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Column: For companies, strategy and communication are key to capital

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The federal government has passed a $700 billion bailout of the financial systems. While a step in the right direction, it will not solve any problems immediately. Longer term, the odds are that the economy will get much worse before it gets better.

Banks are tightening credit to a degree not seen in 30 years. Over the last five years, financial institutions have been lenient in their lending standards. Business owners and managers are realizing the rules surrounding the availability of credit and capital have changed substantially, and in the course of just several months.

Austin has, so far, been somewhat sheltered from the full effects of the financial tsunami, while areas such as Las Vegas, Arizona, Southern California and Florida have literally been devastated. Some businesses have closed down in Austin, a few national firms have reduced their employment in Austin, and the Austin real estate market is increasingly under stress. As the downturn continues, Austin may continue to fare relatively well, but in an absolute sense, times will be tough— probably tougher than the 1980s.

Ausin-based businesses will have a more difficult time getting the debt or capital they need to expand, and may not even be able to continue leveraging the funding sources currently in place as lenders become stricter and less tolerant.

Business owners should prepare for a worsening economy, and take these steps now. Every day that goes by, particularly during any post-rescue bill-window, is a missed opportunity to beef-up defenses and conserve cash.

- Stay focused on good customers. Businesses should work to understand and aggressively address their customers' issues. They will also be cutting unnecessary, non-essential expenditures. In a poor economy, competition will increasingly be based on price, so businesses must articulate their value proposition in order to justify holding current prices above the competitions', or to just hold on to the business altogether.

- Communicate with bankers. It’s important for companies to communicate with their bankers and let them in on key strategies. Companies should work to convince their bankers they will do whatever it takes to make sure loans are repaid. The biggest mistake companies make with bankers is not staying in constant communication with them and, then, springing last minute surprises. Commercial banks have all tightened their lending standards during the last six months. Loans and credit lines should be kept in good repair; it’s important not to bust covenants and go into default. Bankers will be far less forgiving in the current economic environment.

- Keep relationships strong with shareholders. It is much easier to attain additional capital from people who know a business than from people who do not know the capabilities of a given company. Keep shareholders informed and anticipate any capital requirements in advance of when funds are actually needed.

- Support key employees. Although unemployment will increase, there will continue to be demand for key people; high-level skills are always in short supply. A business’ employees will feel insecure about the company and their jobs. Keep them informed and involved in the process so that they do not make an uninformed decision to leave.

- Remain relentlessly focused and realistic about business and its prospects, while lowering expectations. Companies moving into survival mode need to be clear about what it takes to survive. Businesses should review their current business strategy and value-proposition to ensure it is aligned with the needs of its market.

- Cash is king. Businesses should keep cutting costs ahead of any potential blips in top-line revenue.

- Watch customers' credit rating and payment history. Customers may attempt to use suppliers and vendors as a form of financing, and it is likely that several will fail. Don’t continue working with a customer who cannot or refuse to stay current.

- Review payables policies. Take full advantage of the time vendors allow for payment, without endangering critical relationships.

- Consider and line up alternative sources of financing. Obtaining more expensive financing sometimes is better than no financing at all. Asset-based lenders and factoring groups can provide financing when a traditional bank is not willing to do so.

- Look for opportunities. Companies do have opportunities in a downturn and should evaluate how they can serve distressed companies. Diversifying and identifying a new set of customers during a down economic cycle can continue to support viability and buffer businesses against a downturn in its traditional lines of business.

By taking strategic steps, businesses can maximize their chances of survival and position themselves to take full advantage of the next upturn.

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