

# Businesses can take action to ride out tough times

The sooner small-business owners deal with the souring economy the better, turnaround experts say.

By Cyndia Zwahlen, Special to the [Los Angeles Times](#)  
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If you owe money to Tom Anderson's employee-recruiting company, don't expect to take your time paying.

Every morning, his office manager checks to see which customers have paid their bills. Clients who promised that a check was in the mail get a personal call from Anderson a week later, instead of the nice letter he used to send out.

"In the old days, like January through June of this year, I'd look at our receivables report once a month. Now I do it every week," said Anderson, who has kept the doors open at Los Angeles-based Anderson Associates Staffing Corp. through two previous recessions.

His secret?

"You've got to be proactive," the small-business owner said.

This month, with the stock market melting down, he decided to send letters and e-mails to 10,000 customers offering a temporary price cut of 50%, new payment options and a contrarian message to hire now to tap the growing pool of quality applicants being created by the souring economy.

He's already landed seven new orders and received valuable feedback from dozens of clients on how they are faring and when they expect to begin hiring again, Anderson said.

## Don't wait

Whether your small business is healthy or struggling, there are smart moves you can make now to help ride out the tough times.

Waiting or denial aren't the best strategies, said several experts who specialize in trying to turn around struggling businesses.

"The sooner you deal with operational issues, the better. The sooner you approach the lender, the better," said Mette H. Kurth, president of the Southern California chapter of the Turnaround Management Assn. and special counsel for Sheppard, Mullin, Richter & Hampton in Los Angeles. "You'll find more flexibility. You'll have more options."

An obvious warning sign: running low on cash. You may have just landed a \$50,000 order and show a profit on paper, but as many small-business owners learn too late, that won't put cash in your hands to cover immediate expenses.

"When things start getting tight, profits and losses -- believe it or not -- are not the most important things," said Jeffrey Brandlin, president of the Los Angeles-based investigative accounting firm and financial consultancy Brandlin & Associates.

"The most important thing is cash and cash management," said the certified public accountant, whose clients include banks, asset-based lenders and private equity groups.

Another warning sign is a drop in precursors to sales, said Thomas S. Paccioretti, principal of Broadway Advisors, a crisis management and turnaround consulting firm in Los Angeles.

Are you getting fewer automatic reorders? Are requests for presentations to potential clients down? Are fewer potential customers coming in the door?

"When these things start happening, people panic," Paccioretti said. "Don't panic, but you need a plan."

When he or other turnaround professionals are brought into a business, the first thing they do is map out cash flow for the next 13 weeks.

This is different from the monthly sales and expense projections most businesses routinely create. Instead, it shows how much money will come in each week and how much will flow out.

A monthly projection could show positive cash flow at the beginning and end of the month. But what about the time in between?

"When payroll is due, you might take a dip and go negative, and you need to know that and put together a plan for how to avoid it," said Paccioretti, who charges \$5,000 to \$10,000 for an initial cash-flow analysis.

That analysis is then updated weekly, matching actual cash in and cash out to what was budgeted.

For small-business owners who want to do it themselves, nailing down expenses will be the easiest part, Paccioretti said. Figuring out what revenue is expected and when takes more effort. His advice: Follow the 80/20 rule and focus on the 20% of customers who account for 80% or the majority of sales.

### **Improve cash flow**

Here are some steps to help improve cash flow and strengthen your business.

- \* Tighten up debt collection. Anderson noticed his accounts receivable inching into the 45-day mark last summer, so he took action. A recent memo from a collection agency he uses also got his attention. It advised referring late payers at 45 days instead of 90 "because businesses are going bad so fast," he said.

"It was like a bucket of ice water," Anderson said.

Once you have your cash-flow analysis, you'll know how much room you have to negotiate payments.

- \* Sell excess assets. Look for assets you can convert to cash that aren't crucial to the operation of your business, Brandlin said. That could include infrequently used equipment, real estate or slow-moving inventory.

- \* Find new vendors. If you owe a vendor, consider finding a new vendor who will give you credit to buy the same items, Brandlin said.

- \* Boost marketing. A company needs to constantly look for opportunities to grow, especially if it is caught in an industry that is going south, said Bill Tom, president of InfoQuest Management Consulting Co. in Brea and a franchise owner of the Alternative Board, which provides individual and group business coaching.

For every \$2 a company cuts in costs, it should put \$1 toward marketing, Tom said.

- \* Negotiate with lenders. Once you have your cash-flow picture and have taken steps to cut costs and boost cash, consider asking your lenders for better deals. Even if your company is in trouble, the earlier you ask for help, the better the chance the company will survive.

"There's an awful lot of things we can do with people other than throwing them into bankruptcy," said Kurth of the Turnaround Management Assn. "You can negotiate different terms or covenant waivers or a distressed asset sale."

\* Be a leader. Small-business owners need to remember that their moods will rub off on their employees, Tom said.

"Hope is what combats fear, and the more hope they have, the more productive they will be and the better the possibility they will succeed during these very difficult times," Tom said. "In order to have optimism and hope, they need to have a game plan."