



Article 38

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## **Crisis and Opportunity: Surviving – or thriving – in a slow economy**

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With gas prices climbing and commodity costs ascending in their wake, business owners are looking closely at their budgets for ways to compensate for these unexpected expenses and keep their books in balance. This is particularly true in industries with long-term contracts. The owner of a large construction firm recently confided that his biggest challenge is how to stay within budget on a fixed-price, three-year, \$7 million job when materials costs are skyrocketing.

Rising prices are just as serious for small-business owners not saddled with long-term contracts, whether their revenue is in the thousands or hundreds of thousands of dollars. But shrewd entrepreneurs realize that every economic crisis presents an opportunity — in this case an opportunity to determine where costs can be cut and revenue collected.

### **A tourniquet on costs**

Start by looking closely at all areas of your business, beginning with operating costs. Are you using all your office space and equipment? If not, consider subleasing the excess to generate income.

Small expenses can add up to significant amounts. Can you lower your electrical bill by turning off the air conditioning at night? Is a messenger service necessary, or can documents be delivered just as fast by fax? Can invoices, proposals and other correspondence be sent by e-mail? Can you go to a four-day workweek without hurting profits?

One way to identify efficiencies is to involve employees. Consider rewarding your staff for cost-saving ideas. An employee-incentive program can build team spirit and lift morale during a slump and can yield savings that far surpass the money spent on rewards.

Once you've considered all the obvious cuts, consult your advisers for other ideas. Ask your insurers for ways to reduce life, disability, health and casualty insurance premiums. Approach the landlord about renegotiating your lease. Consult your CPA before the fiscal year ends for advice about how to reduce taxes. Meet regularly with an informal advisory board consisting of your CPA, attorney, banker and insurance agent to brainstorm about further savings. Keep your banker and creditors informed in good times and bad by sending them copies of your interim financial statements — after you've pored over those documents to see which parts of your

business are making the most money and which are limping along. Consider closing any parts that aren't profitable.

### **Hunting and gathering revenue**

Now take a look at cash flow. If accounts receivables are growing, consider using a collection agency or collection manager to generate payments. Or you could offer customers discounts of 2 percent or more for paying their bills within 10 days. Sending pre-addressed return envelopes with bills often speeds up payments.

Closely monitor customer account balances and contact customers immediately when their average collection period increases. Settle billing disputes promptly and impose penalties or interest on overdue accounts. Tighten credit policies for all customers and be certain they understand credit terms.

### **Finding the silver lining**

There's nothing like a slow economy to motivate us to look closely at our finances and discover many areas of potential efficiency and opportunity. Consider the economy's effect on your business: Are new markets emerging in your industry based on changes in demand? Has a new niche opened? How are your competitors faring? When the economy slows, larger companies sometimes limit or discontinue low-profit products or services that might better suit a smaller company that can adapt and innovate more quickly.

Can your products or services be bundled and offered to customers at a more attractive price? When bundling, consider the profit margin of each product or service and pair complementary items to maximize volume and sales.

However painful it is in the short term, a recession challenges the savvy entrepreneur to find opportunities easily overlooked in better times. The New Mexico Small Business Development Centers can provide you with more tips and advice. Go to [www.nmsbdc.org](http://www.nmsbdc.org) to find the center nearest you.

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