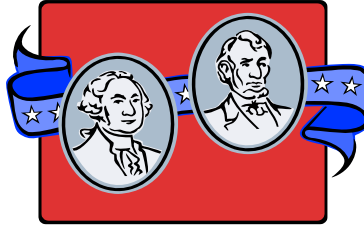


C.H.A.L.L.E.N.G.E.S., inc

Working with Families in Business

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~FEBRUARY 2009 NEWSLETTER~

This newsletter will be a little longer than usual as we asked for some recommendations from some of our professional friends. Hopefully you will find it helpful to you and your family business.

“Hope doesn’t come from calculating whether the good news is winning out over the bad. It’s simply a choice to take action.”

Anna Lappe, O Magazine, June 2003

Question received from one of our newsletter readers:

“In this economic down-turn what should Families in Business be doing?”

The first “do” is a “do not!” Do not start by sitting back and thinking these economic times are going to go away in a few months. All of the information we are reading from the economy experts is that this economy downswing will continue at least until mid 2010. Most of those that “sit back” and keep doing what they have always done will not survive into 2010.

Your choice has to be to take action. A lot of business is still being carried on. It is just going to take more effort to get it done. The following suggestions come from a variety of sources with some of our suggestions woven in. We will end with some suggestions from a strategic friend of ours, Laurie Owen of Business Resource Services.

Some things to think about:

Go after more revenue! You will have to have more activity just to keep even. Are you (or your sales people) making customer calls everyday, reviewing with each the items you have a “deal” on or discussing the items they have never purchased from you before? Have you increased the amount of calls your sales people must make each day? If your sales are slipping look at what your sales people are doing. You can’t let them just do “what they have always done.” The family business owners MUST be making calls and keeping in touch with your best customers constantly. If you don’t, your competitors will! Aggressively go after new business. Only the companies reviewing and adjusting their sales activities *and* being aggressive in watching the “cash” will survive.

Contact your banker and your suppliers before they take action. The financial people as well as your suppliers will usually be very willing to work with

you when you contact them *before* they have to come after you. You may be pleasantly surprised at how much they are willing to help you when you are open with them right up front. If you have any bank covenants see if you can renegotiate them. The banks DON'T want your business. They want your money. Help them find a way to keep it coming even if it is less than originally contracted.

Plan and Budget! Cash is King. Budget your sales, expenses and cash. Keep watching on a monthly basis for additional adjustments. Have good internal controls in place. In a down economy, controls on how cash or inventory is received, recorded and accounted for are more important than ever! Do you have a separation of duties? The person that receives the money should not be the person that deposits it. The person recording your transactions should not be the person calculating your checkbook. Reconcile cash and bank statements monthly. Separate the responsibilities. Separate duties and don't allow one person to deal with the money or inventory from beginning to end. An example is not having the same person who purchases product, receiving it. All of these ideas are smart moves and keeps honest people from becoming dishonest! In a time of downturn you literally have to tighten up on your controls. Unfortunately, most businesses have 10% to 15% of poor performers or people who feel the "company owes it to them" on the payroll.

Watch your Accounts Receivables closely. Reducing the average "days out" on A/R will have a dramatic impact on your cash position. When you see clients/customers falling behind in their payments to you, call them and work out a payment plan. You will get something back. Getting a \$100 for 10 weeks (no interest) is better than not getting the \$1,000 owed to you! Be creative. Offer discounts (maybe a few points higher than you are now) on COD orders and early payments. Get a deposit with the order. Do you take credit cards? Maybe you should.

Review your client list. Who can you no longer afford to serve at your current pricing? Maybe a new pricing structure will have to be in place for the lower volume, higher cost clients/customers. Think about shaving your margins on high-priced items or services that may not sell as well in a slower economy, or offer bigger volume discounts on those products. The volumes may have to be reduced a bit to make it even more appealing to your clients/customers.

Offer "pick up" options to smaller clients. Keep your best clients happy. Are your people insuring that all your clients know everything you have to offer? You may be surprised at how many sales you are losing because your current customers "didn't know you handled that item." Look for ways to add new clients to your list. What else can you offer on a more aggressive basis? Offer extra Services? New items that are a better "fit" for your largest customers? Arrange for drop-shipments directly to your customer. Remember, some of the businesses that were supplying certain items to your best customers may no longer be around. How can you begin to supply those additional products and services in a cost effective manner?

Cut Costs – everywhere. Review how you can save on utilities, supplies, phone bills, subscriptions, garbage collection, building and/or office cleaning and non-essential services that you are paying for. Maybe you could get your employees to accomplish these tasks instead of laying them off?

Do you really need cable in the office?

Keep your inventory at the appropriate levels. Sell off the old, backed-up inventory at special prices in order to get some return on your investment. The longer inventory “sits” the more you lose. Donate non-sellers and at least get a little write off.

How often do you pay your invoices? How often do you invoice your customers? Can these be lengthened or shortened by offering an incentive? Don't let your “bad pay” customers hold you hostage. There is an old saying, “The first lost is the best loss.” Don't keep throwing good money after bad in the name of sales. If there is no payment, no cash, it is no good. The only good sales are profitable sales that are paid on time. How much could you buy on consignment, or in some industries “on the card” or “memo?” Watch your inventories, increase inventory turns. Have more “sales events.”

What about the employees? Remember those poor performers we described earlier? They need to go - NOW! Your good employees will be happy you did. Do everything you can to keep your good employees working. Ask for ideas to cut costs or increase revenue. If the results can be measured in how they increased sales or reduced costs, pay them an “idea that works” incentive. If you have to cut your labor dollars, be creative. Would the employees choose to work a ½ day (or a day a week, month) for no pay in order to keep everyone on the payroll? Are there some employees who are willing to take a month off without pay? Are there employees who would be willing to job share with another capable employee by both going to part-time, saving the company 1 full week's pay? Could you freeze wages for a period of time? What “perks” can be cut out in order to save the company money? Are you and your “working family members” making the same sacrifices that you are asking from your other employees?

If you can make the adjustments to keep your people working in some capacity, you will be ahead of the market when it begins to open up again. If you let them go you may have to try to “gear up” with novices!

It is extremely important to keep your employees informed on everything that is going on in your company. Keep them informed of the good and the bad. At least once a month have a way to inform all of your employees of what is going on in the company. If you keep them informed, they will believe what they read, and they will develop the perception that your company is in as bad (or worse) shape than the companies they are reading about. Remember, there are still a lot of businesses making money and there are still a lot of people spending it!

Laurie Owen, of Business Resource Services (they deal with companies who want to make better decisions using their financial information) located in Seattle, Washington offers the following advice for 2009:

Now more than ever, prudent owners will want to “storm-proof” their businesses for the rest of the coming year. As you struggle to manage costs, find new sources of revenue, and operate more efficiently, it's always good to remember some basics.

1. **Stay on top of your cash situation**—Take time to prepare cash flow projections for the next 12 months and revise weekly if needed.
2. **Know your margins and turns by department, by product line, and by SKU.** If you don't have this information, upgrade your system. If you

do have this information, but can't use the reports, get advice so you can. Phase out the lines that either are not turning or not generating the margins you need.

3. **Monitor Accounts Receivables closely**—Process invoices immediately, distribute an outstanding accounts receivable statement weekly and take action on late accounts immediately. A few days improvement in collections will make a huge difference in cash flow. Make a vow to get rid of in-store accounts by the end of the year.
4. **Insist on good financial data**—Accurate, timely financial statements are critical in tight economic times. Don't accept excuses from your bookkeeping staff. If you're doing your own books, fire yourself, hire it out, and make better use of your time.
5. **Get funding now!** —The worst time to get financing is when you are about to run out of cash. Arrange for loans and lines of credit before you need it. Your cash flow projections from tip #1 will help you figure out how much you'll need and when you can pay it back.
6. **Review your long term financing**— Are you financing long-term growth (or assets) with short-term funding such as a credit line? If so, see your banker about getting refinanced.
7. **Have good advisors and use them**—Make sure you have a solid team of outside advisors, meet with them regularly and listen to what they say.
8. **Don't turn financial decisions over to others**—There is no need to turn yourself into a CPA, but you must be able to read financial statements, talk with financial people and assess your company's performance.
9. **Understand and use break-even analysis**—Do you know your contribution margin? If not, you won't know how much more you need in sales when costs rise or prices fall. At the same time you'll know how much to cut if and when sales fall.
10. **Know your clientele and your price points.** You say you are a "high end" store- is that based on wishful thinking or does it match your selling history and market area? Does your marketing plan (and inventory mix) make sense for your market?

As Mark Twain once said, ships are safest in harbours but that's not what they're made for. Don't let fears of the future paralyze you. Get moving and do something! Laurie can be reached at owen@brs-seattle.com. Tell her C.H.A.L.L.E.N.G.E.S.® sent you!

We also thank our friends at **Markovitz - Dugan** for the ideas we "gleaned" from their most recent newsletter. **Jim Dugan** has been a good friend and a great asset to a number of our clients. He can be reached at jjmd@markovitz-dugan.com.

If you are unsure of what your family business should be doing in these economic times, if you would like to "brainstorm" strategies, if you make the "choice" to do something to move your family business forward give us a call, we can help.

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E-mail us your questions concerning your family business and we will begin to answer them in upcoming newsletters.