Lessons from the lean years

Tough times can provide a great opportunity to improve your company's bottom line. Here, four financial strategies that may help to position your small business for long-term success.

As your business emerges from the long, punishing downturn, you probably feel you could get through anything. And you just might be right. More than half of *Fortune* 500 companies—including such icons as Kraft, ExxonMobil, Disney and Microsoft—launched during a recession or a bear market. Whether businesses are new or well-established, those that find ways to cope—or even thrive—when times are tough may be better positioned to surge ahead of the competition once the economy takes off. The strategies below not only can help you get through the near term, but they also may give your company an enduring edge.

Look first at payroll and benefits

In any downturn, it is critical to keep business costs in check. But even the healthiest businesses can benefit from some cost-cutting measures.

The biggest expense is frequently payroll and benefits. Look at areas where you can cut excess spending or where you can consolidate or simplify processes. For example, consider the cost of retirement plans. If profit sharing or a 401(k) is part of your benefits package, review your plan provider's fee schedule. "Ask yourself what services and features you're paying for and whether you're using all of them," suggests Michele Wickles, Managing Director and Product Management Executive, Bank of America Merrill Lynch. "Working with all your resources to optimize the services that you are paying for can be to your great advantage."

Decreasing the company contribution to employee benefits is another potential source of immediate savings. You might consider asking workers to kick in more—paying 25% of health insurance premiums, for example, instead of just 10%—or you could reduce the amount you contribute in profit-sharing dollars or matching funds to a 401(k). You should explain these changes as necessary—and possibly temporary—moves to help shore up the company's financial health. Tread carefully, though. "If you're taking a benefit away, it's important to emphasize that it's so the business can stay the course," says Wickles. "That's to everyone's advantage." It is better to invest the time upfront to build employee support for changes than

The Sample Advisor Group
Financial Advisory Team

65 East State Street
Columbus, OH 43215

555.555.5555

Sample Advisor
Wealth Management Advisor
555.555.5555

Sample Advisor
Vice President
555.555.5555

Perspectives

Helping you move forward
Lessons from the lean years
How will you pay for long-term care?
Investing in companies, not sectors

Back to Perspectives Front Page

to risk leaving people in the dark and damaging both productivity and morale.

Payroll is also a category where you can find major savings. Evaluate whether the cost of your employee wages aligns with your business profits. Staff reductions are usually the most obvious way to lower the expense of salaries. But if your workforce is already lean, doing this can place stress on both your employees and your business's ability to meet customer needs. As an alternative, you may want to consider transferring a larger portion of your sales staff's pay to commission. This alteration to your business model allows you to incur additional expense only if employees sell more, and could create a lasting cost advantage. While introducing this change to employees requires careful handling, your staff may find it preferable to layoffs and a strong motivator to improve performance and bring in more revenue.

Streamline your expenses

Not every financial move has to revolve around your staff costs, however. Small cuts can often make a big collective difference. Look at every item, line by line, to see where you can trim. If your company buys raw materials, consider switching to less expensive suppliers or inviting existing suppliers to rebid for your business. If your firm relies on service providers, explore creative pricing strategies. For example, look for situations where you can get several services bundled together at a combined lower price or where you may be able to get a discount for a long-term contract. Phone and Internet providers usually offer both options. These basic services may seem like obvious examples of areas to save, but for many businesses they are large sources of empty spending.

“The real opportunities for cutting costs in a small business tend to be with recurring expenses: utility bills, Internet service, subscriptions, insurance,” says Bruce Pounder, chair of the Small Business Financial and Regulatory Affairs committee of the Institute of Management Accountants. “Maybe your phone bill is bigger than it has to be because you signed up for 100 voicemail boxes and need only 50.” His advice: “Don't write a check without asking, Can I get this cheaper elsewhere? And do I really need it at all?” Paring down these bills and putting firm cost controls in place now will bolster your profit margin once sales start to rise again.

Master the art of cash flow

It's easy to become lax about collections when the money is rolling in, but tough times offer a great chance to tighten your billing and payment practices.

First, see if you can negotiate better terms with your vendors, such as a longer payment schedule or lower interest rates. Keep in mind, however, that your leverage may depend on your company's size and importance to the vendor. Vital customers tend to have more leeway in negotiating terms.

Apply similar scrutiny to the money that customers owe you. If sales are stagnant and receivables are growing, that probably means that people are taking longer to pay. Mike Mitchell, president of the Credit Management Association, suggests devoting more staff time to calling delinquent accounts. And don't wait until payment is 15 or 20 days past due. On day one, make the call. Finally, consider getting outside help so that you can collect more effectively and continue to focus on your core business. A collection agency may seem like a draconian step, but you can instruct the agency to go easy on clients at first and to couch efforts as “reminders,” not threats. The payoff of freeing up funds is likely to be worth it. Only companies with sufficient cash flow in good times and bad can pursue possibilities for innovation and growth.

Diversify your resources

Even if you manage your business well—making the most of your relationships with lenders, suppliers and customers—hard economic times could leave you needing outside capital. Most business owners have a primary bank but no backup, says Andrew Britton, Director and Commercial Banking Specialist Manager for Bank of America Merrill Lynch. Britton suggests cultivating relationships with additional financial institutions, even if you don't require credit right now. "You need to have someone you already know, with whom you've shared some basic information, who can step in and help you out in a pinch," Britton says.

When your company is financially solid and times are good, a backup plan for quickly accessing funds can still prove to come in handy. It may allow you to invest in opportunities that help your firm grow.

As you evaluate strategies for addressing challenges caused by the downturn, consider asking your Financial Advisor these questions:

- How might I fine tune the costs in my business retirement plan?
- How can we estimate the impact of a shift to a commission-based payroll?
- What other areas of my business should I examine for potential cost-cutting measures?
- What types of lenders would be most appropriate for my business?

Other types of lenders might also help. If you have a start-up built around an original idea, a venture capital firm might be willing to step in, even if your balance sheet is less than stellar. (Owning five dry-cleaning stores probably won't attract a venture capitalist, but a new cleaning method might.) Angel investors—individuals who fund young businesses in hope of a higher return than they'd get from traditional investments—are another possibility. According to the Center for Venture Research at the University of New Hampshire, angel investors provide an average of $346,000 per business. Location matters, with 90% of such investments made within a half day's travel from the investor's principal residence.

Wherever you find capital and whatever other strategies you devise to keep your business moving forward, the changes you make to address the trials of the downturn could help you take advantage of better times ahead. The companies that emerge from the recession more resourceful, streamlined and flexible than when it began should be able to make the most of the recovery, too.

Interested in learning more? Send us an email.

Back to front page

Sitemap • Privacy & Security • Legal Information • MLPF&S Financial Statements • ML.com

a specific recommendation or a solicitation by Merrill Lynch to buy/sell any securities or commodities. Past performance is no guarantee of future results.

Merrill Lynch and its representatives do not provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S. federal, state or local tax penalties. Please consult your own independent advisor as to any tax, accounting or legal statements made herein. Merrill Lynch, Pierce, Fenner & Smith Incorporated offers a broad range of brokerage, investment advisory (including financial planning), banking, trust, mortgage and other financial services and products. The nature and degree of advice and assistance provided, the fees charged, and client rights and Merrill Lynch's obligations will differ among these services.

In working with you, Merrill Lynch, Pierce, Fenner & Smith Incorporated acts primarily in the capacity as broker, but we may act as an investment advisor in certain arrangements, and our role and obligations will vary as a result. Unless we specifically agree in writing to act as an investment advisor, we are acting only as broker.

Variable annuities are long-term investments designed to help meet retirement needs. Variable annuities are subject to market fluctuation, investment risk and possible loss of principal. Past performance does not guarantee future results. All contract guarantees, including optional benefits, are provided by the issuing insurance company and are based on its claims-paying ability. Optional guaranteed benefits typically require investment restrictions and may be irrevocable once elected. Please refer to the prospectus for additional information. Enhanced income benefits may be taxable.

Variable annuities are sold by prospectus. You should consider the investment objectives, risks and charges, and expenses of the variable annuity and its underlying variable annuity investment options carefully before investing. The prospectuses for the variable annuity and underlying variable annuity investment options contain this and other information about the product. You can obtain current prospectuses from your Financial Advisor. You should read the prospectuses carefully before investing.

Merrill Lynch Bank & Trust Co., FSB, Merrill Lynch Trust Company of Delaware, Merrill Lynch Life Agency Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), a registered broker-dealer, and member of Securities Investor Protection Corporation (SIPC), and are wholly owned subsidiaries of Bank of America Corporation.

Investment and insurance products:

Are Not FDIC Insured	**Are Not Bank Guaranteed**	**May Lose Value**
Are Not Deposits	**Are Not Insured by Any Federal Government Agency**	**Are Not a Condition to Any Banking Service or Activity**

MLPF&S and Merrill Lynch Trust Company make available investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation or in which Bank of America Corporation has a substantial economic interest, including Columbia Management, BlackRock and Nuveen Investments.
This e-mail was sent to you by a Financial Advisor or Financial Advisor team. Unsubscribe from this service. If you are not an intended recipient of this e-mail, please notify the sender and then delete it. Your privacy is important to us. If you have any questions, please review the Merrill Lynch Privacy & Security site.| Technical support is available if you are having problems with this e-mail. | Unless otherwise indicated, all service marks are the property of Merrill Lynch & Co., Inc. All rights reserved. This e-newsletter is powered by technology provided by hnw.

Unsubscribe | **Contact Us**

Merrill Lynch
Wealth Management
Bank of America Corporation