

How to Survive the Recession



**Grand Strand SCORE
Myrtle Beach, SC**

How to Recognize a Recession

- GDP is essentially flat
- Inflation is up – especially gas and food
- Credit is tight
- Stock market declines
- Unemployment is rising
- A steady stream of bad news

In the best of times, 40,000 businesses fail each year in the United States

Impacts on Small Businesses

- Consumer spending is down
- Debt is rising
- Competition intensifies
- Expenses go up
- Employees demand higher salaries
- Business becomes unpredictable
- Investment opportunities increase

Impacts on Small Businesses

For small businesses, that means fewer customers, with less dollars to spend and greater competition for their dollars

What are the Warning Signs?



- Can't pay monthly bills
- No profit at month end
- No paycheck at end of the month
- Inventory accumulating
- Buying patterns are changing

What are the Options?

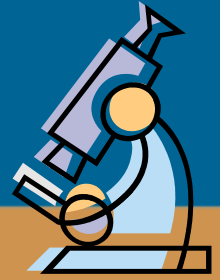
Increase revenues and/or reduce costs
or both



Take Tactical Actions

- Craft immediate tactical, survival strategies
 - Focus on the next three to six months
- Develop standard accounting reports
 - Balance Sheet, Income Statement, Profit and Loss Statement
- Focus on 5 largest expense items
- Get help from an objective 3rd party
 - Accountant, Lenders, SCORE, SBDC

Step 1 – Look Internally



Review the entire company objectively

- Product/service offering are current and meets market needs
- Structure, location, and appearance positively received by market
- Personnel very knowledgeable about company & products/services
- Customers aware of benefits **to them** provided by you
- Customers see you as primary supplier to meet **their** needs

Step 2 – Stop the Bleeding



- 1) Keep employees informed of the current business situation
- 2) Ask employees for suggestions for improvement
- 3) Review top 5 company expenditures
- 4) Owners should review **all** expenditures and sign **all** checks
- 5) Assign one employee to collect past due accounts. If they are having a problem, owner should call

Step 2 – Stop the Bleeding

- 6) Review cash flow/cash on hand for next 3-6 months
- 7) Monitor all employees expenses
- 8) Try to secure extended payment terms from suppliers
- 9) Consider purchasing via company credit card.
This may give you 15-25 days of extended terms
- 10) If cash position allows, take advantage of early pay discounts

Step 2 – Stop the Bleeding

- 11) Consider a twice monthly pay schedule
- 12) Reduce employees hours versus layoff.
Also consider using contract labor (know IRS rules).
- 13) All office meetings should be very early in the day.
Keep short and focus on important issues.
- 14) Try to secure line of credit for unforeseen expenses

Step 3 – Downsize



- 1) Downsize office
- 2) Reduce employees, eliminate those that are not performing
- 3) Review and reduce all office expenditures
NOTHING IS SACRED !!!
- 4) Reduce slow moving inventory
- 5) Review advertising and reduce if possible

Step 3 – Downsize



- 6) Review all salaries, including owners, to see if they can be reduced
- 7) Eliminate company cars where not required
- 8) Reduce vacation time until things improve
- 9) Review the business with your accountant and banker to determine if you will be able to survive the recession
- 10) If you cannot maintain your debt levels, develop a restructuring plan

**DON'T USE MONEY FROM EMPLOYEE
WAGES TO OPERATE YOUR COMPANY**

Step 4 – Restructure Debt

- Should you restructure debt on your own?
 - If you can afford to pay off past due debts over the next three months, you can handle the debt
 - If you need six months to pay off these debts, you can probably negotiate with your creditors
 - If you need one year to pay off debts, you need a restructuring plan
 - If you need more than one year, seek professional help

Prioritize Creditors To Be Restructured

- ***Should*** restructure payments to creditors who:
 - No longer willing to do business with you
 - You no longer need to do business with
 - Have stopped giving you credit
 - Are not critical to your survival
 - Have placed you for collection

Prioritize Creditors To Be Restructured

- **Could** restructure payments to creditors who:
 - Are still willing to sell to you
 - Are not pushing for past due balances
 - Provide important products, services and/or equipment, but they can be purchased elsewhere

Prioritize Creditors To Be Restructured

- Do not restructure payments to **Vital** creditors who:
 - Are critical to your survival
 - Provide essential products, services and/or equipment, without which you would be forced to close your doors
 - Are single sources of products, services and/or equipment needed to sustain daily business operations

A Settlement Proposal Needs:



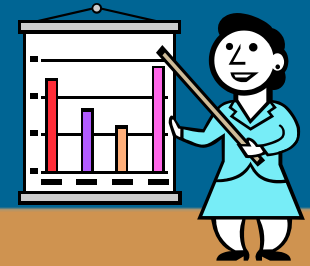
- A hardship cover letter – summarizes the problem
- A payment plan proposal – offers alternative payment options
- A business history profile – summarizes causes, extenuating circumstances and actions

Source: Corporate Turnaround (www.CompanyDebts.com)

Increase Revenues

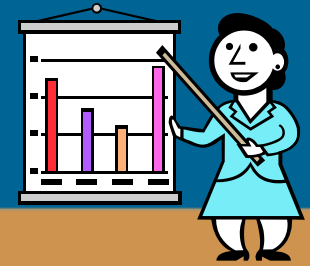
Products and Services	New	Existing
	Existing	New
	Customers	

Increase Revenues



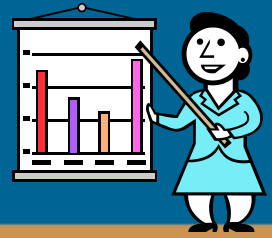
- **Marketing**
 - Apply extra effort in proven marketing techniques for your business. What worked before is likely to work again.
 - Revisit old sales leads.
 - Consider increasing your marketing budget and try new approaches
- **Bundle Products**
 - Provide special sales offerings or more attractive pricing—buy two get one free, get free glass of wine with order of calamari,....

Increase Revenues



- **Expand**
Offer related products or services. If a customer is happy with your service, he will prefer to buy more items from you
- **Evaluate Pricing**
Increase where necessary, decrease to improve sales. This should be done gradually, regularly and in small increments.
- **Monitor Successful Competitors**
Watch if their prices change and respond appropriately

Increase Revenues



Emphasize Your Strengths

Make sure your employees/sales people know this precisely and more importantly--- **that your customers know.**

Look for Opportunities

you are an expert in your field, take advantage of bargains on used equipment, recruiting employees, buying businesses at discounts,...

Stay Current

Keep up to date with your industry utilizing trade organizations, publications, networking

When to “Hold ‘em”; When to “Fold ‘em”



There is no way out of the problem

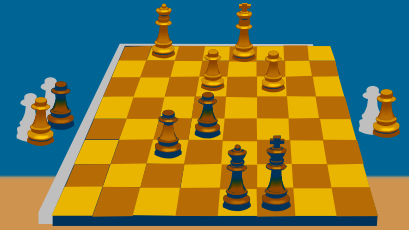
Investigate Bankruptcy

- **Consult a Bankruptcy Attorney**
- **Key Bankruptcy Issues:**
 - Continue to operate or liquidate?
 - Who manages the business?
 - Payment terms for outstanding debt?
 - Which assets remain?
- **Types of Bankruptcy**
 - Chapter 7 – Liquidation
 - Chapter 13 – Reorganization for individuals
 - Chapter 11 – Reorganization for larger businesses



Note: If debt is guaranteed with personal assets, you are still liable

Summary



- **Think** strategically; **Act** tactically
 - Focus on the next three to six months
- **Attack** expenses aggressively
 - Focus on the five largest expense items
- Centralize control of expenditures
- Use “free” time to increase marketing
- Get help