

# SURVIVING THE ECONOMIC STORM

Times are tough for local businesses. Many were built on the assumptions of continued strong growth in the local market and accessibility to capital. When those favorable conditions no longer apply, businesses either have to adapt quickly or face extinction.

**T**he problems facing small businesses may seem overwhelming at times, and sometimes the urgency of the day-to-day problems detract owners from taking the necessary steps to keep their businesses firmly afloat during this downturn. Three issues have been identified as critical in business survival: cost control, financing, and marketing.

**Cost control** is a key element of any successful business, and the economic downturn makes it a necessity more than ever. The key is trimming the excess fat but not the meat needed for critical operations. Some of the areas where savings can generally be found are overhead, human resources, and operational efficiency.

Some overhead costs can be reduced by carefully evaluating what's necessary, what's optional, and what can be used more efficiently. For instance, are three-ring binders recycled when old documents are tossed? Sometimes what's equitable may not be efficient. For instance, some

employees may need their personal printers while others are sufficiently served by using a shared printer. Some equipment, especially those with high maintenance costs, may be more economical if leased instead of purchased. Leasing also frees up precious capital for more critical uses.

Shopping around never hurts, and this applies to benefits packages also. The mere fact of shopping may convince your current insurance carriers to make better offers.

Evaluating the efficiency of operations is difficult and may require some investment, but the benefits are long-term and significant. Which products are bringing in real profits and which ones are dead weight? Which advertising mediums actually work, and what are the ROI for each?

Unlike machines, employees carry with them invaluable experiences, connections, and ideas. Therefore, laying off one's best employees may get one quick short-term gains but at the risk of long-term losses.

Instead, this would be a good time to use government funds to upgrade their skills, or train potential replacement workers if the current ones are near retirement age.

### Overcome the credit crunch

The severe and sudden credit crunch was the result of the financial market meltdown of late 2008. Small businesses tend to have less capital reserves and thus are more dependent on financial institutions for short-term financing.

Many businesses complain about the difficulties they face in getting financing. Financing is available, but the bars have been raised because money is tight. Financiers want to reduce their risk exposure and will evaluate their applicants with that in mind. According to financiers, there are a few major issues they see in most rejected applications. First on the list are poorly prepared or unrealistic business plans and financial projections. Some business plans do not detail how one may change certain business strategies should the original plan encounter unexpected problems. A major issue for start-ups is the lack of historical cash flow that helps show one's ability to repay the loan. Credit score is another risk indicator that's easy for the financier to use to address any credit problems as much as possible beforehand.

Most small businesses fail because of cash shortfalls. Therefore finan-

ciers like to see sufficient cash reserves. Show that you'll have a reserve to handle a period of hard times, and that you are willing to pledge collateral such as your house or other assets. The use of collateral both reduces the risk to the financiers and shows your commitment to the venture. Also, know how much you can afford to borrow, so you are getting the maximum amount available.

If you need to borrow from friends or family or another business partner, make sure there's an agreement in place. Ruined relationships are difficult to rebuild.

There are also other financing options sometimes ignored by small businesses. *SBA 504 loans* help small and mid-sized businesses acquire commercial properties so they can own the facilities they need. *Southern California Reinvestment CDFI* is banker's loan consortium offering direct loans to existing business who may not qualify for SBA financing. SBA Microloans provided by local non-profit organizations provide loans up to \$35,000.

Some vendors may be willing to extend the terms of accounts payable. You won't know until you ask. In some cases, one can sell its accounts receivable to a third party at a small discount in exchange for immediate cash injection. *Accounts receivable financing* can provide valuable short-term

## MAKE THE CONNECTION...

*To a prime location in the City of Montclair*

Connect yourself to development opportunities in one of the fastest growing regions in the country – the Inland Empire. As the portal to many economically lucrative regions in Southern California with a marketplace of over 975,000 people, the City of Montclair:

- Draws a diverse and vibrant demographic with rapidly growing spending power to support high-end retail and restaurant growth
- Sits adjacent to the prestigious Claremont Colleges where 6,000 students are enrolled in higher education and over 3,000 highly educated faculty and staff are employed
- Benefits from access to Southern California's most traveled freeway – the I-10, which hosts 250,000+ vehicles daily

The real potential of Montclair is maximized by:

- The diversity, affluence and population increases happening in a dynamic and growing trade area
- Being a regional destination draw to top shopping venues such as the Montclair Plaza and Montclair's Entertainment Plaza with top restaurant chains
- A trade area population of 1,735,454, an average household income of \$78,286 and a growing retail audience drawn from the nearby communities and colleges.

## MAKE THE CONNECTION...

*To a super regional mall with unparalleled visibility, the Montclair Plaza*

Montclair is home to one of the most visible, highly successful regional super malls – the 1.3 million-square-foot Montclair Plaza, which

Includes Nordstrom, Macy's, J.C. Penney and Sears and counts some of the nation's most desirable retailer and restaurants among its tenants. These include the likes of Anne Taylor, Loft, Barnes & Noble, Circuit City, Ethan Allen, Elephant Bar, The Gap, Islands, Romano's Macaroni Grill and many more!



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[www.cityofmontclair.org](http://www.cityofmontclair.org)

See what has arrived at the new Montclair Plaza and other popular retailers in the City of Montclair






operational cash when a bank loan is not viable. Also, accounts receivable financing focuses on the creditworthiness of the buyer, not the business selling the receivables. A similar arrangement is *invoice discounting* in which the business borrows money using the receivable as collateral.

Turn your dead weight into cash by selling unproductive assets or inventory to willing buyers. The key to survival in times like these may be the overall cash flow instead of the profitability of particular items.

In short, there are many ways to raise the needed cash. The key is to know which one to choose based on your own unique situation, recognize how to prepare for such arrangements, and identify all the risks involved.

### Marketing is essential

Marketing is the lifeblood of any business and the driving force behind sales. Since a local business generally gets a very small portion of the market anyway, the key is to get a larger share of the smaller pie.

Marketing involves understanding one's customers and developing a flexible plan to reach into their pockets. Today, the American consumer is more frugal and less impulsive. A successful retailer will have to either overcome or capitalize on those trends. For instance, instead of stressing the attractiveness of the new car or equipment, focus on

energy and associated cost savings. With consumers more value-conscious, advertise in channels associated with savings, such as coupon books. Monitor the efficacy of different marketing venues carefully and focus on those that work.

Keeping an existing customer is much cheaper and easier than acquiring a new one. Focus on customer service and invest in the maintenance of a customer list. A smile is free, but a loyal customer equates cash in the pocket.

### Local government can help

Your local counties' and cities' economic development authorities, Workforce Investment Boards, and their private-sector partners have many programs and services that can help you survive the storm. There are also incentive zones with financial assistance programs. The key is to contact them and see what services are best suited to your needs.

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*This editorial is sponsored by the San Bernardino County Economic Development Agency and the San Bernardino County Workforce Investment Board. Special thanks to Michelle Skiljan of Inland Empire Women's Business Center, Stacey Sanchez of CDC Small Business Finance, and Paul Hynek of EZ Numbers for their insights.*



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