

# STRATEGIES FOR AN ECONOMIC DOWNTURN

Dick Ephgrave is the Director of the Longwood University Small Business Development Center in Martinsville. He has worked with small businesses, including owning one, for 40 years. He will be writing a monthly article on strategies for small business survival during an economic downturn.

One of the most common problems that small businesses encounter during a recession is their inability to pay their bills on time because of a cash flow crisis. Unfortunately, because the business owners are embarrassed to talk about their money problems, they frequently neglect to contact their creditors and discuss the problem with them. That is the worst thing they can do, because now they are establishing a bad relationship with the people they need the most in this situation: their suppliers.

If business owners put their feet in the shoes of the credit manager of their suppliers for a moment, they would quickly realize that, because of sophisticated accounts receivable software, the credit manager is immediately aware of the fact that their customer is now past due. Furthermore, their customer is neither sending a check nor calling to discuss why they are past due, so communication has now been effectively eliminated. The credit manager does not know if his customer has been abducted by Martians, is filing for bankruptcy, or has run off to Bora-Bora with his girlfriend and the company checkbook.

The solution to the problem is obviously for the small business owner to bury his pride and call the supplier as soon as he misses a payment due date. Even better, if he calls the supplier before becoming past due to prove that he is on top of his finances and has the ability to forecast a problem. Having spent thirty years as a credit manager, I know how much this kind of communication is worth, and how much more willing to work with a past due customer I was if they stayed in touch with me.

Before making the dreaded phone call, however, it is vital to figure out what you are going to say. The supplier would like to know how and when you are going to pay him, so having a payment plan is vital. No matter how strong the temptation, you never want to promise a payment you cannot make. Having a complete and accurate cash flow forecast is critical in offering a payment plan. Your accountant or your local Small Business Development Center can help you with your cash flow projection. If you cannot make full payment, by all means offer partial payments. All credit managers want to see some progress being made toward getting the bill paid, and partial payments are a sign of good faith. You will be pleasantly surprised at the cooperation you will get from your supplier if you initiate the discussion of your situation.

Another important step before contacting your creditors is to prioritize your debts. Your employee wages always come first. After that, in order of importance, past due taxes, bank loans, rent and your utilities are the most important debts to address because these creditors have the ability to put you out of business the fastest. Finally, your trade creditors should be addressed in order of importance to your ability to sell your products.

To conclude, remember that your creditors are just as aware as you are that there is a recession going on. Furthermore, they want to avoid losing you as a customer and increasing their own bad debts. Given those circumstances, the door is open for you to discuss your situation and negotiate a settlement. For the sake of your business, don't be afraid to talk to your creditors.