

## **Managing and Safeguarding Businesses in Tough Economic Times**

By William A. Russell III, CPA

There's a lot of troubling economic news out there, enough to easily scare the fainthearted from entering a new business venture in the current climate. But for those already leading the life of a business owner, is there cause for panic?

Cash flow is increasingly difficult to manage for many, and banking regulations are becoming tighter by the day. However, there are things that can help you weather the current times and be better positioned for the future. In many cases, it seems that the things we do in tougher times are things we should have been doing all along.

First, protecting your liquid assets is always a good strategy. If you consistently have large sums of cash flowing through accounts, consider splitting the balance over several banks or, if applicable, LLCs (limited liability corporations). FDIC regulations allow protections up to \$100,000 *per LLC, per bank*. If you're a sole proprietorship not operating as an LLC, now is a good time to move assets into one. Some individuals have several LLCs for various businesses they may own. This may be another means of protecting your assets.

Another significant area for safe-guarding a business over the short- and long-term is to protect your credit. Managing cash flow effectively over the life of the business protects your ability to secure further financing and ensures stronger relationships with vendors.

Now more than ever, businesses should place emphasis on the collection of accounts receivable. Your customers are just like you, and the "squeaky wheel" principle is nowhere more applicable than with accounts payable. By focusing efforts on collecting outstanding receivables, cash flow should increase.

Also analyze and manage inventory levels. If business is slowing, inventory levels should be reduced. Return goods that can be returned and focus on moving aged inventory where possible.

At the same time, if cash is slower flowing into the business and causing issues, have your accounts payable representatives negotiate terms and conditions with your vendors. There are often longer payment terms or discounts available with vendors. Communication, as always, is key.

When assessing accounts payable, know where you have more leeway. If you have to prioritize payments, payroll tax deposits, loans and/or notes should always be paid first. Other vendors will likely be more lenient than the bank. If you do find that you'll be slow in paying the bank, contact them immediately. Banks simply don't like surprises.

Having an established relationship with a banker is a real asset here. If you don't already know your banker, make a point to get to know him or her. Be upfront and let them

know how the business is doing. Prepare a business plan and ask only for financing that is necessary. Often, it's possible to negotiate structure, rate and payment terms.

And here's the big question. If your business plans call for loans at this time, can you even still get a loan these days? To quote a long-time banking associate, "Good loans are still a good risk. We're open for business and have money to lend - *if* the deal is bankable." The issue is whether borrowing money is a solid move for the business, not just in the current economic uncertainty, but at any time. Many of today's banking troubles arose from loans secured on too slim a margin; they are going to be much more careful from hereon- you can bank on that. Make sure you approach them with a solid business plan that shows reliable, steady cash flow to support the loan.

Whether enduring the excesses of the 80s, tech bubble burst in the late 90s, or today's soft economy, born of bloated real estate values, more credit than good sense and gas prices that are enough to make you cycle to work, it pays to regularly assess the overall business climate and conditions. Regularly review your business plan and analyze results. Reduce expenses where necessary, and focus on profitable work and profitable clients. If your profit margin on a particular project or service has been reduced to break-even, is it time to let this one go? This kind of introspection should be done on a timely basis over the life of a business; don't wait until everything around you starts to shake loose.

Approaching any business with a long lens instead of daily, reactive adjustments will aid in getting through the stormy times and prove wise for the brighter days as well.

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