

Who Will Bail You Out?

By Robert Andoh

The word “bailout” has become a virtual household jargon considering the recent decision by congress to bailout the crippling U.S financial market. As specifics of the bailout provisions trickle down to the average “Joe the Plumber,” it is critical that small business owner start thinking about their own bailout plan. The million dollar question is, “who is going to bail out the average small business owner?” It definitely will not be the Congress of the United States because they are currently busy bailing out the large financial institutions and multi-national corporations. So, who do you turn to when your business gets to that point where it starts experiencing problems meeting payroll and other credit obligations? With the current economic downturn, it is important that you consider developing a small business bailout plan as soon as possible, and the following factors must be considered when developing and executing the plan:

Analyze Your Industry: The first step in the process is to analyze your industry relative to your current business. When analyzing, please remember that negative industry trends may affect the way a banker or potential investor views a funding

or investment opportunity. Trade associations and other business-related publications can shed light on these trends. This may also be a good time to assess your current market and evaluate the possibilities of new markets, including selling to government agencies and international markets.

Maintain Liquidity: Meet with your CPA, accountant, or SBDC consultant frequently to review your financial statements. When reviewing financial statements, identify and investigate major variances and ensure that these variances are truly reflective of current conditions. As quickly as possible, reduce or retire your business debt by ensuring an aggressive collection and tight credit policy. It is also important that you periodically review your credit policies as well as your criteria for extending credit. You need to implement an aggressive campaign to collect overdue accounts. If you are not accepting credit cards, you may want to consider a low cost program as an effective form of ensuring that payments are received within a reasonable period. Establish reasonable inventory levels and ensure that you stay on top of slow moving items and even consider inventory

reduction sales programs. Constantly monitor cash flow to ensure positive cash flow and review sources and application of funds to determine changes in the business’s cash position.

Business Expenses: It is important to develop and prioritize an expense reduction plan within your bailout plan. This plan should be specific in monetary terms, especially with respect to expenses that can be cut without seriously impacting the company. These expenses must be placed on top of the list. Consult with an attorney or human resources professional on all proposed employee-related layoffs or furloughs, and make sure your unemployment obligations have been met.

Management by Objectives: It is important that you review your business or strategic plan periodically and make all the necessary changes to the plan. Pay close attention to new and better ideas from your employees, and also make sure that you fully participate in the business and know practically everything that’s going on. Keep your board of advisors informed on any significant changes to the business so that there are no surprises at the end.

Considering these factors is by no means the ultimate solution for avoiding a bailout situation; therefore, it is important to plan ahead with the changing financial environment. It is also essential and critical that you participate actively in the process by staying on top of every functional area of the business. You may have to work twice as hard to keep the business afloat, so pay attention to details and do not be selective in the process because at this critical stage, everything counts.

Business Sense

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