



## ***How Small Businesses Can Succeed in an Uncertain Economy***

Slowdowns are a natural part of the economic cycle, and the current slowdown, which comes after an unprecedented era of expansion, is being met by economists and business strategists alike with measured optimism. "The expansion is not over yet," said Mark Vitner, senior economist at First Union who believes that we can maintain the "soft landing" that the Federal Reserve has been hoping for. "Economic growth will slow to between 1% and 2% this year. That's the slowest growth we've seen since 1995. But a recession is still not a certainty." Even though Vitner believes the slowdown will be neither long nor deep, prudent business owners should review their core strategies and, if necessary, take action to

ensure their companies run smoothly through whatever choppy waters may lie ahead.

### **A Cautiously Optimistic Outlook**

Small businesses across the country have been quick to take a cautious stance. As early as last October, the National Federation of Independent Business, the nation's largest small business lobbying group, reported a decline in its small business optimism survey, with many firms indicating a pullback in their hiring, inventory, building, and capital spending plans. "Like all businesses, small businesses are keeping an eye on what's happening in the economy," said Lynn Daniel, president of Daniel Group Ltd., a strategic planning and small business consulting firm based in Charlotte, NC "But most of my clients are not seeing a slowdown in their businesses yet."

Should small businesses be particularly concerned about the potential effects of an economic decline? Not necessarily. In fact, according to First Union's Vitner, small businesses tend to be resilient in times of economic uncertainty. "Many small companies are family businesses whose owners are close to the day-to-day operations. They are less likely than public companies to uncover 'ugly surprises,' such as billing irregularities that could make them financially vulnerable," Vitner observed.

On the other hand, there are certain factors that can put small businesses at a disadvantage. Underdiversification is one of them. "If you have only two major customers, and one is adversely impacted by a slowdown, you're going to have a problem," said Ken Yancey, Jr., chief executive officer of SCORE, the Service Core of Retired Executives. Just as a well-diversified portfolio helps reduce the effects of market volatility, a broad customer base and market offering will help a company weather a downturn in any one segment of its market.

### **Turning Adversity Into Opportunity**

While a slowing economy can be unsettling, it doesn't have to spell bad news for small businesses. "Economic slowdowns are a time when companies can strengthen themselves by wringing out slack resources, improving efficiencies, and re-cementing relationships with valued customers," said Dr. John A. Pearce, professor of strategic management and entrepreneurship at Villanova University. "Firms that bounce back most quickly - and participate most fully in the rapid growth that often follows an economic decline - take decisive action early on in the recessionary period."

Following are some strategic actions and commonsense practices that can help companies of all sizes manage through periods of economic uncertainty.

### The Strategic Edge

- **Maintain service excellence.** Although you will probably want to reduce expenses in many areas of your business, continue to serve customers with the same standards of excellence. Superior service is a competitive differentiator whether service is your stock and trade or an after-sale support function.
- **Continue your marketing initiatives.** Marketing is a strategic investment. If you do cut back, do so selectively. "Continue to promote those core offerings that are most associated with your company," advised Dr. Pearce.
- **Aggressively court new business.** Get offensive in your sales initiatives. "Those companies that are the hungriest for business never seem to slow down," observed First Union's Vitner.
- **Look for ways to deepen key customer relationships.** If you sense that a key customer is experiencing a business slowdown, find ways to intervene that would create a win-win scenario for both parties.

### Practical Priorities

- **Identify unprofitable business segments.** If a part of your business is not contributing - eliminate it. Small businesses can't afford to go into a slowing economy with deadwood.
- **Scrutinize overhead.** Try to make expenses as variable as possible; that way, if you do begin experiencing difficulties, you can cut expenses more easily.
- **Analyze different cash flow scenarios.** "Most small businesses are not as good at looking at prospective cash flow issues as they should be," Vitner observed. "Try to examine the effect a 5%, 10%, or 25% drop in sales would have on cash flow - and do so regularly."
- **Stay on top of receivables.** Understand the makeup of your receivables and make sure they are collectible. "If cash flow tightens, your sources of temporary working capital are crucial." said SCORE's Yancey.
- **Avoid business expansion.** Whether it's expanding a product line or breaking ground on a new warehouse, don't enter into major expansion projects in times of economic uncertainty.

Now may also be a good time to seek advice from mentors, coaches, an advisory board, or a First Union business specialist. With a little support and a lot of advance planning, entrepreneurial businesses can turn current economic uncertainties into new business opportunities.