

A.L.BEAN & Company
Business Insights

Profitability in a Bad Economy

Small Business Edition

Strategic and Business Planning

Overview

Many businesses are cyclical and ultimately have slow growth, no growth or declining sales during bad economic conditions. Inevitably some businesses close their doors during poor economic times. This can be due to lack of cash flow, poor management, poor planning and/or simply bad timing. A bad economy can expose entrepreneurs that are poor business managers and cripple their businesses even further. In this article we discuss what a small business owner can do when the economy is against you.

Current Economic Conditions

We constantly hear of layoffs, declining house values, poor stock market conditions and overall poor economic woes. The government has taken over Fannie Mae and Freddie Mac, the largest backers of mortgages in the US. This reflects serious concerns about the stability of the housing market. These entities back trillions of dollars of mortgages. Without this assurance, the housing market would fall to its knees. The economy could fall into severe recession and probably depression. Under these conditions, what can small businesses do?

New Businesses

If you start a cyclical business today, do your homework. Be confident you can survive until the economy turns around. Home building is one of the most cyclical businesses. Some other cyclical industries include consumer discretionary (e.g. automobiles, retail and housing), financials, transportation and technology. If you are planning to start a business in these industries, be ready for a slow start. The life blood of any business is cash flow. Expect slow cash flow until the economy turns around.

If you start a non-cyclical business you may find it easier to find consumer demand. These businesses sell products that consumers need regardless of economic conditions. Some examples are consumer staples, such as food and utilities. Utilities are probably, obviously, not a great option to start a business, as the cost of entry is astronomical and regulations are plentiful. Though, if you have some great ideas on how to bring consumers' utility costs down, you may be heading somewhere. Food is great, though there may be high costs here as well. It depends on whether you are opening a specialty food store or a large grocery store. As consumers have become more health conscious, there may be some openings here. Do your research and find the right place to start.

Existing Businesses

If you are currently in a cyclical industry, you are probably experiencing declining sales or slow growth. One of the key concerns is not overspending, which results in business losses. Another concern is having the cash flow to weather the storm. A line of credit can help manage slow times. It can provide a buffer to slow incoming cash. Use this line cautiously, as running up credit and not being able to pay it back can destroy your business.

Adjust Your Budget

A strong budget will allow you to manage your spending to match your projected sales. If sales have declined, adjust your budget to reflect your new expected sales. Then go down through your expense lines and find ways to adjust them downward. You can use percentages or go through each expense line like a fine tooth comb and figure out ways to adjust them downward. For example, if you own a restaurant and buy supplies from expensive vendors, consider changing vendors in order to stay afloat. After you determine the cost savings, use this amount of to adjust your budget downward. Be cautious. If your customers expect a certain level of quality, don't jeopardize your reputation by buying cheap products that will lessen your quality.

A simpler expense reduction approach is to adjust your expenses down by a certain percentage. This adjustment can be adjusted to make each expense item a certain percentage of sales. This idea is great, especially if you don't have good information to perform the technique previously described. You still should look at each line item and make sure you can make the needed cost reductions. Remember, **the main idea is to develop a new budget and stick to it.** This allows you to manage your expenses, and hopefully stay profitable.

Shared Resources

Another expense savings approach is sharing resources with other businesses. You can be creative in sharing space or marketing. You can develop marketing ads or seminars that include both businesses, allowing you to split the cost. If you have to rent space for a day for an event, you could ask another business owner to split the time with you. For example, you can use the space the first half of the day and the other business uses it the second half. You can split the cost. If possible, and your businesses are related, it may be possible to use the space for a co-event. There are several ways to be creative during poor economic conditions.

Also, focus more on free or low-cost marketing, such as networking, electronic advertising, etc. Increasing sales in a tough economy is difficult, but not impossible. The key is to have a low-cost with a high impact.

There are several other approaches to managing your business in poor economic times and we encourage you to call A. L. Bean & Company for the many ideas we help our clients with.

If you would like assistance, please contact A.L.BEAN & Company at 214-387-8525 or visit our website at www.albeanco.com.

ABOUT A.L.BEAN & COMPANY

A.L.BEAN & Company is a consulting and accounting firm that specializes in serving small-to-medium sized businesses. We help businesses by offering the following primary services:

- Accounting Services
- Tax Services
- Business Plans
- Budgeting and Financial Planning
- Business Process Improvement
- Project Management