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Don't go from liquid to liquidated

How SMEs can stay afloat in these trying times

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No question, these are tough days for small-to medium-sized enterprises. They must deal with the effects of high oil prices and a Canadian dollar almost at par, the credit crunch, new and creative burdens dreamed up by politicians -- not to mention the usual vicious and creative competition, demanding customers and fidgety employees.

All this has many asking, how do you know when your company is starting to break, rather than just bending, and what can you do?

Big corporations can lumber along for years as zombies before finally falling over (hello Woolworth's, or likely Blockbuster … or GM), but there is little cushion for SMEs. They can go from liquid to liquidated in a matter of months.

However, SMEs can take some steps to weather a downturn:

First and foremost, get a handle on your cash flow inflows and outflows -- not annually or quarterly, not even monthly, but weekly. You can only manage what you can analyze and quantify. You will start to see and avoid pressure points and concrete walls to manoeuvre around.

If you don't have one, get a good numbers person. There are experienced "virtual" or part-time CFOs who can be invaluable and reasonably affordable for small businesses.

Second, looking forward, build cushions into everything in your strategic plans and financial forecasts. General uncertainty tends to make decisions take longer and cost more -- for example, closing new sales or channel arrangements or joint ventures, getting capital, etc. This will help you avoid an unanticipated cash squeeze. (Which you will see coming if you do No. 1.)

Third, , don't go to your bank with problems -- go with solutions if you hit a rough patch and are in breach of your loan agreement or close to it. Don't expect them to bail you out. That's not their business.

This is a mistake many SMEs make. You've heard the phrase, "banks are happy to lend to those who don't need the money?" There is some truth to that. Remember, banks can reduce borrowers' overall cost of capital, they are not a source of capital.

Fourth, do a strategic plan and financial forecast. They don't need to be formal, complicated or lengthy. The act of committing them to paper, simply helps pull your head out of the day-to-day grind and see the bigger picture. This is particularly important for technology companies and companies that use technology. But even the most traditional companies can also benefit from this.

Finally, don't spend money you don't have. Increasing sales pipelines actually consumes cash, it does not generate it. This has always been true, in any market environment. You need a big bank account, a rich uncle who likes you, or to raise good, old-fashioned equity to grow quickly. Which loops us back to No. 1…

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