CHECKLIST FOR MANAGING IN TIMES OF FINANCIAL DIFFICULTY

IMPROVE CASH POSITION

While profits may be the measure of success, it is cash that determines business survival. It is very important for the viability of your business to convert your customers' outstanding debt into cash.

- [ ] **Prepare regular cash flow forecasts.** If your business is having cash flow difficulties, you should be preparing such forecasts on a regular basis. They will show the likely extent of any crisis and how long it might last.
- [ ] **Keep an eye on your entire cash cycle.** If you are in a difficult cash position, skew promotions towards services or products that consume less resources or can be turned into cash more quickly. In other words, generate cash through sales but don't undersell your products or services. You must make a profit.
- [ ] **Measure and reward the right behavior in your staff.** For example, sales commissions should only be paid on receipt of payment, not necessarily when a sale is made. This will encourage sales staff to focus on making sales to customers who are most likely to pay.
- [ ] **Make full use of your terms of credit, as this amounts to an interest-free loan.** Don't pay your suppliers too early or outside of your agreed credit terms. Be seen as a solid, dependable customer. Having a good reputation will give you better scope for negotiating deals and favorable credit terms.
- [ ] **Don't let personal draws get out of hand.** Ideally, the owners should take a modest but regular wage and leave the remaining cash in the business. Keep fringe benefits or withdrawals of stock to a minimum.
- [ ] **Don't hide your problems from the bank.** Keep the line of communication open. Demonstrate that you are on top of your business and understand your cash flow. Show that you can provide financial information if you need to ask for temporary relief on loans.

CONTROL COSTS

Costs need to be controlled to a level consistent with your business' needs. Don't just cut costs. Longer term and recurring savings are better than short-term wins. Once the easy savings are made, focus on improving sales and gross profit, as that will have a larger impact on the future success of your business.

- [ ] **Identify the expenses that keep you in business.** Examples include building maintenance costs, advertising, and staff training skills. Keep them at sustainable levels. Remember the old saying, "Penny wise, pound foolish."
- [ ] **Look at costs carefully but don't criticize every individual transaction.** Often a review of the business's processes can eliminate the need for certain costs completely. For example, total interest costs might be reduced by changing credit cards, negotiating a lower rate with your bank, or reducing the amount of debt being used.
- [ ] **Measure the success of each promotional activity or campaign.** For example, direct mail advertising is considered more cost effective than advertisements in newspapers or magazines and are also more measurable. This does not necessarily mean cutting your promotional or advertising spending, it just means increasing its efficiency.

- [ ] **Be flexible in your staffing arrangements.** Review staff availability against customer demands. For example, a core of full-time, permanent staff supplemented by a group of seasonal part-time workers may help you through busy periods. However, make sure you are familiar with appropriate legal requirements.

- [ ] **Don't forget that your staff are a key resource.** Replacing staff can be very costly. Correct motivation and incentives are key to creating an environment where people want to stay and succeed.

IMPROVE SALES

Focus on the additional profit from sales. Don't think that more discounted sales are the measure of success.

- [ ] **Don't chase just any sale; chase profitable sales.** The only exception to this rule should be when you deliberately set out to achieve another aim, such as getting rid of dead stock or building market share.

- [ ] **Create added value with your offers.** For example, provide a gift or bonus with certain purchases or a discount on a second item. This tactic is especially effective if you can bundle slow moving or dead stock at a discount together with a full price item. You are delivering customer value while making a sale of an item that you might not have sold otherwise.

- [ ] **Encourage companion selling and up-selling by your sales personnel.**

- [ ] **Use in-store signs to highlight the product of the week or today's special.** This is a very low cost way of generating traffic and interest in a retail environment. It might get customers into the habit of coming back tomorrow for the special of the day.

The best run businesses use these ideas during the good times as well as the bad in order to maximize their profits and minimize risk. Using them can help your business to emerge in a much improved market condition which will likely lead to long-term growth.

CONTROL INVENTORY

The essential principle is to have the right level of inventory to satisfy the needs of your customers and to have room for new items.

- [ ] **Keeping inventory levels low reduces the amount of money you have tied up**, thereby freeing cash for other uses. It also helps to keep your storage and mechandising costs down and reduces your risk of carrying "unsalable" stock.

- [ ] **Get rid of slow-moving and obsolete inventory.** Either put it all in a clearance bin so you can convert it to cash or write it off and destroy it to clear storage space. Carrying too much inventory means your are tying up cash. Removing it will help you focus on the inventory that generates the cash and margin that keep you in business.

- [ ] **Maintain necessary inventory** in order to maintain sales momentum and ensure customers are never disappointed over the products that you offer.

- [ ] **Tighten the purchasing inventory.** Knowing your historical sales by product will help you buy the right amount. Carrying not enough inventory may discourage customers, while carrying too much means that you are tying up cash that could be put to better use.

- [ ] **Negotiate deals with suppliers but avoid volume-based discounts.** When money is tight, there is no point investing in next month's inventory without good reason. Instead of volume discounts, try to negotiate discounts for prompt settlement (unless your cash position is poor) or negotiate for smaller and more frequent deliveries from your suppliers to smooth out your cash flow.

- [ ] **Don't let discount prices drive your inventory buying decision.** Buy inventory you can sell at a profit in a reasonable time frame.

To learn more about managing your business in times of financial difficulty, don't hesitate to reach out to a SBTDC counselor and schedule a virtual counseling appointment. To find your local regional center, visit **www.sbtdc.org/offices.**