10-21-2009

Do You Stay the Course or Close the Doors?

Lori Durden

Do you stay the course or close the doors?

Most entrepreneurs start their business with high hopes and expectations for the future.

They pour their heart and soul into it, and the only exit strategy they envision is selling their business at just the right time for a large sum of cash. Unfortunately, this is rarely the case.

Lori Durden

All too often, the business begins to struggle, and the owner does everything possible to save it. And while it may seem noble to fight until the bitter end, serious financial consequences can result from hanging on too long.

As the company starts to struggle and positive cash flow becomes a fight, an owner can do a few things to stay afloat — increase sales, cut expenses or invest more money.

Most small-business owners depleted their savings at start-up, so borrowing money is typically the only path to more cash. But without a significant change to your business model, investing more money is usually a short-term solution to a long-term problem.

Within a year, most find themselves experiencing the same cash crunch, only this time deeper in debt.

The real solution for saving a business in trouble lies with the first two initiatives — increasing sales and cutting costs. Most owners believe they run a tight ship, but having an objective third party examine the books might reveal more efficient ways of operating.

Have your CPA, a trusted business mentor or Small Business Development Center consultant review your finances and discuss any areas that seem excessive or unnecessary.

Increasing sales is more complicated and often means thinking outside the box.

If offering the same product or service the same way to the same target market has played out, it is time to consider adding another product line or complimentary service, looking for new markets or reinventing the business through a new marketing campaign or image overhaul.

> The real solution for saving a business in trouble lies with two initiatives — increasing sales and cutting costs.

Yes, these strategies cost money, but investing more money without a well-developed plan is not really a strategy — it's a Band-Aid.

If these efforts prove unproductive, many owners start to make serious mistakes in judgment. The most common response to such a situation is to battle on, a reaction driven by both fear and pride.

However, at this point a business owner must focus on what he stands to lose, not on what he may have already lost.

The decision to close the business is painful and difficult, but recognizing the problems early on can help avoid an unpleasant ending such as bankruptcy and the complete destruction of your personal credit.

Voluntary liquidation

Voluntary liquidation of a business venture can be a viable alternative. You can fail "gracefully" and close your business the way it was run — with integrity.

A voluntary liquidation involves three steps.

First, meet with your accountant and attorney to inform them of your decision and seek their guidance.

Second, take inventory of all of your assets and have them appraised. This will give you a better idea of how much money you may be able to generate with a controlled, planned liquidation.

Last, and most important, present a plan to each of your creditors consisting of a lump sum payment and/or payment plan proposal.

Many creditors will accept your offer in an attempt to avoid the legal expenses associated with collecting funds from a closed business.

Too often, there is a fine line between losing your business and losing everything you own.

When you are the owner of a business in distress, that line is often blurred. At some point, all things, good or bad, must come to an end and businesses are no exception. Don't risk your financial future on a business that cannot be saved.

Lori Durden is the area director of the Small Business Development Center at Georgia Southern University. She can be reached via e-mail at L_durden@georgiasouthern.edu.