outselling rivals who cut back.

Savvy marketers can boost sales and market share, even if the industry in which they compete is in a slump, by focusing on short-term tactical techniques such as sales and price promotions (including cents-off coupons and rebates), and tailoring advertising in response to the shaky economic climate.

#### **Survival Guidelines Include:**

- Monitor your competitors' advertising. If they're cutting down, seriously

consider increasing your ad budget and hitting harder. This will provide a great opportunity to capture -- and retain -- a larger share of the market.

- Avoid gimmicky and clever advertising. Center your message on the benefits and advantages of your product or service -- such as convenience or energy efficiency -- rather than making emotional appeals.
- Use direct-response advertising techniques. Use hard-hitting copy with simple but convincing language, a special offer the prospect will find hard to pass up, and a strong call to action.
- Avoid ads that look like ads. Make them appear to be vital messages to the consumer offering them the most for their money.
- Stress quality and durability. Consumers are looking for as much value as possible in a weak economy. But don't actually use the words "quality" and "durability," as they have degenerated into advertising cliches. Show, don't tell.
- Study advertising research thoroughly. Know which page positions pull best, which copy factors work effectively, which colors do the job, and so on. Spend every ad dollar carefully.
- Re-examine your marketing mix to ensure it is the most cost effective.
- Keep in mind that perceptions play a major role in a weak economy. If people believe money is going to be tight, they will behave as if it is -- even if they have money to spend. Your ads have to convince prospective customers that your product or service is a wise investment.

### **13. Another mistake during recessionary times is to reduce training budgets.**

Training can best be conducted during slack periods -- especially low-cost, on-the-job instruction and broadened skill acquisition. Also, local community colleges offer a number of free classes that teach and upgrade trade and office skills and supervision techniques.

**14. Get employees involved in policy choices as well as tactics and implementation -- asking, for example, if costs can be cut 15 percent without layoffs.** If layoffs or a significant reduction in work hours are unavoidable, let employees take a lead role in designing the program. Shortened hours, job reassignments, job sharing and other alternatives may surface.

Meet with staff regularly to exchange ideas on boosting productivity and other issues. Create an incentive for good suggestions, and foster a team spirit for survival.

Remember that employees need to feel they are important to your company, and that their work is challenging them up to their full capabilities. "Do what I tell you" management styles need to be replaced, because small businesses whose owner or managers are "the whole show" can definitely benefit by encouraging workers on all levels to contribute their expertise instead of just following orders. This is especially true during lean times when challenges to business success are greatest.

While economic downturns are admittedly difficult, and increase the obstacles small businesses face in trying to survive and grow, it is not axiomatic that companies have to slash earnings and compress market share. That recourse befalls firms that take too long to realize what must be done, or which resist

change. Resourceful entrepreneurs capture the available opportunities, and take steps during today's hard times to lay the groundwork for tomorrow's prosperity.

*\*Excerpted with permission from "Small Business Success" magazine, Volume 4, produced by Pacific Bell Directory in partnership with the U.S. Small Business Administration and the Partners for Small Business Excellence.*