



# SHEPHERD & GOLDSTEIN

*Business Consultants and Certified Public Accountants*

Contact: [curtisf@sgllp.com](mailto:curtisf@sgllp.com)

(508) 875-2552

[www.sgllp.com](http://www.sgllp.com)

## TEN STEPS TO SURVIVE AND GROW YOUR SMALL BUSINESS IN A RECESSION

By Curtis A. Feldman, CPA

The US and World Economy continue to shrink and the unemployment numbers continue to climb. Unemployment in the US is now at 7.6% and is expected to peak in 2009 at over 9%. The governments and central bankers across the globe are in a frenzy searching for the secret formula to stop the decline and get our economies back moving in the right direction.



The doom and gloom is all around us; there appears to be no escaping. What small business owners do now will impact their chances for survival in the short-term and their long-term prosperity.

Though the full extent of the recession has yet to play out, there are specific steps you can take to weather the storm and help prepare your business for the upcoming year. To help you do that, I've put together what I believe are ten key action steps, which I believe are essential for the survival and growth of your small business during the recession.

### 1) *Cut Expenses*

Match your expenses to your future sales outlook and make the necessary cuts. The biggest expense for most businesses is salaries. Are there too many people in production for orders on hand? Are there too many sales people on the floor for projected customer traffic? Can holes be filled with part time help vs. full time employment or through outsourcing?

Look to cut discretionary spending. Negotiate better pricing and terms on all of your purchases. Here's a warning however, be careful on what you cut and the extent of your cuts; if you go too far, it may impact your ability to service your customers and you may cut yourself right out of business.

### 2) *Continue to Market Your Business*

The first expense often to be cut is the marketing budget. It is important to keep in mind that sales follow your marketing. So clearly, effective marketing is more important in bad times than it is in good times. Having consistent marketing efforts allows your customers to see and hear you and know that you want their business.

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Be sure to carefully monitor the effectiveness and profitability of your marketing campaigns. Some smart marketing ideas are:

- Reduce the size of your advertisements so you can run additional ads without increasing your total cost.
- Redirect your marketing dollars to a direct campaign.
- Better utilize your web site to generate sales leads.
- Implement a referral program and reward them for any business they send you.
- Utilize low cost email, phone calls and mailings to your target customers.

### 3) Cash is King

You may be tempted to accept any customer at this time; don't! The risk that you won't be paid has increased dramatically. Now is the time to tighten up your credit policies. Watch for patterns of slow payment. Contact accounts in advance of the due date to set payment expectations. Avoid selling to customers that have slowed or stopped paying and aggressively find creative ways to bring the accounts current. Put in systems to help close and speed up the sales cycle. Invoice all sales immediately and follow-up with the timely mailing of invoice statements to help speed up customer payments.

### 4) Your Value Proposition (or UCD) and Customer Service Strategy

If you haven't already, develop or refine your Unique Core Differentiator (UCD). This is simply defined as the reason why customers choose to do business with you, instead of your competitors. Developing your UCD will help potential customers understand the added value that you offer and make your business STAND OUT.

With many customers cutting back on spending, it is more important to encourage customers to continue doing business with you. It costs six times more to acquire a new business than to keep an existing one. Follow a solid customer service strategy to both maintain and increase your customer base. Create a team environment that allows you to provide such awesome service that your customers not only come back to you but refer other customers to you.

Some time tested strategies to increase your sales are:

- Cross selling
- Up-selling
- Bundling
- Merchandising
- Warranties and guarantees

### 5) Review Your Pricing Strategy

It is tempting to decrease your prices during a recession to stimulate sales and generate cash. While there may be strategic reasons to offer discounts or special pricing to certain customers, cutting prices to all customers will devastate your profit margins and possibly cause you to lose money fast.

Be sure to test your numbers. Will the increase in sales volume at a lower profit margin more than offset the price decrease? Discounting usually works for the biggest businesses. For example, if you are a retailer, can your business compete with the likes of Wal-Mart?

Some other unintended consequences of cutting prices are:

- Focuses customer's attention only on price, not on your UCD.
- Gives your customer the impression that your products or services are less valuable. In other words, you get what you pay for.
- It may affect the quality of your products or services. You may "cut corners" to save money if your profit margin is reduced. The customer complaints that follow may harm your reputation and the downward spiral accelerates.
- Reduced demand in the future may follow. Customers may stock up now at reduced prices stealing future profitable sales.

#### 6) Focus On the Most Profitable Products or Services

Review your sales strategy. Take a close look at the sales volume and margin of your products or services. As you analyze your sales mix, you will likely find that certain areas are more profitable than others. If you are forced to scale back operations, be sure you are not missing opportunities to increase sales of your highest margin products or services, while holding on to unprofitable ones.

New products and services can be introduced during economic down cycles. Both labor and material costs are stable or dropping, so new products may cost less to develop. But carefully weigh the new product/service risks. This is a time to protect cash resources. Make sure you can afford to lose the money dedicated to new product/service development and marketing in case it doesn't take off as you had hoped or you can wait the necessarily time until you receive the return on your investment.

Customers are looking for lower cost alternatives. You may be able to repackage and reposition current offerings simpler and less expensively that serve the same purpose.

#### 7) Analyze Your Customer Mix

Firing customers at a time like this does not seem to make sense, but it may! Does your company really need to spend valuable time and resources with customers that don't pay you on time (or at all), are difficult to deal with, purchase your lowest profit items, don't seem to have the potential to grow with your business and take you away from working with your best and most profitable customers?

We advise our clients to classify their customer base into four categories: A, B, C and D. "A" clients are those that every business loves to have. They produce the largest and most profitable sales, respect you, pay you on time, do not complain and refer other business to you. You want to spend the majority of your time selling more to them. "B" clients are solid clients which every business needs. They are nearly "A" clients but are not able to do the things to the high degree that "A" clients do.

“C” clients are those that make up a majority of many businesses customer base. These clients do not take up much of your time, pay slowly, but eventually pay in full, have an occasional complaint or two, but are generally okay. Perhaps they have the potential to become a “B” client some day.

Then we have the “D” clients. You know the type. It seems you can never do enough to satisfy them and they always complain. They pay very slowly and are the first to stop paying you. They use up disproportionately large amounts of company resources vs. the profit margins they generate. The “D” clients are the ones you should nicely ask to go elsewhere (or better yet see if you can sell them), thus freeing up time and resources serving those more preferred customers.

#### 8) *Involve and ‘Incent’ Your Employees*

Getting your team on board is clearly important to the success of your business. They know the economy is tough, with layoffs all around us, they are likely worried about their own job security. This does not cultivate an environment where everyone is working towards your common goals, such as providing superior products and services to your customers.

Make sure you get them involved. During these trying times it is all about communication. Let them know where the company stands and what your plans are and update them regularly. If anything, err on the side of communicating too much.

Restructure your Company’s compensation model. Look to link more of an employees pay to the company’s strategic goals, such as commissions for sales based on sales targets. This line of thinking is not just limited to commissions for sales people. You can link other employees compensation to bonus incentives based on strategic goals and overall company performance just as easily. If the Company hits it goals and does well, then everyone benefits.

#### 9) *Financials Reports and Key Performance Indicators*

Shrewd business people pay attention to their financials but it is critically important now to do this so you will be able to quickly make necessary changes to your business. Key performance indicators (KPI’s) are both financial and non financial metrics used to define and timely measure progress of those few critical things you must get right in your business.

To give yourself a great hands-on approach, look to your non-financial measurements so you know how things are going on a daily/regular basis, rather than having to wait days or weeks after a month’s or quarter’s end for the financial reporting to catch up. They are leading indicators and will allow you to take immediate corrective steps in ‘real’ time.

Here are report and measurement examples:

*Non Financial-Leading Indicators*

- Customer activities such as new customers acquired, customers lost and status of current customers
- Employee satisfaction
- Number of units manufactured

*Financial- Lagging Indicators*

- Operating budgets and cash flow projections
- Cash balance
- Accounts receivable collections
- Debt levels, including trade payables, bank and other debt
- Revenues
- Gross margin %
- Fixed and variable costs
- Break even analysis

*10) Communicate with Your Banker and Consider Alternative Sources of Funding*

Contrary to what you hear in the news, local bankers I have talked with tell me that credit is still available to credit worthy businesses. Bankers never like surprises, so it is important to communicate regularly with your banker, both good and bad news. Forecast your short and long term needs and tell your banker so they can help you through the tough times.

If the bank will not extend credit to your business, consider alternative sources of funding such as Small Business Administration (SBA) loan guarantees, factoring (selling accounts receivable at a discount), private lenders, leasing and borrowing from friends and family.

In conclusion, as bad as it seems now, economic recessions don't last forever. The businesses that do the right things now to protect and improve themselves will come through this turmoil in the best shape to prosper in the long term. I suggest you contact your CPA or business advisor to discuss your specific situation and get advice on the steps you need to take to protect and grow your business.

*Curtis A. Feldman, CPA, is the Partner in charge of the Framingham office of Shepherd & Goldstein LLP, business consultants and certified public accountants working with small and medium sized family –owned enterprises. He can be reached at [curtisf@sgllp.com](mailto:curtisf@sgllp.com).*