Outlasting Hard Times

Summary: Run any business for long enough and you'll go through a down cycle. This article identifies some practical tips on preparing your business for hard times, and surviving them when they come.

By Robert Sher

Hard times can befall a business for many reasons, only one of which is the economy. As I write this, there is lots of negativity in the media and the stock market, so it's easy to start panicking and running a business too conservatively. Running a business too conservatively means that you'll miss opportunities to grow, you'll under spend in critical areas, and although you'll have less risk of a big crash, your business will slowly weaken and shrink.

But if you look *objectively* at the situation that you find your business in, and you find the environment in a temporary downturn, then your goal will be to outlast that downturn and have a strong company when good times return. That is the topic of this article. If you think that better times will never return, this article will only help you survive longer to give you a chance for an entirely new strategy for making a living. On the flip side, if you have a big war chest and are on an expansion plan during down times while your competition is weak (a good idea if you have money), this article isn't for you either.

Survival in a downturn requires the business leader to be tough, and to do unpopular things in order to want to survive. I'll write some things that sound harsh, like fire people fast, but survival is a harsh thing.

Although this may be too late for some readers, there are a few things you should be doing when conditions are good to put you in a strong position for survival when the inevitable downturn does come, and they always do.

1. Reduce your debt. Having to make debt payments is really hard in lean times. The survival rate of no-debt companies is much higher.
2. Get on the good side of the bank and increase and enlarge your credit line, but don't use it! For debt that you'll need for a long time, use long term loans, not your credit line. Banks won't give you loans when you're on the ropes -- so you must have them in place and set up BEFORE you really need them.

If you are concerned about an impending downturn, you probably want to:

1. Beef up key infrastructure items, like your computers, production equipment, phone systems, and the like while you still have enough money. They should be solid enough so that if you don't replace any of them for two years, they'll still be functional.
2. Stop marginal programs. These are the great ideas that turned out to not be very great. Stopping them and cutting back the expenses helps the bottom line and forces you to focus on the core business.

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3. Protect your own personal net worth; separate it from the business risk. There is a lot you can do to shield your own assets from a business failure, but only if you get them accomplished more than a year before a bankruptcy filing. Some debt is also stickier than other debt -- some kinds of debt are so sticky that you can't even shake it in a bankruptcy filing. Work to pay that kind of debt down first.

When the downturn is upon you, you'll need to "hold your breath" until things pick up. The biggest piece of advice: **Don't burn through cash!** Cut as hard and as fast as you must in order to:

1. Stay profitable every month. Having losses will suck your business dry, and will act like a countdown toward execution.
2. Don't build up assets like inventory or fixed assets. At most allow for replenishment only.
3. Don't let liabilities grow, especially secured liabilities or those you can never shed. No running up the credit card, the line of credit, or even vendor debt if you can avoid it. Don't spend!
4. Sell off inventory and equipment you don't need. Work hard to collect receivables each month. This generates cash that was locked up in your business.
5. Layoff people sooner than you think you should. Fire those employees you don't love. As the work slows down, so do the people--they tend to stretch out their work, and will tell you "everyone we have is essential". Don't believe it. Keep your wages in line with your sales volume.
6. Pay rapt attention to customers, don't lose them, instead grow them. You need to try and keep the overall sales volume up, and finding new customers is really hard. If the volume falls too low, you'll have trouble covering your overhead.
7. Take limited risks to push sales up, not big gambles (unless you're well funded and your strategy is to grab market share). All cost cutting and no growth can lead to oblivion. But if you can try some product extensions or new promotions to certain customer groups and pick up some volume, you'll cover your overhead more easily.   But please, no big bets.

Lastly, focus on the one thing you do that is special and that gets you new orders and customers -- spend resources on that, and ignore as much of the rest as you possibly can. Having run a business through several downturns, I can tell you that it's hard work-- much harder than writing, or reading this article. But there's no substitute to just getting down to the work. Dig in!

Takeaways:

- When times are good, invest wisely so that your infrastructure can coast through a downturn without eating up cash.
- Stay profitable at all times. You must emerge from the downturn strong.
- Spend money primarily on the core of your business – that one thing that gives you the greatest edge over your competition.

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