



Tough Business Ideas for Tough Times

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With the state of the local and national economies not looking good, it is necessary for many closely-held family businesses to tighten their belt and consider going on a diet.

Through our many years of experience, we have learned that there are key segments of corporate businesses that should be closely reviewed during tough times. Outlined below are ten ideas that may help you in cutting costs and protecting your company during these times.

1. Debt Management – The banking industry is struggling right now and most banks want to hang on to their best customers. Now is a good time to talk to your banker about increasing your line of credit, decreasing interest rates and/or lengthening the term of your outstanding loans. Try to stretch out a five year loan to seven years, for instance.

2. Monitor Cash Flow – During tough times monitoring cash flow is very important. Be sure you know what the “burn rate” is on cash reserves in the business. Establish a weekly 1-page report that shows “cash in” and “cash out” so that you can monitor where the cash is going quickly and easily and make adjustments where necessary.

3. Review Leases on Buildings & Equipment – If you are renting your store from a non-related landlord, now is a good time to talk with them about changing the lease terms. Most landlords will want to keep their building

space occupied, so they may be more flexible and open to discussions about reducing the rent per square foot and/or lengthening your lease by 2-3 years.

4. Adjust Payroll – During tough times it is appropriate for you to review your payroll to ensure that the total payroll cost is equal to or less than national averages for your industry. Make sure that every employee is paying for themselves with their level of contribution and performance in their job description. Consider relocating them to a new job description if they are not. Also consider removing marginal employees altogether.

5. Inventory – Controlling your inventory levels is difficult every year. During tough times in the economy, it becomes even more important not to have any more capital in inventory than absolutely necessary. Whatever you have stored away in inventory is the same as cash, only you cannot spend it. Consider having a sale and getting rid of old inventory quickly. Use the inventory sale as a way to draw in new faces and to create new traffic to your business.

6. Control Accounts Receivable – During these tough times, you have to be aggressive on all outstanding accounts receivable. When you are making sales, encourage cash up front. If your good customers make a purchase on a thirty day contract, do not allow them to stretch it out to 35 or 40 days.

7. Gross Margin – One area many business owners let slide during tough times is their gross margin or gross profit. If the current national average for gross margins in

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your industry is 40%, always try to stay as close to that as possible. If you reduce your margins to 25%, let's say, you might see more short term sales, but your business income will greatly suffer in the long run. It is better to maintain a higher margin and offer your customers incentives in other areas.

8. Tax Deductions – Work with your company accountant and push them to maximize your write-offs, deductions and depreciation. By being aggressive in these areas you could reduce your business taxes by several thousand dollars, which is essentially money in the bank.

9. Advertising – Even though it is counter-intuitive, marketing during tough economic times is actually a smart idea. Dollars generally go further and there is often less competition in the marketplace. Viewed another way, if your company does not advertise during tough times, you may also be signaling that your company is struggling. Studies have shown that companies that maintain or increase advertising placements during tough times end up out-selling rivals that don't.

10. Be Open to Customers – When talking with customers, be open and honest and let them know that you are struggling, too. Empathize with their situation and point out the areas where you are able to work together to reach a common goal.

Many of you have been through bad times before and you know that maintaining cash flow and financial strength is very important. Hopefully the ten ideas listed above are effective in helping you weather the storm successfully.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.castle3.com, call 1-888-849-9559 or e-mail Gary directly at Gary@Castle3.com.