

Tips for small businesses on surviving a recession

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By Deborah L. Cohen

Mario Bruni, who runs a plumbing and heating business in White Plains, New York, is bracing for a slowdown in the coming year.

"We didn't forecast huge growth," says Bruni, who has brought expectations down to 4 percent from the more robust double-digit gains of recent years.

In 2001, he hired a consulting firm to help his 50-man operation develop tighter financial controls and says much of what he learned then will help sustain the business if a full-blown recession ensues.

"It's time to tighten up the belt strings," he says. Bruni & Campisi Inc. adheres to a strict budget, gets daily financial reports, closely monitors its collections, and has a host of employee incentives to keep business humming along profitably.

If a recession does take hold, small- to mid-sized companies will be among the hardest hit. Lacking the resources of bigger players in their industries, they are usually the first to get called in by skittish banks and suppliers during a credit crunch. Yet there are many steps smaller businesses can take now to hedge against a sustained downturn. Here's what some experienced business owners and consultants say they've learned to do to prepare for a slowdown in business activity.

Scout out the best prices on materials and equipment. "Shake up your vendors and look around," says Cloutier. "Now is the time to make your vendors a little more competitive with you." Know the rock bottom prices for equipment and shop around for the deals. Auctions are a great source of everything from office furniture to new vehicles.

Shift your employees, especially the sales force, to pay-for-performance incentives, says Cloutier. If you're a manufacturer, reward the staff, regardless of level, if they figure out ways to make a better product for less money or reduce waste.

"Share your profits with your employees, right down to the guy who machines the tools or the fender," Cloutier says. And for the underperformers, he has a simple but direct approach: "Get rid of them."

Marilyn Landis, a Pittsburgh-based consultant and former banker who chairs the National Small Business Association, cautions not to wait for the credit crunch to hit before cleaning up your financial statements, making them as transparent as possible.

Many small businesses, she says, are unfamiliar with the process of producing good financials because credit has been easily available to them. "They never had to present good, strong financial statements and different plans and to build a case for their finances," says Landis, whose firm, Basic Business Concepts Inc., does financial management consulting.

Now is the time to question how much it really costs to deliver a service or make a specific product, says Landis, who notes that all too often companies are well versed in their pricing structure but not clear on which products are most profitable. Sometimes, she says, lower-margin products are the winners in a downturn if there is steadier demand for them.

Landis recommends reviewing Dun & Bradstreet credit reports for your current customer base to get a heads up on who might be in trouble. She also suggests periodically reviewing the media coverage on key customers to see if there are any red flags. And she advises clients not to get lulled into a false sense of security just because a customer might be publicly traded. "Don't assume because they're a public company, they're never going to go bad," she says.

Bill Dunkelberg, chief economist for the National Federation of Independent Businesses and a business professor at Temple University, advises small companies to keep their inventories lean. "Don't spend your money, your cash, on things you can't liquidate," Dunkelberg says. Be careful not to be lured by government inducements such as low interest rates or tax credits. "You don't buy capital equipment that you don't need right now," he says. Meet the deadlines on your lending commitments but don't rush to pay early, he adds.