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## **MANAGING YOUR BUSINESS IN A TIME OF ADVERSITY**

By Bruce L. Hodgman

The current economic crisis is just a reminder of the importance and benefits of having a sound strategy that you can use to navigate through turbulent times. Arizona small business owners should not hesitate to seek assistance from qualified sources such as their certified public accountants, attorneys, or small business counselor to help you make intelligent financial decisions for the future of your small business.

In the meantime, below are some tips to help you assess your current financial condition and start rethinking your business model to face the current economic challenges you may find yourself in right now.

### 1. **DON'T PANIC.**

- We have seen too many small businesses make bad decisions because they react in a panic mode.
- Take a deep breath, assess the situation, and analyze the facts. Be realistic!
- Make sure you clearly understand what is causing the problem – economy, competition, or management.
- Start by reviewing your cash position and anticipated cash needs.
- Are they in line with your business's short-term needs, goals, and market conditions?
- Don't engage in panic selling of any personal or business investments.
- Make sure your personal retirement portfolio is diversified and in accordance with your risk tolerance.

### 2. **GET A HANDLE ON EXPENSES AND INCOME –PERSONAL AND BUSINESS.**

- Make sure you have a complete understanding of your financial statements – P&L's, Balance Sheet, and Agings. What is my Cash Flow Cycle?
- Am I using a cash flow management tool such as a cash flow budget?
- Are you meeting your budget projections?
- If you have noticed a drop in your revenues, try to determine how much of a drop in revenues your business can handle and for how long? Find out WHY they dropped – is it the economy or people over reacting?
- Determine your cash flow needs for the next 6 to 12 months. What about next year?
- Do you have sufficient cash reserves for the next 30 to 60 days?

### 3. **FIND OUT WHAT'S YOUR STATUS.**

- Check with your creditors including lenders on the status of your credit lines, debts or loans.
- Make sure you clearly understand and comply with their credit terms or conditions.
- Contact your existing bank and ask if they will renew any credit commitments at similar amounts, rates, and terms.
- Ask if deferments or restructuring is available.
- If your credit lines are frozen or at their maximum limits, consider meeting with vendors and working out a schedule of partial payments that would allow continued delivery of critical materials and supplies.

#### 4. **CUT EXPENSES – TO THE BONE.**

- Determine if you can cut personal expenses then cut business expenses. What will impact my bottom line?
- Minimize the need for credit by reducing or eliminating any non-critical expenses.
- Analyze your expenses and determine which ones can be controlled.
- Can you reduce spending in any areas to put less of a burden on your cash-flow needs?
- As necessary, communicate to staff/team members about the need to tighten spending. Are layoffs an option?
- If you are a manufacturer, review inventory management practices.
- Are there opportunities to reduce your on-hand inventory?
- Service companies should make sure they're capturing all their billable hours and invoicing promptly.
- Have you billed all your contractual items?
- How about all your pass-through expenses, such as billable third-party services and travel and living expenses?
- Consider ways to pass your increased costs (i.e., fuel expense) on to your customers.

#### 5. **WHAT ARE YOUR CREDIT TERMS?**

- Refocus on your balance sheet and how much credit you are extending to your customers.
- Keep an eye on your accounts receivable to see if they balloon.
- Watch for new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine whether credit or economic slowdown will affect their ability to pay you.
- Keep receivables aging current at all times! Know every day what customers that is current, past due, or uncollectible. Find out why and who to contact.
- Look for A/R Options such as change of selling terms, collection methods, pricing or alternative financing such as factors.

#### 7. **LOOK FOR INVENTORY PROBLEMS.**

- What selling and what is not.
- Are my inventories in balance or do I have an obsolescence problem? Too much? Not enough?
- What is my Turnover Rate? Where are the profit's?
- What is costing me money?

8. **CUSTOMERS.**

- Who are your customers? What do they look like?
- Where do they live, shop, and how can I reach them?
- Am I keeping track of them?

9. **AM I BANKABLE?**

- Can I get new credit if I must borrow money?
- What sources should I consider?
- What are my credit factors – good and bad?
- Do I know how to manage my existing SBA loan? Can I get a deferment or refinancing?
- Should I ask SBA to review my credit factors to see if I am bankable?

6. **ALTERNATIVE FINANCING.**

- Look into alternative types of financing.
- Some to be considered are loans on life insurance policies, loans from key customers that rely on your business for their materials and supplies or from labor unions, local development agencies or local government programs.

7. **MANAGE ACCOUNTS PAYABLE MORE CLOSELY.**

- Forfeiting early pay discounts may be more advantageous in preserving cash that may be needed for critical items.
- Keep payables aging current at all times, because that is an important tool for managing cash flow.

8. **START PLANNING TODAY.**

- Come up with a plan NOW to respond to future declines in cash, before the need actually occurs.
- Dust off your old business plan by bringing it up to date. Change the title to “Recovery Plan” and re-think your business strategies and update projections. Review your product/service lines to identify the most profitable items and determine how to leverage for future growth in profits.
- Do I know my “Break Even Point” exactly?
- Have I completed an accurate direct costing of all products or services? (Important!)

9. **CONTACT YOUR GOOD CUSTOMERS.**

- Make sure they know you will be there for them in the future.
- Even casual discussions can lead to new business opportunities.
- Will more advertising help with income or just add to losses? If yes, what kind of advertising can I afford?

10. **CHECK INSURANCE COVERAGE.**

- Review all your insurance coverage, particularly any from companies with weak balance sheets.
- Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.

11. **REMEMBER YOUR EMPLOYEES.**

- Calm your employees' fears about how this crisis will affect the company, their jobs and their retirement or other benefit plans.
- Speculation and gossip are counterproductive, so it's better to address their concerns directly.

12. **STAY FOCUSED ON YOUR OWN ADVANTAGES.**

- Your small business has greater flexibility and can more easily adjust to these economic changes than the larger companies within your industry.
- As a small business owner, you can use the recent crisis as an opportunity to buckle down, refocus, assess, and make your company more financially sound, disciplined and less reliant on credit.

13. **BE PREPARED.**

- No one wants to consider this but *be prepared* if you fail and must close your business.
- What do I need to do in managing an orderly liquidation? How do I keep my creditors in the loop? How do my creditors dispose of my assets? What about deficiency balances? What impact will it have on my credit rating?
- Who do I call? What legal advice should I seek?

Although times are tough and things may seem impossible, remember that you are not alone! This is a situation that is manageable with the help of trusted and experienced advisers. It may be the economy BUT THIS IS YOUR BUSINESS! Roll up your sleeves and sharpen your pencil. make decision and pinpoint problems. Keep track of your efforts and analyze, adjust and review.

If you would like to set up an appointment so that we can assist you in navigating through these tough economic times, please contact one of our resource partners. The SBA has been helping Arizona small business owners just like you since 1953, we understand how these challenging times effect your small business and our resource partners can work with you to help navigate rough economic challenges we all face – for free. Please contact them today to gauge your current situation in the wake of recent market events and create a sound, business recovery plan in response.

**SCORE Business Counselors**  
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