



Warning Signs of Small Businesses in Trouble

Those of us who start small businesses do so with many dreams. “Being my own boss” is often at the top of the list.

“Doing it my way”, “I’ve got an idea”, and “I’m going to achieve my vision” are also right at the top of the list.

Oddly enough, “Achieving financial security” is rarely the first dream mentioned by most entrepreneurs. It’s high on the list, all right, but it’s rarely in the top position.

Here’s an easy way to evaluate the health of your small business.

All small businesses have three dimensions:

- Operational (what the business does),
- Marketing
- Financial

The trouble is that while most entrepreneurs have solid, practical ideas for at least the Operational side, and sometimes for the Marketing aspects, rarely do they have a good game plan for the Financial side of the business.

So guess what happens? A weak financial picture sinks the business, the owner’s dream, and often the owner’s savings.

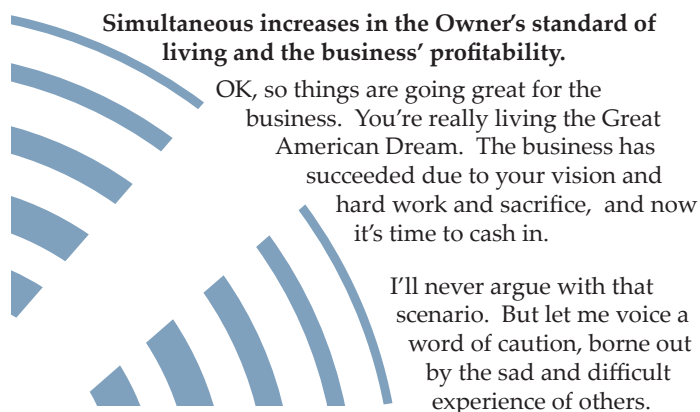
Here are some warning signs of businesses that are in or are heading for financial trouble.

Credit Cards and Balance Hopping. Those zero interest terms are hard to beat, but the real issue is that the business should generate enough money over time to pay off those cards.

The National Society of Accountants says it this way: “Owners sometimes view money in the bank as an indication that all is well without sufficiently planning payback of the credit extended.”

I see it all the time. The owner looks at his or her bank balance, and not their credit card balance. When the business goes through a downturn, as all businesses do, the available credit has already been spent.

When this happens, real trouble is often just around the corner. Truth is, that trouble has been there all along—it just never became visible.



Again quoting the National Society of Accountants, when business profitability is not sustainable over the long term, “the standard of living is rarely reduced— the consequence is usually a restriction of business expenses or the increasingly slow payment of bills.”

I’ve seen this one happen, too. The business and the owner’s lifestyle both experience significant increases in cash demands. And if the cash flow from the business drops, spending must drop as well.

Guess which area gets cut? Not the home and the owner’s lifestyle. Reinvestment in the business—the golden goose—is what gets cut. And guess where that ultimately leads?

Cutting Advertising Expense.

It’s an old, even a classic, story. Expenses must be cut, and immediately. Many owners feel—and Big Businesses make this mistake, too—that advertising is the only thing that can be cut quickly.

In all too many cases, it’s not that advertising can be cut quickly, it’s that advertising can be cut without the pain of confrontation. Easier to cut advertising than to lay off key employees who are also friends. Other examples are asking for a suspension of the lease, or to ask the Bank for financial concessions.

The danger in all this is that cutting the mechanisms by which you drive customers into your business almost certainly insures the slow death of the business.

A business that reduces its advertising and promotional investment because of financial problems is almost certainly in danger.

I am Chairman of the Board of my Church, and we have faced financial challenges resulting from a major building and expansion program that has left us severely in debt.

It is very, very tempting to cut Ministries spending. After all, it’s the only thing we can cut quickly. The thinking is that we should quit investing in overseas missions, re-use the Vacation Bible School materials, and use all the proceeds of the Love Offerings to retire the debt service.

Church missions are not advertising, but the point is that both are essential, and reductions for financial reasons could imperil the organization’s future.

Remember those three components of a business—Operational, Marketing, and Financial? The ultimate test of a business success is Financial, because it becomes the sum of all the other decisions the owner must make.