

Eleven Ways to Avoid Trouble in Recessionary Times

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Be wary of too high a customer concentration

Many troubled companies grew quickly by virtue of a major customer supplying large amounts of profitable business. As the amount of this business grew, the company invested in equipment or inventory to service the business, ignored smaller customers or potential customers, and ultimately became overly dependent on one revenue source. All of a sudden the customer changed personnel, was acquired, or worst of all went bankrupt, leaving the small business with expensive excess capacity, unsalable inventory, possibly worthless accounts receivable, and few immediate prospects for replacement business.

Delegation does not mean abdication

Management textbooks stress the virtues of effective delegation. Many small business owners, especially when faced with rapid growth, abdicate responsibility over key business functions that they do not like to do or do not see as adding value (typically administrative functions such as purchasing and accounting). Purchasing and accounting functions run amok are common situations in almost every failed business.

Do what you do well

Many successful business owners decide that they need to be bigger, or they become bored with the niche that they are successfully serving and want to try something different. Venturing into new arenas often leads to disaster if done without adequate preparation, and can end up sacrificing the successful business for the failed new venture. Success in one venue does not guarantee success in other venues.

Focus on what you do not do well

Business owners that avoid trouble usually do so by paying attention to the areas where they are weakest. Conversely, business owners that tend to fail also tend to concentrate on doing more of what they do well when they get in trouble – salesmen will try to sell themselves out of every problem, financial people will cut costs in response to every problem, etc. In general, if you are a good salesman than sales probably are not your problem and you need to look at the rest of your operation.

Realize that more money is usually not the answer

Running out of cash is a symptom of a flawed business. Too many entrepreneurs consider running out of cash to be the primary problem, and end up throwing more money (as well as their houses, kid's college funds, etc.) into a business that continues to bleed. Cash should only be infused into a business if it is accompanied by a good turnaround plan to fix the real problems.

Never stop marketing

Someone has to have you in mind for them to become your customer when the need for your product or service manifests itself. There are lead times in obtaining new customers. Every business has normal customer attrition. Keep working today on replacing the customer you may lose tomorrow.

Do not be too optimistic

Don't buy more than you can sell just to take advantage of quantity discounts. Don't buy too much inventory, supplies, or equipment on the expectation of new business – it is often better to pay more for a rush order than to eat your overstocks.

Recognize and react to the early warning signs of trouble

The key word is **react**. Early signs of trouble include shrinking cash balances, increased aging of accounts receivable and accounts payable, declining sales, declining margins, customer complaints, and slower inventory turns.

Do not consider any of the above warning signs to be short-term problems due to the weather, the economy, anthrax scares, discontent over the new property tax assessments, etc.

Do not lie to customers, vendors, or lenders – they will usually bend over backwards for people they trust, and immediately shut down those they don't. Be proactive with people that you will depend on to help you turn things around.

Have a good monitoring system

You cannot respond to what you don't know about. Listen to customers, employees, vendors, and anyone else who will talk to you. Have an accounting system that lets you easily see what is happening with your business.

Usual first action steps to take in response to trouble:

1. Admit to having problems, having made mistakes, etc.
2. Take absolute control of your cash – micro-manage all inflows and outflows
3. Identify and address core business problems once cash flow is stabilized
4. Develop a short-term business plan with priorities, time and action steps, and measurable goals. Do not deviate from established priorities.

Above all, Stay Calm and Stay Focused

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