

SURVIVAL TIPS FOR SMALL BUSINESSES

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SURVIVAL TIPS FOR SMALL BUSINESSES

You may be in Mail Order, Direct Mail, or you may be a local merchant with 150 employees; whichever, however or whatever - you've got to know how to keep your business alive during economic recessions. Anytime the cash flow in a business, large or small, starts to tighten up, the money management of that business has to be run as a "tight ship."

Some of the things you can and should do include protecting yourself from expenditures made on sudden impulse. We've all bought merchandise or services we really didn't need simply because we were in the mood, or perhaps in response to the flamboyancy of the advertising or the persuasiveness of the salesperson. Then we sort of "wake up" a couple of days later and find that we've committed hundreds of dollars of business funds for an item or service that's not essential to the success of our own business, when really pressing items had been waiting for those dollars.

If you are incorporated, you can eliminate these "impulse purchases chases" by including in your by-laws a clause that states: "All purchasing decisions over (a certain amount) are contingent upon approval by the board of directors." This will force you to consider any "impulse purchases" of considerable cost, and may even be a reminder in the case of smaller purchases.

If your business is a partnership, you can state, when faced with a buying decision, that all purchases are contingent upon the approval of a third party. In reality, the third party can be your partner, one of your department heads, or even one of your suppliers.

If your business is a sole proprietorship, you don't have much to worry about really, because as an individual you have three days to think about your purchase, and then to nullify that purchase if you think you don't really need it or can't afford it.

While you may think you cannot afford it, be sure that you don't "short-change" your self on professional services. This would apply especially during a time of emergency. Anytime you commit yourself and move ahead without completely investigating all the angles, and preparing yourself for all the contingencies that may arise, you're skating on thin ice. Regardless of the costs involved, it always pays off in the long run to seek out the advice of experienced professionals before embarking on a plan that could ruin you.

As an example, an experienced business consultant can fill you in on the 1244 stock advantages. Getting eligibility for the 1244 stock category is a very simple process, but one with tremendous benefits to your business.

The 1244 status encourages investors to put equity capital into your business because in the event of a loss, amounts up to the entire sum of the investment can be written off in the current year. Without the "1244" classification, any losses would have to be spread over several years, and this, of course, would greatly lessen the attractiveness of your company's stock. Any business owner who has not filed the 1244 corporation has in effect cut himself off from 90 percent of his prospective investors.

Particularly when sales are down, you must be "hard-nosed" with people trying to sell you

luxuries for your business. When business is booming, you undoubtedly will allow sales people to show you new models of equipment or a new line of supplies; but when your business is down, skip the entertaining frills and concentrate on the basics. Great care must be taken however, to maintain courtesy and allow these sellers to consider you a friend and call back at another time.

Your company's books should reflect your way of thinking, and whoever maintains them should generate information according to your policies. Thus, you should hire an outside accountant or accounting firm to figure your return on your investment, as well as the turnover on your accounts receivable and inventory. Such an audit or survey should focus in depth on any or every item within your financial statement that merits special attention. In this way, you'll probably uncover any potential financial problems before they become readily apparent, and certainly before they could get out of hand.

Many small companies set up advisory boards of outside professional people. These are sometimes known as Power Circles and once in place, the business always benefits, especially in times of short operating capital. Such an advisory board or power circle should include an attorney, a certified public accountant, civic club leaders, owners or managers of businesses similar to yours, and retired executives. Setting up such an advisory board of directors is really quite easy, because most people you ask will be honored to serve.

Once your board is set up, you should meet about once a month and present material for review. Each meeting should be a discussion of your business problems and an input from your advisors relative to possible solutions. These members of your board of advisors should offer you advice as well as alternatives, and provide you with objectivity. No formal decisions need to be made either at your board meeting, or as a result of them, but you should be able to gain a great deal from the suggestions you hear.

You will find that most of your customers have the money to pay at least some of what they owe you immediately. To keep them current, and the number of accounts receivable in your files to a minimum, you should call them on the phone and ask for some kind of explanation why they're falling behind. If you develop such a habit as part of your operating procedure, you'll find your invoices will magically be drawn to the front of their piles of bills to pay. While maintaining a courteous attitude, don't be hesitant, or too much of a "nice guy" when it comes to collecting money.

Something else that's a very good business practice, but which few business owners do is to methodically build a credit rating with their local banks. Particularly when you have a good cash flow, you should borrow \$100 to \$1,000 from your banks every 90 days or so. Simply borrow the money, and place it in an interest bearing account, and then pay it all back at least a month or so before it's due. By doing this, you will increase the borrowing power of your signature, and strengthen your ability to obtain needed financing on short notice. This is a kind of business leverage that will be of great value to you if or whenever your cash position becomes less favorable.

By all means, join your industry's local and national trade associations. Most of these organizations have a wealth of information available on everything from details on your competitors to average industry sales figures, new products, services, and trends.

If you are given a membership certificate or wall plaque, you should display these conspicuously on your office wall. Customers like to see such "seals of approval" and feel additional

confidence in your business when they see them.

Still another thing often overlooked: If at all possible, you should have your spouse work in the business with you for at least three or four weeks per year. The important thing is that if for any reason you are not available to run the business, your spouse will be familiar with certain people and situations about your business. These people should include your attorney, accountant, any consultants or advisors, creditors and your major suppliers. The long-term advantages of having your spouse work four weeks per year in your business with you will greatly outweigh the short-term inconvenience. Many couples share responsibility and time entirely, which is in most cases even more desirable.

Whenever you can, and as often as you need it, take advantage of whatever free business counseling is available. The Small Business Administration published many excellent booklets, checklists and brochures on quite a large variety of businesses. These publications are available through the U.S. Government Printing Office. Most local universities, and many private organizations hold seminars at minimal cost, and often without charge. You should also take advantage of the services offered by your bank and local library.

The important thing about running a small business is to know the direction in which you're heading; to know on a day-to-day basis your progress in that very direction; to be aware of what your competitors are doing and to practice good money management at all times. All this will prepare you to recognize potential problems before they arise.

In order to survive with a small business, regardless of the economic climate, it is essential to surround yourself with smart people, and practice sound business management at all times.