



Building Cash Cows™  
Improving Quality of Life™

## The Strategic Edge™

Insights for improving profits, cash-flow, and quality of life

Summer 2008

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### *Can Risks and Contingencies be Planned for Effectively?*

Owners of small and mid-size businesses face all kinds of risks. Some disasters cannot be avoided, but the consequences of most of them can be managed by practicing good business planning. A disaster can be something that impacts the entire economy or an event that affects only your business, such as losing a large customer or an essential vendor. **The key is to establish strategies to maintain profitability, keep cash flowing, keep employee morale up, and make your business secure in good times or bad.** Following are some ideas to help you minimize risk in your business.

#### *Have the ability to tap emergency cash*

Should a business lose its best customer, or have sales fall off dramatically due to a disaster, it is imperative to maintain a strong financial condition and have a source of cash available, even if you think you don't need to. This can take the form of some combination of a bank line of credit, a high line credit card, a home equity line of credit from one of the owners, or an investor with sufficient liquid assets to cover the dry spell. **The important point is to have a contingency plan in place before the crisis.** Nothing is worse for a business than losing the good faith and trust of its employees, customers, or vendors because of a lack of funds.

#### *Predict when your business is most likely to need cash*

Entrepreneurs are optimists by nature and love to create business plans with robust sales projections – nothing wrong with that – they are the drivers of our economy! However, **it is also important to look realistically at the threats your business may face and forecast what your capital requirements will be** if sales come in under plan, the economy turns down, your industry goes into a slump, or some type of disaster hits. **Being good at forecasting is a specialty talent**, so it is beneficial working with an outside advisor to help you do a sensitivity analysis of your financial projections at different levels of sales and costs, such that the business plan clearly demonstrates which months additional cash funding will be needed. If cash is going to be tight in June, for example, the owner needs the information months ahead of time, not June 1, so he/she can prepare for it.

## *Use creative staffing solutions*

Adding new employees is the sign of a thriving business but, with good projections, you can determine the best timing for those hires to be sure your business maximizes its profit for the year. Is the employee going to immediately and directly increase sales or is he/she more of an overhead addition? If the business has predictable peaks and valleys in revenue, explore the possibility of using contractors or seasonal employees for the busy months. Also, now more than ever, many people are willing to work 20 hours a week rather than a full 40 hour week. Do not be afraid to employ a mix of part-timers and contractors to provide your company with more workforce flexibility, such that labor costs can be quickly cut during times of low sales. Having your planning specialist **forecast your ability to meet payroll obligations and determine the best timing** before bringing new employees on board can significantly improve your profits.

## *Be wary of long range contractual liabilities*

Rental agreements extended for several years can provide an attractive monthly rate, but if sales fall significantly, can the business still afford it? The long-term contracts for your rental agreements don't appear on your balance sheet, but they can still be very costly to exit early. You may want to consider using shorter contracts with renewal options to reduce your risk. Also, consider the use of virtual office strategies to minimize your downside. Check with your advisors to **make sure the arrangement is affordable, flexible, and structured well** before the contract is signed.

## *Exiting the business*

Many business owners talk about selling their business in the future, but have no idea what it is worth or how to prepare for the sale. An economic downturn or a year of challenging operations could make the desire to sell even more urgent, yet **selling the business without an understanding of its value or what buyers are looking for could cost the owner hundreds of thousands of dollars**. Alternatively, business owners would often like to transfer the business to family members or key employees, but **without a plan to prepare the new management to run a business and fund the transaction this becomes risky** or even impossible. It should be noted that **70% of succession attempts fail!** What is the common denominator of those that succeed? **You might be surprised – independent studies indicated it is the existence of a formal Strategic Business Plan**. Using an outside business advisor to help determine the value of the business, prepare the business for sale, or help you **develop a formal Strategic Business Plan to greatly increase the business value for sale or probability of success in transferring your business** to family members or key employees is highly recommended.

**Does it Work – or are we just talking theory?** There are many events business owners will never be able to anticipate. Whether they can be anticipated or not, it is imperative for small and mid-sized business owners to plan for the adverse financial impact downturns in business can have on cash flow, profitability, capital requirements, and business value. Following is an example.

*In 2005, ABA began preparing a formal Strategic Business Plan for one of our clients in the home building industry. We completed the plan and rolled it out in April of 2006. As you know, in about June of 2006, the bottom fell out of the home building industry. Over the next six months the sales from their existing customers declined by over 50%! Because of the strategic planning in place, our client was able to add new customers to replace most of that business resulting in not only keeping them in business, but providing a substantial profit in 2006 and 2007 while allowing the owner to take off two days a week. During the same time period, many of our client's competitors downsized significantly or went out of business because of their lack of preparedness.*

Does it work - you bet it does. We may seem biased, but after 24 years of developmental consulting we have witnessed the enormous power of good business planning on profit and cash-flow time and time again. Our advice – use outside advisors. Specialists in business planning and development can be invaluable in assisting you with **financial forecasting, strategic planning, and action planning that result in peace of mind and significant profits and cash flow - in good times and bad.** If you are skeptical, come to American Business Advisors, we guarantee your satisfaction with our services.

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