

Weathering the Economic Storm

By Chris Gattis

The economy is slow and jobs are gone. The outlook is not so rose-colored these days. How's a small business owner to survive this economic storm?

Corporate Dashboard

Start by re-evaluating your corporate dashboard. What's a corporate dashboard, you say? It's like your car's dashboard in that you have a few gauges that tell you the important aspects of your cars performance. For instance you have a speedometer, tachometer, fuel gauge, temperature gauge and voltmeter. Perhaps your car has more, perhaps less. In any event, these few gauges measure and tell you in a *visual* way, how the most important functions of your car are performing. In the same way, you and your management should evaluate and determine the most important functions of your business and then keep your eyes on them every day. By creating a 'dashboard', you have a single sheet of paper or even better, a single computer screen displaying the vital characteristics of your business. If one of the gauges is off, you should investigate.

On a regular basis, you and your team should determine if your dashboard is still serving as the most important measures of your business. If not, make the necessary changes. Once you've determined what to look at, then actually look at it. Having a nice dashboard set up in your corporate intranet and then not using it to better manage your business is like buying a new car and not filling it with fuel. It might look nice sitting there, but it doesn't provide you any transportation and it costs a lot of money.

When your dashboard tells you that something is amiss in your operations, investigate further and get to the bottom of the problem. Determine the best course of action to fix the problem and then measure your results. Continue tweaking the problem and measuring your results until the problem is solved or the process is improved. The key is to take action and measure results.

Review Profitability

While a dashboard is the first place to start, it's only the beginning. In difficult economic times, you need to re-evaluate your whole business model and squeeze out every penny of cost and every measure of efficiency in your systems. Begin by looking at the big picture, but on a smaller basis. Create weekly income statements and cash flow reports to discover faster if you have problems. If something doesn't look right, dig deeper into the numbers to see what's happening and hopefully be in a position to take action quickly. Don't wait for a whole month to go by and then wait a couple of weeks more to prepare official statements before you look at something. Use the basic output from your accounting system and call it 'close enough' and take a look every week at your performance. You'll know which accrual items are missing and which month-end entries are not included. Don't get hung up on those details. Look at the basic performance of the business units and hunt for abnormalities. If you find them, go to the source department and try to determine the root cause of the issue.



Also look at the profitability of your major product lines and customers. Do you have products that aren't carrying their weight? Evaluate the possibility of raising prices, changing the cost structure or physical makeup or whether to quit making the product or service all together. It does you no good to produce products at a loss unless a very small real dollar loss is creating big profits or dramatically reducing costs in another product line.

If you have customers that aren't profitable, evaluate them in the same way you would a loss-producing product. Do you really need a customer that causes you to lose money? Unless they provide some other benefit far in excess of the losses they produce, you need to discuss price increases to make them somewhat profitable or help them find another supplier so you can stop your bleeding. While getting rid of a customer flies in the face of conventional wisdom, you don't need to keep a customer who's putting you in the red. In some cases, customers who know their accounts are not profitable will be willing to work with you to find solutions so they don't have to find another supplier. However, if they don't care about your mutual profitability, it's time to send them packing.

Review Costs

The small business owner should review cost structures and operating efficiencies and make improvement plans. Start with your product costs. Look for ways to reduce costs in every phase of operations. If you can save a few pennies of cost in each operation, you'll make your whole business more profitable. Some of the more obvious ways to reduce your product costs are:

Inventory Management:

- Better manage your inventories
- Improve your purchasing efficiencies
- Review your min-max order points to reduce costs
- Work with vendors to improve delivery lead times
- Consider bulk purchase contracts to reduce costs
- Use vendors to warehouse raw material inventories
- Use just in time deliveries where possible
- Evaluate employee counts and efficiencies

Review Operating Costs of:

- Employee workloads and counts
- Benefits coverage and costs with your insurance agent and make changes as appropriate
- Your energy usage; on plant equipment, warehouses, offices - everywhere you use it
- Operating costs of in-plant vehicles
- Fleet efficiencies; track # of deliveries, % of truck full, speed, idling

Review Costs of Services:

- Telephone
- Internet
- Waste disposal



- Electricity, natural gas, water
- Confidential shredding
- Temp employee contracts
- Office equipment service contracts

Financial Costs:

- Insurance coverages
- Bank line interest rates
- Credit card fees
- Merchant account fees

The lists can go on and on, but I think you get the picture. With your management team, divide and conquer. Split the company operating costs into categories and assign each to the manager most able to attack costs in that part of the company. Take each category and apply a simple Pareto analysis to the costs and start with the biggest. Don't be afraid to think outside the box either. If the only way to decrease fleet costs is to design and implement a fleet safety policy, then do it. Generally speaking, the safer and more well trained your fleet, the less accidents they'll have. Fewer accidents mean lower insurance cost, lower deductible costs and lower damage to leased delivery vehicles. You win all around, plus your employees behave more safely, and that's always a good thing.

Once you've reduced costs as far as possible on the first item, start working on the second item. On the other hand, if you find that you can save money on an item further down the list by making a simple change, do it. Take whatever approach works for you and your company. As those shoe guys say, "Just Do It!"

It's the Cash, Stupid!

In the verbeage of the 90s and the lesson painfully learned by President Bush (41), "it's the economy, stupid!" Times have changed and for the worse, but the theme for small business stays the same. It's not the economy, it's the cash. It's always been the cash. It'll always be the cash. For small business success, CASH IS KING. A small business can survive a period of less-than-optimal profitability. But as soon as a small business runs out of cash, it's out of business. If you can't make payroll on Friday, how many of those employees will show up on Monday and keep working? If you can't pay for that last load of raw materials, do you think you'll get another? What if you don't make your loan payment to the bank? I'll tell you what, you're done!

Cash is important for small business success in all times, but especially so during times of economic turmoil. Look for ways to collect your cash faster and conserve it once in your possession. A few options to consider might include:

- Collect your accounts receivable faster
- Review your credit policies
- Consider shortening your payment terms or offering a larger cash discount for quick payment
- Postpone expansion plans until the market is stronger



- Don't build new buildings or add more office space
- Postpone any risky projects
- Delay hiring new employees unless they will directly improve cash flow
- Reconsider expanding into new sales territories

In some cases, your business will need to do new things and expand in some ways. The key is to postpone any risky ventures until times are better. Those ventures that you consider worthwhile need a rock-solid and fast ROI to prevent excessive cash drains. When you do decide to try new things, make sure you have ample cash reserves in case your time-frames lengthen and cash doesn't flow as you anticipated. Remember, it's difficult enough to profitably expand and conserve cash during good times, much less during bad times.

Work on Your Relationships

Finally, work on your business relationships especially hard during difficult economic times. Pay attention to the needs of your larger customers. Schedule face-to-face meetings to review their needs and your ability to solve their problems. If you can find way to cut costs on your side and serve them more efficiently, you both win and they'll appreciate your being proactive in the relationship. But don't stop with your customers, talk with your vendors and financial partners. Major vendors don't want to lose your business and will work with you to have a more efficient relationship. In the same way, your banker, insurance broker and other business partners should all understand your plans and be ready to work with you to insure your success.

Summary

Times of economic distress call for proactive management. Pay attention to your financial performance and operational efficiencies. Review the profitability of your product lines and customers. Review costs and production efficiencies including inventory management and employee counts. Watch your cash and work on improving the relationships with your business partners. Focus your team on your plan, measure your performance and take action where needed.

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