

Staying Afloat

Helping Small Businesses Cope With The Financial Crisis

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A growing number of small-business owners are feeling the pinch of today's tough economy. In fact, a recent survey conducted by the U.S. Federation of Small Businesses and DYMO Corporation, indicates that 95 percent of small- and medium-business owners feel their small-business community has been challenged, while 55 percent of respondents described their own business as "down."

The downturn – and the anxiety it produced – has directly impacted payment schedules among these companies, says George Ramirez, Union Bank of California's senior vice president and market president for Los Angeles, Ventura and Orange counties. "At the bank, for example, we don't have that robust repayment . . . on a monthly basis – although we are probably faring much better than most organizations because we're pretty inherently conservative in terms of the way that we lend and who we lend to," he explains.

In turn, many small businesses are finding that their customers are also slow to make payments, adds Christy Schmitt, Union Bank's senior vice president and small business segment manager. Noting that the trend has prompted some owners to extend terms for accounts receivable, she warns that one should avoid extending terms beyond 30 days and always verify that a customer is in a position to repay.

Tightening budgets and trimming expenses are therefore essential to staying afloat in today's economy. As a result, employers have already begun laying off employees or cutting work hours, which affects both companies and individuals.

Ramirez, who is also a small-business owner, observes that these spending cutbacks have trickled down to the consumer, too. As the owner of three preschools in San Diego County, for example, he says more parents are reconsidering how many hours their children will spend in daycare or at home.

In order to further relieve some of the cash-flow problems encountered by small businesses, Ramirez and Schmitt suggest the following tips, noting that it is never too late to start being more disciplined in one's business practices.

Tighten expenditures: Negotiate discounts with vendors, particularly if they are longtime suppliers. Other cost controls include letting positions go dark as employees leave and considering part-time or temporary services to perform some duties. Employers can also divvy up the work among the remaining employees.

Trim down inventory: Find ways to reduce inventory levels, such as carrying a three-month supply instead of a six-month supply. However, owners must manage the supply cautiously so they are never left without sufficient inventory.

Reduce equipment: Sell any equipment that is rarely or never used. Instead, negotiate to lease or rent equipment and software only when needed.

Consider refinancing: Review all outstanding credit and assess the possibility of refinancing to take advantage of falling interest rates.

Use less space: Consolidate operations into one building and sublease unused space. Also, use the opportunity to renegotiate lease terms, particularly with landlords facing high vacancy rates.

In addition to cutting costs, Ramirez and Schmitt con-

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tend that small-business owners should aim to maximize their revenues. Options include finding a bank that will pay merchant service receipts within 24 hours or depositing operating capital into small-business premium money-market funds, but employers must also strive to change a company's culture to increase efficiency and productivity.

"Small-business owners are also starting to get a little smarter about casting their net – their business development net – a little bit wider and a little bit deeper than they used to," Ramirez says. "Before, they knew pretty much where their business was going to come from, . . . and they just counted on it. Today, they know that part of their business isn't there by virtue of the fact that people's financial belts are being tightened, so they're having to maybe advertise a little bit more or go out a little bit more and look for business and really extend themselves to new clients, more clients than they did before."

Moreover, Schmitt adds, businesses are more likely to take on new clients, provided they can help generate a profit. In the past, companies would frequently turn new business away because they were so busy, she says, noting that effective owners no longer consider any client too small for business.

Ramirez notes that small-business owners must keep all employees informed about the company's discipline

on spending and revenue. "Small-business owners work so hard, and . . . they tend to shield their employees from a lot of the stuff that's going on financially," he says. "And these are not times to shield anybody from anything. You have to be pretty transparent with your staff, [demonstrating that] . . . everybody needs to be very conscientious about how you spend, what you spend and making sure that you're always in revenue-growth mode."

Both Ramirez and Schmitt also recommend forging relationships with bank branch managers, who can advise, help and support business owners. "You don't want a banker to have to get to know you right when you need help," Schmitt says. "It's good for them to have history and background, because that relationship really can make a difference."

Finally, they say, it is important to remember that the current downturn is part of a cycle and that the business climate will eventually improve, as it has done over the last few decades.

"It's a cycle. Just like the other cycles that we've been through, this too will pass," Ramirez says. "Everybody needs to keep their wits about them, . . . which is why it's so important not to do anything rash and to really just try and find ways to make it better for yourself and your business before you give up." ■