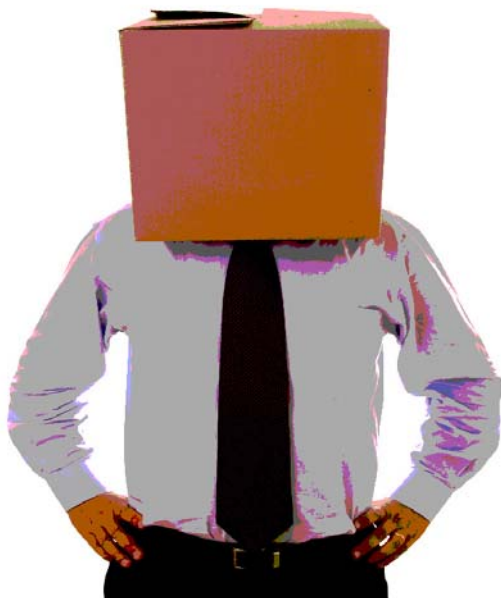


How recession-induced paralysis could affect your bank relationships

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Lenders will adapt to change and adjust capital structure if the business owner does.



The most successful companies not only have a plan - they have multiple plans with clearly defined actions under each scenario. In these times of constricted capital markets, companies have been forced to adopt better management, monitoring and communicating practices. Let's hope the following practices continue when the economy recovers.

The economic downturn has many business operators frozen with decision paralysis. New business initiatives are being shelved, innovation is suffering and employee fear is damaging productivity. Some business owners are so unsure of the future that they're failing to plan even for the near-term. Even when the outlook is uncertain, moving forward without a plan is not an option.

A lack of proper planning will affect more than your immediate operations. It can put your cash flow in jeopardy as well. As the credit markets continue to tighten, it is important for business owners to properly manage their relationships with lenders. Gone are the days – at least for now – when a business owner could simply go to a lender with a business plan and walk away with new financing.

No one is certain how this economy will impact each individual business, or how long it will last. But a good plan will allow businesses to proactively adjust to changing market conditions. This will, in turn, pay dividends with banking relationships. In the coming months, nearly every company will find it necessary to adjust their strategy. And keeping their bankers informed will increase the likelihood of success.

Hope is no longer a business strategy

Owners of closely-held businesses are traditionally optimistic that things will work out. However, a banker recently told me, "Hope is no longer a business strategy."

Financial institutions can no longer accept an owner's word. Even the most carefully laid out plans are being challenged against market conditions. A borrower must be able to substantiate plan assumptions with corroborating evidence, including market data, contracts, etc.

The current economic climate may affect your ability to obtain financing when you need it most, and banks are now more stringent in their underwriting when assessing credits. We have heard many stories of tighter covenants, reduced credit facilities and increased pricing.

Create a plan

When the environment is unpredictable, consider creating three plans – best case, worst case and most likely. If you are going to avoid cash flow problems, you need to test your assumptions. "Stress test" the significant drivers in your plan and create multiple contingency plans that allow for changes. Most important, communicate your plan and other potential problems to your banker as soon as possible.

If you prepare forecasts, update them to determine the timing and extent of your financing needs. Projecting operations is only one piece of the total picture. You must also evaluate the impact of a possible downturn on your financial position. With this information, you can communicate your needs to your banker with a more realistic assessment of your company's situation. Approach your banker with a detailed plan

on how your company will address the changing economy. Doing so will give them more confidence in your team's ability to execute the plan.

Once your plan is in place, know how to manage it. Monitor progress so you can reallocate resources and efforts as needed. If the issue is sales, try changing incentives. If it's cash flow, look at managing working capital. Many businesses have tax-free and interest-free liquidity tied up in their accounts receivable and inventory. If customers slow down payment, look for ways to speed up collections. Look at all possible causes, internal or external, to find the root of the problem. Then focus resources in the right area to maximize efficiency.

Now you've got a plan – what's next?

Communication is paramount with bankers. The sooner you identify and share issues with your lender, the more likely you can negotiate your requests. Lenders will work with companies that have a clear and detailed plan. Understand what you need, how much you need and when you need it. Have your contingency plan ready for any additional challenges.

Present a plan that is realistic – one that you feel comfortable reaching. You don't want to lose credibility right out of the gate by missing projections. If conditions do change, quickly implement the contingency plan and be proactive in your communication.

Finally, the plan isn't only for your lender's peace of mind. Be sure to communicate your plan internally as well. Companies that have a plan in place will prosper by proactively adjusting to market conditions. When everyone in the organization shares the same clear vision, the path to success will be clear.

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