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Your Small Business Turnaround

Times are tough, no doubt about it. Competition has never been greater and consumers are savvier ever. What does a business do when monthly commitments continue, but there is not enough cash to go round? What if payables outstrip receivables and your firm can barely meet payroll and is behind with its bank, lease and trade commitments?

Standard advice is to take stock and evaluate your position. This is essential, of course. You need to figure out precisely where you stand, then start cutting costs and taking steps to boost revenues. But you need breathing space to do so. To buy time, you have to communicate clearly and effectively with creditors. Neglect them at your peril because, left untended, they will quickly litigate, grab your assets and close you down.

This task is difficult for a small business owner or controller to execute. Important as it is, the last thing you need is to divert your precious time and energy, or that of your staff, to fielding endless phone calls from collectors and law offices. Besides, it's personal. Unlike management in a large, public company, you tend to take a more direct responsibility for your business debt. It's your company on the line and it's difficult to be rational when everyone is demanding to get paid yesterday.

So who do you designate to communicate clearly and effectively with creditors and their agents? You need a trusted individual to apprise them of the situation faced by your firm. It is likely that few of them will have been aware of, or interested in, your specific business problems. Like you, they just want to get paid.

A debt management action plan, incorporating projected cash inflows and demands, is very useful. Your designated person should spearhead this task. Each liability is documented and classified by total and monthly commitment, whether secured, whether personal liability, the likelihood of immediate action to cripple your business, and on the stage each account falls within the collection-to-judgment life cycle. Finally, it has to scope out projected reality-based settlement proposals, involving either extra time to pay, debt reductions, restructuring or a combination of these.

Do you call in a lawyer or accountant to do the job? If cash is at a premium, you're not likely to be willing or able to come up with substantial retainers and hourly billing costs. Nothing wrong with lawyers, of course, but in this situation they can quickly pillage and plunder whatever remains in your bank account. Accountants are effective specialists in their own field of endeavor and few would want to handle this task.

Your assigned individual, or debt manager, has to take the initiative in putting together the debt management plan to meet your needs, and to deal with issues as they come up, then see them through to final creditor agreements. They have to be totally committed to getting the results you need and, in doing so, save you and your staff from the stress and valuable time involved in fielding calls from collectors, some of whom can be outlandishly rude and obnoxious.

Your interests have to be represented in a calm, rational and professional manner, by someone well versed in this type of endeavor. The debt manager has to be able to provide you with regular reports and make available information on request, on an as-needed basis.

How does your company get creditors to work with you? You can bet that most of them want your future business. They also want payment in full, as is their right. But if they receive a compromised offer with an honest and forthright explanation of the situation you face, and know that other creditors are being asked for similar concessions, many will accept settlement on terms to benefit your firm.

Bill collection can be a thankless task. Government statistics point to a business dropout rate after five years in the ninety-five per cent range. Less than one per cent survive through ten years, and many of these have had significant cash flow problems along the way. It is a sad fact that, whereas countless businesses close their doors or file Chapter 7 each year for lack of effective communication with creditors and their agents, there is no common understanding of the fact that many can be saved through negotiated workouts as described here. And this helps both sides, because creditors lose big time if they forego both the future business and the account balance, written off at zero cents on the dollar.

Media attention tends to focus on the small percentage of businesses that are currently successful. The unfortunate and generally unrecognized fact is that the great majority of small companies are on shaky financial ground. It is always stimulating to read a successful business story because, after all, it's what we all strive for. But many of these have overcome significant financial challenges and will encounter more in the future. There is little media interest on the issues faced by those working in quiet desperation, striving to overcome traumatic business problems. This blinds company owners and managers to the fact that they are not alone when facing adversity. And this can lead to denial, desperation and potential failure.

If your company gets into financial hot water, it is important to understand that you are by no means alone. It can be a rite of passage. But a proven, crucial first step to recovery is to open a line of clear and unambiguous communications with creditors and their agents and follow through with a well-executed debt management plan. This can buy you precious time, set the scene for settlements to meet your needs, and then position your firm to take off, perhaps to become the debt-free money machine you planned in the first place.