SurThrival Tip No. 1: Know that Your Banker Can Always Help

Most business problems can be easily solved or avoided completely by regularly updating your banker about financial issues. Moreover, a great banker and a great relationship can help you solve more than just financing issues.

At Northrim, we are cautiously optimistic about the resilience of the Alaska economy given its growth, financial equity and liquidity, technology, transportation, and infrastructure development in recent decades. However, we recommend that business owners act prudently and exercise “discipline over desire” to prepare for any potential challenges. Businesses may even be able to capitalize on opportunities that arise as a result of any economic shift.

In accordance with our mission, vision, and values, Northrim Bank has long demonstrated its commitment to helping its customers and community. We are dedicated to informing business owners about the local economy and financial health best practices. We feel it is particularly important to maintain this practice in times of economic uncertainty.

SurThrival Tip No. 2: Study Financial Statement Metrics & Performance Measures

Understanding your financial statements will help you reduce accounting expenses, detect mistakes and fraudulent activity, recognize performance issues, and increase your credibility as a borrower when applying for financing.

Financial statements act like a health screening for your business. By glancing through them, you can
immediately identify many opportunities. Some are not as evident and may require more research and the critical eye of a financial expert. Most people do not particularly enjoy going to the doctor to have a health screening. Similarly, many business owners do not enjoy taking the time or paying the costs to have financial statements assembled, let alone analyzed. As unpleasant or unnecessary as it may seem, it benefits you more than anyone else. Take a deep breath, go to the doctor, assemble your financial statements, and ask for a diagnosis of your financial health.

If you need help understanding your financials, there are many resources available. There is a wealth of knowledge online including free accounting courses, financial statement templates, and case studies. You can also take formal accounting classes at local universities, attend workshops, or use learning resources offered by the Alaska Small Business Development Center (AKSBDC) including Profit Mastery™ applied courses. Trusted professionals such as a good banker or accountant can also help you figure out what to look for. Learning how to assemble or understand your financials will require some investment of time and money, but being able to analyze your statements and ask/answer questions about them will help you reduce accounting expenses, detect mistakes and fraudulent activity, recognize performance issues, and increase your credibility as a borrower when applying for financing. Moreover, during economically challenging times, financial statements form the basis of designing and controlling solutions to right-sizing and reorganization.

Maintain a separate set of financials for each business you operate, or for each branch or component of your business. If you only have one set of financials for your entire business or collection of businesses, it can be hard to spot problem areas and identify how each asset is performing. You may unintentionally be using a high performing enterprise to cover losses in a non-performing one.

SurThrival Tip No. 3: Know Your Net Worth

Make sure your bookkeeping accurately represents your business’s net worth. In particular, carefully consider how you report unrealized tax liabilities, intangibles, and non-cash activity. Ask your banker or accountant to help.

Accounting is an incredibly important business practice. Faulty accounting can result in financial and even legal issues. In this section, we suggest some ways to make sure your accounting is operating in the best interest of your business.

- Maintain outstanding internal bookkeeping. Either hire someone you know and trust or (preferably) take classes in accounting and learn how to assemble financial statements. The former generally entails more upfront costs and misunderstandings and can expose you to risk such as fraud. However, a good professional accountant can provide reporting confidence, offer valuable insight, and even save you more money than the cost of their time. The latter entails a significant time investment on your part and can result in more mistakes until you develop a deep understanding of accounting and financial statement presentation. However, it will help prevent fraud and may offer you a better understanding of your business’ financial standing.
• Make sure your bookkeeping accurately represents your business’ net worth. In particular, be
careful how you report unrealized tax liabilities, intangibles, and non-cash activity. Both over and
understating these items can have negative effects on other aspects of your financial
management and can make you appear untrustworthy or unknowledgeable to creditors. If your
business has significant fixed assets that would incur tax liabilities if liquidated, failing to reflect
those liabilities on your statements can dramatically overestimate your business’ net worth.
Inaccurately valuating patents, goodwill, and other intangibles can create similar problems, as
can non-cash activity such as depreciation. For example, a well-constructed building can
increase in market value despite being depreciated on your financial statements. On the other
hand, a piece of equipment can have little to no market value yet only be half-way depreciated
on the books. Be prepared to discuss book vs. market value of your assets with your financial
advisor.
• Consider selling or disposing of underutilized assets from your business to remove them from
your balance sheet and increase cash flow. For example, imagine you run a business that owns
the building out of which it operates. You may be able to sell the property and lease it back. It
will no longer be reflected on your balance sheet, the sale will generate income, and your future
lease payments will be fully tax deductible.
• Some businesses maintain two sets of financials: one using cash-based accounting, and the
other using accrual. In the former, expenses and income are not recorded until they are sent
and received, respectively. In accrual basis accounting, income and expenses are booked as
soon as sales or encumbrances occur, regardless of when money changes hands. Cash basis
accounting is popular for tax purposes, since services rendered at year end may be paid in
January, so they will not be counted as taxable income for the current year. It may not decrease
the total you pay in taxes eventually, but it is a way to defer taxes until the following year.
Accrual more accurately times revenues and expenses, but may affect liquidity and cash flow
differently.
• Other differences in accrual include using alternate depreciation methods (e.g. double declining
vs straight line) and inventory valuations (first-in-first-out vs. last-in-first-out). Ask your
accountant for a more in-depth explanation of how these and other concepts can best be
applied to your business for tax deferment purposes. Be prepared to discuss these differences
in your financial reporting with your investors and creditors.
Accuracy is critical, but there are many ways to report your small business financial results; there are
many accounting practices that can be used to record cash flow, net worth, and other aspects of your
financials. Many small business entrepreneurs use their checking, savings, investment, and charge
card accounts to track their results. One improvement to that practice could be to transfer those
account statements into QuickBooks™. Other business owners do not produce actual financial
statements, only tax returns on a cash basis. Some mix personal assets and expenditures with
business operations. Most bank lenders want independent financial statements prepared on a
conforming, accrual basis according to Generally Accepted Accounting Principles (GAAP). Doing
otherwise can cause you to report items in a way that causes concerns to investors and creditors.
Depending on the size, complexity, and strength of your business, internally prepared documents
may suffice or you may be asked to provide statements prepared, reviewed, and/or audited externally
by a Certified Public Accountant (CPA).
SurThrival Tip No. 4: Know Your Key Performance Ratios

Key performance ratios are vital statistics of your business. Knowing how to calculate and interpret these them is crucial to SurThriving, especially in a challenging economy. An experienced banker can help you calculate and interpret these.

In addition to regularly updating your financial statements, keep track of your ratios. These statistics are used by lenders, bonding, and insurance companies to make pricing and approval decisions of critical importance to your company. Know whether they are stable or trending positively or negatively and how that trend compares with peers and like businesses. This can be done using North American Industry Classification System (NAICS) or the Risk Management Association's (RMA) industry benchmarks. If you do not have access to this information or you need assistance computing or interpreting ratios, contact your banker for assistance.

SurThrival Tip No. 5: Stress-Test and Create Contingency Plans

Always stress-test your financials whenever they’re updated. What if your revenues fall by 20%? 25%? Stress testing can prepare your business for SurThrival if there’s a shock to our economy.

Stress testing is an important component of your business strategy. A great deal of stress testing is focused on financials (e.g. what happens to your small business if revenues fall by 20% or your gross profit margin squeezes by 20%), but there are many components of your business that can be stress tested and accounted for in contingency plans. Many businesses lack the resources or are not of a size that makes complex stress testing viable or worthwhile. Fortunately, there are many other ways to get a sense for how prepared your business is to react to changes in your operating environment or internal operations. With regard to financials, for example, you can outsource financial stress-testing (e.g. using Profit Cents® software available through AKSBDC), use industry averages to see how you compare or, in some cases, you can “eyeball it” and estimate what the effects might be and how you can respond.

To use benchmarking as a measurement tool, compare historical data from your business with your
current trends, activity levels, profitability, etc. You can also use industry averages as another benchmark against which to compare your business' performance. Determine a high, low, and medium benchmark. Make sure your comparisons are formed from similar businesses within a similar band of profitability. Work with your banker on this; they likely have access to RMA and NAICS industry averages and other data. Dig into any differences you notice between your business and others or between your current and past performance and determine whether they are the result of internal or external factors and whether you can influence them to improve your business' performance.

As you become more familiar with your financial statements and performance measures, it will become easier to anticipate how they might be affected by various economic events or trends. Some examples of the financial relationships you may want to analyze are as follows:

- Examine your cash reserves and lines of credit. Determine how long they will last if your sales shrink to different levels.
- Determine how your net worth and assets could change with fluctuations in your levels of activity, profitability, income, and expenditures.

Develop and maintain contingency plans to respond to internal challenges or a shifting operating environment as promptly and effectively as possible. Factors to consider in your stress testing and contingency planning efforts include, but are not limited to:

- Sales/Revenues (in particular, when cash is received)
- Changes in cost of goods/services sold (COGS) and the resulting changes in your gross profit margins
- Expenses
- Interruptions to operations (e.g. from technical difficulties or natural disasters)
- Regulatory changes
- Changes to the competitive landscape (e.g. large, out-of-state franchises moving into Alaska)
- Vendor issues (e.g. a vendor fails to deliver, goes bankrupt, etc.)
- Conditions of the market (e.g. given the current oil market, how might oil industry-serving businesses be affected if oil companies reduce purchases or ask for price reductions?)
- Loss of key employees to other jobs, family issues, death, etc.

**SurThrival Tip No. 6: Maintain an Optimal Cash Reserve**
Cash is key to SurThriving. Maintaining an optimal cash reserve can help with economic slowdown. If you have questions on optimizing capital allocation, diversifying, or growing your business strategically without over-burdening your cash flow, reach out to your banker or a business advisor.

Many businesses struggle with optimizing their capital allocation (e.g. new purchases, investments, dividends, inventories, etc.). Some fail to diversify, while others simply fail to maintain adequate cash reserves.

If you are anticipating an economic slowdown, complete a thorough analysis of all aspects of your business model. Establish which activities and assets are high-performing and which are not and determine whether failures are due to faulty management, exogenous factors, a lack of resources, or something else and use that analysis to guide your investments of time and capital. Consider investing more into potentially high-performing individuals, customers, products, and services. Slow or stop those that are draining your resources with no sign of generating returns and no apparent remedy.

In a shifting or declining economy, some businesses may decide to close or modify their operations and will start to seek buyers for their equipment, real estate, or entire business. If you can, take advantage of deals that present themselves. Carefully evaluate the strategic qualities of potential acquisitions and your ability to handle growth or diversification without causing distress to your financial health, operations, or customer service. Diversification can mitigate the risks of various types of market swings. If you are a housing developer in Anchorage, for example, it might make sense to branch out to other kinds of construction projects in case the housing market falters. You may also want to consider geographic diversification. Many businesses use this strategy to mitigate the risk of regional economic swings. Just beware of uncontrolled or uncalculated growth or diversification, particularly into industries with which you are unfamiliar. Success in one field does not necessarily imply you will be successful in others. Inter-industry expansion can work, however, with proper planning and resources. Do not let growth or diversification compromise or leverage your position unless modeled in a positive manner.

Evaluate your buying vs. leasing options and how they may impact your future cash flow. Purchasing equipment or real estate creates debt and fixed monthly payments that can strain your cash flow. Failing to make those payments can damage your credit and ability to obtain financing in the future. Leasing is sometimes a more affordable option requiring less cash up-front, particularly if the potential use is temporary. Furthermore, operating leases may be easier to terminate in a crunch. If you do make acquisitions such as land or equipment, schedule your payments efficiently with respect to your contracts and useful asset life. The sooner you can eliminate fixed monthly payments and focus solely on operating expenses, all things equal, the better. If you have questions on optimizing capital allocation, diversifying, or growing your business strategically without over-burdening your cash flow, reach out to your banker or a business advisor.
SurThrival Tip No. 7: Plan for Bad Times in Good Times

The future is not determined by external events, but rather how we respond to them. The best time to build contingency plans is when you don’t need to enact them. Proactive, instead of reactive, contingency planning makes navigating economic downturns easier and can lead to profitable outcomes.

Succession plans are another important aspect of business that could become particularly relevant when the economy shifts and businesses experience changes to their management and employment structure.

Establish and maintain contingency plans to maintain optimal performance, comply with company policies, replace exiting or temporarily absent individuals, and fill gaps in leadership as soon as possible. Do you cross-train employees to be able to step into other positions if needed? If the owner/manager is temporarily absent, are there family members or business associates who can maintain operations in the interim? Make sure to account for deaths of employees or managers. Consider how the personal loss/emotional effects, loss of valuable leadership, cost of replacing a valuable and specialized worker, productivity lost in the transitional period, and other consequences of that loss would affect your financial and operational capabilities. Depending on how much of your business’ worth is in the form of intangibles like the management and expertise of key individuals, it may be worthwhile to consider death and disability insurance.

If you are anticipating a potential economic shift, it may also be helpful to review possible exit strategies in light of the current market and make sure they still reflect your goals and available opportunities. Keep the following in mind as you reexamine these issues:

- Know how your business structure (e.g. sole proprietorship, partnership, limited liability company, corporation, etc.) may affect your potential exit strategies.
- Determine roles of partners, if applicable. For example, suppose Bob and Bill co-own and operate a bakery where Bob makes the bread and Bill handles the finances. If Bill wants to retire, can Bob plausibly take over sole ownership of the bakery and what would that require? If you haven’t already, negotiate and craft legal exit clauses for buying out partners.
- Think about what people need and will consequently be less likely to cut spending on. Can you frame whatever you sell as a need? In a tough economy, this can make your business seem less risky and more profitable to potential buyers.
- Think about whether you can realistically survive an economic swing and if that is actually what you want. If you are considering closing up soon anyway, making a decision to sell or walk away now might save you money.
- If you are looking to be bought out by a competitor or partner, consider early planning and
establish contingency/transition plans in advance. Many buy-outs happen between companies that have established a working relationship despite the fact that they are competitors.

- What is the typical valuation methodology for your business sector? Make sure you are valuing your business appropriately and getting a fair price.

**Budgeting**

A surprisingly large number of businesses never bother to put together a budget or forecast income and expenses. Later in the year, they are surprised to find they do not have sufficient funds to operate. In a down economy, resources are more limited than usual and strategic budgeting is critical. If you are uncertain how to forecast sales and expenses, especially cash flow sources and uses of funds, ask your banker or a business advisor for assistance. Here we offer some budgeting best practices:

- Make sure the budgeting process involves members from every department within your business, each of whom understands your business goals and operations as a whole. Not only will this help create a more informed, well-structured budget, it will also help break down intra-organizational silos and promote holistic understanding of the business. Furthermore, share the original, revised, and actual budgets with the rest of the company to promote transparency and accountability so that employees outside the committee have a chance to suggest improvements.
- Use zero-base budgeting instead of traditional cost-based budgeting. Businesses using the latter base their budget for the upcoming year on the budget from the current year, adding and subtracting from various expense accounts depending on how the needs of the business and costs of goods/services have changed. However, this can lead to unnecessary expenses being maintained over time out of habit. By starting every year fresh and evaluating every expense, you are less prone to automatically budget for expenses that are no longer necessary. Zero-base budgeting can take much more time than traditional budgeting, but it can also lead to significant savings, efficiencies, and opportunities to maximize resources.
- Periodically review your actual budget compared to your planned budget to determine whether you are on track. Reassess and adjust as needed.
- Forecast at least a three-year budget. The second year and beyond can be summaries, but the first year should be detailed. Forecasting can help you keep track of where you are going and account for factors such as changes in the economic environment, earnings, and capital items. It also better accounts for the value of long-run investments.

**SurThrival Tip No. 8: Know Your Breakeven Level**

Many businesses don’t know their breakeven level. Knowing this simple formula can help with budgeting, “what-if” cases, and provide guidance when your business is facing financial
Breakeven analysis involves finding the sales level at which you start making profits. Below the breakeven point, all your revenues go toward covering the fixed and variable costs of your business. Above it, you start making a profit on each item you sell. In an uncertain economy, both sales and costs can be more volatile than usual, so it is a good practice to regularly check whether you are actually making a profit.

Start by categorizing all your costs into either fixed or variable costs. Fixed costs include rent, utilities, and advertising, for example. Variable costs are those caused by sales and include labor costs, commissions, and raw materials, for example. Some fixed costs such as utilities and interest on bank loans actually do vary, but they are still classified as fixed costs. If you are not sure whether a cost is fixed or variable, designate it as fixed just to be safe. Doing so will make your break-even point higher and more conservative.

To find your breakeven sales level (i.e. the revenue level at which you break even), use the following formula:

\[
\text{Breakeven sales level} = \frac{\text{Total fixed cost}}{\text{Contribution margin ratio}}
\]

Where the contribution margin ratio is given by

\[
\text{Contribution margin ratio} = 1 - \frac{\text{Total variable costs}}{\text{Sales}}
\]

Alternatively, you can use the following formula to calculate the number of units you need to sell to breakeven:

\[
\text{Breakeven unit level} = \frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}
\]

Once you have become familiar with these formulas, you can experiment with different cost and sales levels to see how they affect your break-even point. For example, you can estimate a reasonable sales level and use the formulas to determine how much you would need to cut costs in order to break even at that sales level.
SurThrival Tip No. 9: Know the Overall Value

Costs are made up of more than money. Time and quality are part of the equation, too. Consider your relationships with your vendors and look not only at the lowest cost, but also who provides the best overall value.

Cost management is often the knee-jerk reaction to economic and financial challenges. While it should rarely be the sole strategy for improving financial management, it can certainly be an important part of a more comprehensive adjustment. Below we have listed some cost management best practices:

- Turn to your employees for suggestions on improving processes and reducing costs.
- Depending on your business activities, consider hiring a lean management consultant to find additional efficiency improvements.
- Consider new bids for your contracts with vendors, insurance brokers, and others. A “better” bid is not necessarily one that costs less, but is a better value. Make sure they fit your needs, will provide quality goods/services, will not be a headache to deal with, and are cost-effective.
- Assess and leverage relationships to manage costs. If you are in a solid financial position and your vendors are struggling to maintain a positive cash flow, you may be able to request a better price in return for a shorter payment period. If your cash flow is strained, you can request an extended payment period from your vendors.

SurThrival Tip No. 10: Prepare for the Long and Short-Term

Even solvent businesses can have a tough time meeting short-term liabilities. Monitoring and projecting cash flow, profit margins, and working assets will help you maintain short-term and long-term stability.

Cash flow and liquidity are a huge factor in business success. Solvent business (those that are well-capitalized and capable of paying off long-term debt) can easily fail if their short-term obligations are not met. It is important to monitor your cash flow, profit margin, and working assets in addition to sales and profits to have a holistic view of your business’ strength or weakness. Positive cash flow does not necessarily indicate profitability, and profitable businesses do not always have a positive cash flow (e.g. when purchases, financing, and investment activities are not reflected in balance
Looking at one characteristic or the other could paint an inaccurate picture of your business’ financial health. Here we offer some best practices for managing cash flow:

- Review accounts receivable and accounts payable practices.
  - Examine accounts receivable aging to evaluate and prioritize customers. Collecting payment fast is important, especially in the midst of an uncertain or declining economy when cash flow tightens. Consider offering a discount for early payment, send invoices more frequently to shorten your collection period, and make collection calls. It may cost a bit more to increase the frequency of some of your accounting procedures, but obtaining payments faster could be worth it to your cash flow.
  - If discount incentives fail to elicit on-time payments, inform problem customers that they will only receive goods/services upon payment. This may cause unreliable customers to self-select out of the business relationship and save you the trouble of dropping them. Fees for late payment are not usually effective.
  - Do not be afraid to break off relationships with customers. Your firsthand experience and established relationship can justify leniency when customers experience unexpected financial troubles, but a good past relationship should not be the only evaluation criterion for a customer whose payments have become increasingly delayed or who potentially costs more than they contribute to your bottom line. Ask for financial statements or other evidence that they will eventually be able to pay. In some industries, dropping customers and hardline negotiating is not a viable option due to the large size and small number of potential customers.
  - Make sure your accounts payable are fulfilled on time or early. Take advantage of discounts from your vendors for early payment if you can. If you cannot pay bills on time or within the agreed-upon grace period, refer to the terms of your contracts and contact your vendors to request an extension. Be proactive!

- Regularly analyze current and past activity to forecast future cash flow. As you become more adept at predicting future cash flow, you will be able to anticipate problems sooner and prepare in advance. Reassure vendors of your intent to pay and they may be willing to compromise.
- Sell or repurpose underutilized assets. Having extra storage space or equipment is nice in case you need it now and then, but it can provide some cash if sold/liquidated. Even if you occasionally need those assets, it may be more efficient to rent them as needed.
- Know where you are in the “payment food chain” and how that could impact your cash flow. If you are a retailer, you likely receive cash up-front for the sale of goods. If you manufacture retail goods, you may have to pay suppliers and workers well before receiving payment from your customers. If your distributors, retailers, or any other segment of that supply chain experiences issues that prevent someone from paying on time or at all, it may affect your cash flow.
- Make sure you are structuring debt appropriately by matching long term assets to long term debt and current assets to current debt. Do not try to dress up your financials and improve your liquidity by artificially moving assets to be current or making current debt long term. Trying to cover up your business’ financial issues will not solve them, nor will it go unnoticed by your bank. That said, if you need permanent working capital on a long term payment structure, then work with your banker to restructure and pledge long term assets.
- Reduce dividends or payroll to the owners (especially if you are in the habit of paying a majority of earnings out as dividends or bonuses).
SurThrival Tip No. 11: Consider Ramping Up in a Down Economy

A challenging economy may be time to tighten finances, but also may be a time to expand and diversify. Planning for a decline in the economy, what your business should do, and working that plan can help you SurThrive in Alaska’s wild economy.

A shifting economy may be a good time to consider different options to finance, restructure, grow, or modify your business plans. However, make sure to carefully analyze your options and make calculated decisions. There is risk to moving too fast and doing too much in an attempt to outlast any economic impacts, just as there is risk in not changing your strategy at all to adjust to shifting internal and external pressures. Don’t let ego or emotion get in the way of good business decisions. If your ideas are not panning out despite attempts to improve your business model, acknowledge it and try something else. Doing so can be difficult when you are passionate about your business, but it is important to know when to throw in the towel and look for something that is more profitable and sustainable. Do not continue forcing the issue until it forces you into bankruptcy.

It is always important for business owners to be aware of their business’ financial standing, and this is particularly true in a down economy. Consider keeping a spread of your key financial performance measures and ratios. By looking at the past several quarters side by side, it becomes easier to identify trends. Your banker can assist you in calculating and tracking these metrics.

The following are suggestions for improving and maintaining your financing practices:

- Take advantage of low interest rates and longer term payments when you can to consolidate debts and finance operations. Just make sure you are not over-leveraging or growing debt without a purpose and a plan.
- Identify assets that can be used as collateral if you are seeking a loan or other financing.
- Maintain cash reserves in case your cash flow becomes stressed. The recommended minimum ranges from six months to a couple years’ worth of fixed and operating expenses.
- Obtain lines of credit for seasonal purposes, revolving them regularly or resting them at least annually. Once you have them, it takes discipline to restrict their use to seasonal or working capital purposes. Having them in place can help you finance your operations when your operational cycle has temporarily slowed.
- Make sure you leave enough retained earnings in the business such that your net worth remains positive and sufficient to pay debt service. Some business owners like to annually pay excess earnings to themselves, but this can backfire when you apply for bank loans and your business shows insufficient profits or retained capital to endure challenging times. Maximizing profits on your financial statements is typically ideal for attracting investors, securing financing,
updating shareholders on the company’s financial health, etc. while minimizing profits or showing a loss can sometimes allow a business to avoid paying taxes and investors. However, tax evasion is not only dishonest, but also illegal. Artificially minimizing profits reflects poorly upon your character and may well make it harder to finance your business. You can sometimes arrange a personal guarantee to supplement your business’ assets, but the fact that you are trying to avoid paying taxes and risk your company’s financial standing does not reflect well upon your character or your company’s.

- Know whether you are truly borrowing less or simply shifting your borrowing to other sources. For example, if your loans are getting paid down, but your accounts payable and inventory are increasing, then you may still be “borrowing” just as much without realizing it and putting yourself in a dangerous liquidity position with trade creditors in the process if sales slow. In this example, you could risk damaging your vendor relationships, becoming a low priority customer, and losing certain privileges.

- Business owners with multiple businesses will sometimes use profits from a high-performing enterprise to finance under-performing ones. This can be an effective practice if the performance issues of the latter are temporary. If you have ample net worth and liquidity, you may be able to sustain this practice until a turn-around of the troubled company occurs. Although it is not recommended (especially in a declining economy), business owners with sufficient net worth and liquidity will sometimes maintain this practice long-term because the under-performing enterprise is a passion-project (i.e. something about which they feel strongly and support regardless of profitability). It is important not to engage in this practice unintentionally. Business owners who maintain a single set of financial statements instead of breaking them down by enterprise can unknowingly sink profits from one business or department into another, jeopardizing their entire operation. Exercise proper cost accounting to assess which assets and operations are high or low performing.

- Work with your financial advisor or lender to study and understand Risk Management Association (RMA)/ North American Industry Classification System (NAICS) favorable industry performance measures and benchmarks on liquidity, solvency, debt, operating, financial, and efficiency ratios.

- Be wary of growing too much too fast. It is hard to say no to new business and easy to get overwhelmed when you take on more than your internal cash flows and capital can withstand. When you ask for a loan or line of credit to help grow your business, your banker may express concern and ask questions regarding your ability to manage that growth. Take it seriously and answer those questions honestly. If you can’t, it may indicate that you are not prepared to grow just yet.

- If you are trying to implement costly, but promising, new elements to your business (e.g. new products, equipment, or services) to improve your profitability and competitive advantage, it is sometimes hard to secure financing since you have no track record or proof of success with that new capability. One way to improve your chances of securing financing is by asking your bank to consider loan guarantees from the Small Business Administration, for instance. This shields the bank from some of the risk and may increase your chances of receiving a loan, especially if your established business operations are performing well.

**Personal Finance**

Personal finance is extremely relevant to individuals pursuing business financing as personal assets can be used as collateral or recourse for lenders. Strong personal finances can also add strength to
your applications for loans and lines of credit. In this section we describe some of the ways in which this topic can impact your business success and efforts to obtain financing.

Personal criteria are always considered in business financing, but this is particularly so in a difficult economy. Demonstrating favorable credit and personal financial management during tough times shows your character and ability to weather financial challenges. Too much personal debt can put a burden on the company to pay owners in wages and dividends to support an expensive lifestyle. For closely held companies, bankers typically perform a “global cash flow analysis” that takes into account the monthly cost of both business and personal debt. While a spotty credit history will not necessarily bar you from receiving a loan, it will make it more difficult or expensive. Financing can also require the use of personal assets as collateral if your business does not have sufficient assets. This is true for a limited liability company or corporation that attempts to borrow on a limited personal recourse basis. Sometimes, lenders will request a pledge of personal collateral to the business loan, called a hypothecation. Personal financials and tax returns will also be required.

Keep in mind that the spouse of a loan applicant cannot be required to submit their financials or offer their personal assets as collateral unless they voluntarily become a co-applicant on the loan. Assets in their name or held jointly cannot be used to guarantee a loan if you are the sole applicant. For example, if your potential collateral is your joint bank account, it cannot be used as such unless your spouse voluntarily becomes a co-applicant and submits their personal financials and tax returns in addition to yours.

In summary, business borrowings almost always require personal guarantees from major owners and officers of the business. When a business defaults, the lender will seek recourse from those individual guarantors in whatever manner is most efficient. While it is possible to limit your personal guarantees, it is typical that all guarantors are considered individually, jointly, or severally liable.

**SurThrival Tip No 12: Don’t Overlook Your Banker**

Building a successful relationship with your banker can help you realize cost savings, provide you with sound financial advice, and connect you to their network of trusted business professionals. A good banker wants you to SurThrive.

You must maintain solid communication with your banker. When bankers observe untimely payment patterns or financial deterioration and a difficult economic climate, it is hard not to assume the worst. Late submission of financial information often raises red flags. The more you explain the reasons behind your difficulties, demonstrate efforts to address the underlying issues, and ask for (and utilize) advice from your network of professionals, the more your creditors will be willing and able to help you.

Be frequent, honest, and realistic in your communications to build a trusting relationship and reduce
the likelihood of surprises. Your lender should be a constructive analyst.

**SurThrival Tip No 13: Keep Your Banker In the Know**

Clear, open, and regular dialogue with your banker about your business and your plans is key to SurThriving. Bringing your banker along on your plans helps improve your relationship and allows you to be more agile when responding to changes to the economy and your industry.

Many bankers have experience helping businesses through economically challenging times and may be able to offer valuable advice. They can review your financials, assess your performance, and may be able to help you catch problems before they become unmanageable. Come organized and prepared to meet your banker. Bring accurate and current financial statements, supporting schedules, and business plans. Be able to answer questions. Your efforts to address your business problems, communicate transparently, and adhere to your obligations will improve your relationship with your banker and your credibility as a borrower.

Alaska has the advantage of having survived a deep recession in the not-too-distant past. There are many currently active professionals who were around during the 1980s recession, and they carry with them wisdom on how to outlast drastic changes to the economy. Although we do not expect potential economic challenges in the near future to be as severe as they were in the 1980s, it would behoove business owners to take advantage of the knowledge and first-hand experience of others.

**SurThrival Tip No. 14: Know the Ins and Outs of Your Industry**

Understand how your industry responds to the peaks and valleys of Alaska’s wild economy. Go beyond your immediate competitors and consider disruptive entrants to the market.

**Industry Scope**

Industry scope identifies what types of businesses are encompassed in your industry and is important
to your analysis because it helps determine your competitive strategy. If you define industry scope too narrowly, you may not account for all your potential competitors. If you define it too broadly, it could become overwhelming and cause you to take on too much. It can also prevent you from seeing opportunities to adapt or transition to a more profitable business model.

Your industry scope should go beyond your sector to include your close competitors. For example, a trucking company is in the trucking sector of the transportation industry, but typically has close competitors in other sectors such as ship and air transport. Failing to account for these competitors could negatively affect your pricing, marketing, and other aspects of your business strategy. Regularly reevaluate your industry to see whether new developments in technology, regulations, distribution channels or other areas have changed industry boundaries. For example, consider how the emergence of Uber provoked a discussion of new regulations and how they could affect taxi companies in Alaska; or how the transition of media distribution from renting/purchasing DVDs to streaming/downloading media online has affected stores like Blockbuster. Consider whether there are regulations or other changes that affect some sectors but not others. Such discrepancies may work for or against you, so it is important to know what they are.

Be careful not to confuse industry scope with your business focus. Industry scope is a broad concept that helps you maintain awareness of possible substitutes for your product or service. Your business focus, however, is the narrow area in which your business specializes. Particularly in a difficult economy, it is often best to specialize in one particular aspect of the industry and develop a unique expertise that sets you apart from your competition instead of trying to accommodate a wide array of demands. Maintaining too broad a focus is also problematic when comparing your performance measures to industry benchmarks. Although your competitor analysis requires you to broadly define your product or services, it does not make sense for the trucking company in the earlier example to evaluate their financials against a ship-transport company. The U.S. Census Bureau manages NAICS and provides industry performance averages at varying levels of specificity. RMA also publishes annual studies with industry averages based on its member companies. While many such resources are not typically available to the general public without a subscription, they are available to your bank. Your banker is likely able to provide national averages of commonly used leverage and liquidity ratios that can give you insight on how investors and lenders may perceive your financial standing.

Ask yourself the following questions to start your industry scope analysis:

- Who are your direct and close competitors? Start with the competitors in your sector and gradually broaden your definition to include other sectors in your industry.
- How does your sector fit into your industry? Are there regulations or other factors that affect your sector but not others, or vice versa?
- How can you take advantage of those factors to chip into your competitors’ market share and prevent them from chipping into yours?
- How could a declining economy affect your industry? Could the effects vary across sectors? How so? Since current economic challenges are largely related to the oil market, consider how different sectors use energy and whether that gives some an advantage over others. How can you adjust your business model to preempt challenges and take advantage of potential opportunities?
SurThrival Tip No 15: Know Your Competitors

Know your strengths and weaknesses relative to your competitors. Perform a SWOT (Strengths, Weaknesses, Opportunity, and Threats) to help you understand your place in the competitive landscape and determine your advantage.

Operating Environment

Your operating environment encompasses many different factors such as stability of the economy, changes in consumer spending habits, and regulatory issues. Alaska is currently experiencing shifts in the economy and business environment, so it is prudent to pay special attention to those issues when you are evaluating your strengths and weaknesses. Some aspects of the operating environment you can focus on are the economy, regulatory environment, technology, and social trends or changes in consumer spending habits.

In terms of the economy, oil is the hot topic at the moment. Falling oil prices have slowed production and investment in marginal fields, consequently reducing revenues. This has affected government spending and construction and may trickle down to other sectors of the economy. However, the low fuel prices could be good news for industries that are energy-intensive but not too closely tied to the oil industry. For example, cruise lines and flight tours in the state could experience a net increase in their margins given the low oil prices and stable tourism projections. Other businesses such as construction companies and high-end restaurants may not be so lucky due to the tightening of capital budgets and consumer spending, but opportunities can still be found and created.

The regulatory environment in Alaska has undergone many changes in recent years. From the repeal of tax credits for Alaska film production and oil exploration to the State’s expansion of Medicaid, there have been a number of legal and regulatory issues at play this year alone. Businesses have to monitor these changes closely to ensure they are compliant and understand how those regulatory changes could affect barriers to entry, optimal insurance coverage, and many other aspects of business. For instance, the expansion of Medicaid will require healthcare-related businesses to reexamine their business strategies and obligations.

Consider the technological developments that could impact your industry or sector. These developments might be obvious, such as new types of equipment that allow you to work faster or more precisely. However, sometimes they are less direct. Consider how the development of cell phones gradually started to impact seemingly unrelated industries such as camera manufacturing. As technologies improve, they can allow businesses to stretch their resources farther and compete on more fronts. Be aware of how those developments might affect you and your competitors.

Another facet of the operating environment to consider is consumer spending and social preferences. Broad changes in consumer attitudes can have significant effects on business. Consider the recent
organic foods trend. Widespread preferences for natural, quality products have resulted in many consumers’ willingness to pay a significant premium on the goods they purchase. If the Alaska economy slows, however, it may be more likely for consumers to forego the organic goods for a while in favor of less expensive alternatives. Observe buying behavior and let it inform your business decisions. Factors such as a sales or income tax (if formally proposed and passed) and the status of the housing market could affect consumer spending habits. Minimize the impact to your business by redefining your goods/services as something that will save your customers time and money.

To gain awareness of your operating environment, consider the following questions and strategies:

- How do the current economic issues affect your industry? If they improve or worsen, how could you modify your business to respond?
- Are there legal or regulatory issues in flux that could impact how you do business? Do you know the potential outcomes, how each would affect you, and how you could improve your business model given each of those outcomes?
- Are you aware of recent technological developments in and related to your industry? Even if you choose not to utilize them, you should be aware of them and take them into account in your competitive strategy.
- Do you keep in touch with social preferences, trends, and consumer spending habits that may swing consumers toward or away from your business? Keep an eye on consumer confidence levels and social preferences to make sure you are neither getting left behind nor jumping the gun. Making premature investments to adapt to what are ultimately fads can be as detrimental to your business as not adapting at all.
- Get involved with your community. Attend public forums, participate in regional economic development organizations, and read local publications such as Alaskanomics, Alaska Business Monthly, and Alaska Economic Trends. Consider sponsoring talks or workshops for your employees and/or management to stay informed and avoid surprises. Local economists (such as Northrim’s own bank economist, Mark Edwards) frequently speak at events and can help you stay on top of recent and expected developments in economic, regulatory, technological, and social issues.

**Industry Resiliency**

Some industries remain relatively stable amidst economic fluctuations while others experience significant change in revenue and profits. You may already have a sense of your industry’s resiliency. It is sometimes helpful to look to the past for tips on what the biggest challenges might be and how to deal with them. Reach out to a business advisor, your inner circle of professionals (e.g. your banker), or Counselors to America’s Small Business (SCORE) for business mentorship and first-hand experience.
Understand how your industry’s performance correlates with the overall state of the economy, if at all. Most businesses follow the same trend as the economy, while others remain fairly stable during economic surges in either direction. Some businesses, such as discount stores, experience growth when the economy declines. Find the key variables that create the biggest impact on your business, or those with which your business is most closely correlated. If your industry was around during the last recession, see how it fared. Try to find out what worked and what did not to keep business running smoothly while the economy recovered.

Monitor your competitors to see whether they are branching out or trying to transition out of the industry. This could be an indicator that the market is moving in a different direction and you may have to adapt. Regardless of the state of the economy, adaptability is essential and you should always be generating ideas for ways to modify your business model in case your current products or services become obsolete or the market becomes saturated.

Consider the following to get an idea of how resilient your industry, sector, and business are:

- Does your industry or business have a significant history or track record? How can you use information about past challenges to better prepare for future ones?
- Do you provide an essential good or service for consumers or businesses? Are there substitutes for it? If so, how can you add value or otherwise make it less substitutable?
- What are some key variables that impact or correlate with your business? Use these in combination with general economic indicators to anticipate and plan for fluctuations in business activity.
- Are you closely tied to other industries that might be impacted? Make sure you consider whether your vendors, business partners, and customers are at risk for economic challenges and whether those challenges could ultimately affect you. Establish contingency plans in case vendors fail to deliver or go out of business, for example.
- Are you able to “pivot” if necessary? While having a narrow business focus is important to developing your competitive strategy, keep a running list of ways you could adapt your business model to changes in the market. Adapting could entail small changes such as the addition of a new product or a major transition to a brand-new industry.

**Competitive Analysis**

Competitive analysis is a crucial part of your business strategy. If you operate in a small and static market, it can be fairly simple. However, the Alaska economy has several characteristics that make analysis more complex. As Alaska grows, it becomes more attractive to outside businesses looking to enter new markets. Businesses within the state can expand and become stronger competitors. Unless there are regulations or other barriers to entry that preserve the competitive landscape, it is important to continuously reevaluate your current and potential competition.

A good competitive analysis takes into consideration not only current conditions and competitors, but potential ones. In a shifting economy, there may be newcomers to the market or related businesses that decide to expand into your area of expertise. Alaska has also recently seen the influx of many big-box retailers and chain stores. Many of these businesses have economies of scale that give them significant cost advantages. If you are looking to grow your business, it is also important to consider how that may change your competition. Many competitors will not pay you much attention until you
reach a certain size. Once you have grown enough to register on their radar, they may start to compete with you directly and intercept some of your customer base.

To develop your competitive analysis and competitive strategy, consider the following:

- Identify and profile your competition (using a broad definition of your industry as discussed earlier). What are their strengths, weaknesses, and competitive strategies? What are yours? Look at your their current products and/or services and pricing structures to see how you compare. Conduct a SWOT (Strength, Weaknesses, Opportunities, and Threats) analysis. Given this information, what are your competitive advantages?
- Analyze and identify the reasons behind market share distribution. Find ways to preserve your market share and chip into your competitors’. Understand why consumers buy from you instead of your competitors and vice versa. Build on your successful, strong points.
- Reevaluate your expertise and market saturation to see if you are as competitive as you used to be; if the economy is getting tougher and the pie is starting to shrink, it may be prudent to switch gears and focus on a less saturated branch of your industry. This has certain risks and you do not want to implement major changes or investments when your resources are already stretched thin, so do your best to anticipate this and move early when you have more resources to work with.

How can you make competitive and strategic expansion decisions? For example, if your building lease is coming up for renewal or you are considering growing your business, how can you improve upon your current location? A down economy often presents opportunities for good deals on real estate. What is your dream location? Consider ease of access, proximity to customer base, parking, etc. depending on the needs of your customers. Also consider the relative location of your competitors and whether it is more advantageous to be near or far from them. Make a list of your ideal workplace characteristics and determine whether you have the means to make it a reality.

**SurThrival Tip No. 16: Don’t Give Up On Marketing**

It’s very tempting to cut marketing budgets in a challenging economy, but firms that maintain or increase marketing spend can actually increase market share and return on investment at lower advertising cost.

A common reaction to economic uncertainty is to cut marketing and other functions that do not yield immediate returns. However, this is often a misguided and counterproductive course of action. Effective marketing at the right time can bring in new customers and improve the company image in the community. Withdrawing from the public eye at the wrong time can give the impression of weakness. It is important to evaluate the returns from different forms of marketing used by your business instead of simply reducing marketing across the board. This will allow you to maximize your
marketing budget and support the rest of your operations in the best way possible. This section will discuss target market analysis, marketing budget optimization, advertising, promotions, sales, and managing public relations.

**Target Markets: Understanding Present and Potential Demand**

Before you decide how to market your business, you need to have a good understanding of who your customers are. If you have a broad customer base, learn more about the demographics of it. It is great to have a product or service that can appeal to everyone, but that is a poor basis for a marketing campaign. The best strategies have multi-pronged approaches, each branch of which carefully targets a specific group. So, the first part of a quality marketing strategy is researching your customers. This is a timely issue since a fluctuating economy can change your customer base. For example, some Anchorage and Matanuska Valley businesses that cater primarily to military personnel may need to explore new target markets if proposed military cuts to JBER are realized.

Once you have determined who your customers are, make sure you stay aligned with them and their needs or wants. This entails not only determining what customers currently look for, but also anticipating what needs and wants may exist in the future. By identifying current and future demands that are not being met, you can be ready to fill gaps in the market before competitors notice them.

Developing a targeted approach can be broken down into four steps:

1. **Profile your customers.** Conduct research to determine who patronizes your business.
2. **Segment your customers.** Once you have accumulated information about your customers, separate them into segments for which you can customize your marketing efforts.
3. **Target your products and services.** Once you have determined your market segments, tailor your products, services, and advertising to each one. This allows you to cater to the specific needs and wants of each market segment.
4. **Collect feedback.** Customers are often eager to voice their opinions about the pros and cons of products and services. Not all the feedback will be valuable, but some may result in significant improvements. If nothing else, it will show that your business is interested in what its customers have to say. This alone can improve public relations and customer loyalty.

Research can be a costly endeavor, depending on the level of complexity you hope to achieve and whether or not you decide to outsource the information gathering. In a slow economy, resources are stretched thin, informed business decisions are crucial, and it is important to find ways to maintain awareness of your target markets. Some low cost ways to research consumer demand and your customer base are:

- Make periodic research a habit. Read local publications such as Alaska Economic Trends and Alaska Business Monthly. Attend talks and engage with local groups like the Chamber of Commerce and regional development organizations. This can often get lost in the midst of more immediate obligations, but these sources often contain insight into economic trends, successful businesses or business practices, and other pieces of information that could help you stay abreast of where the market is and where it is going. Make it a part of your weekly or monthly routine to spend a couple hours scoping out the newest information.
- Check out your competitors’ websites once in a while to see what they are up to. Selectively piggy-backing on others’ good research and ideas (as long as you are not infringing on
intellectual property laws) is a good way to learn about the market environment without sinking your own resources into redundant information gathering and analysis.

- Surveys can be easy and inexpensive ways to learn about your customers. Hand out questionnaires and comment cards periodically (or email them if you can). Raffle off prizes or offer coupons upon completion to increase the response rate. Avoid leading questions that nudge your customers toward a particular answer. Instead, ask open-ended questions that elicit honest, in-depth responses.
- Involve your employees in the research process. If the economy is slowing down, they could have more downtime and you might be able to accomplish research without incurring much additional cost. Ask them to generate ideas for promotions and events that could attract new customers or bring back existing and former ones.

Consider the following ideas to further improve your marketing approach and align with your markets:

- Are you allowing market intelligence to help determine your optimal allocation of capital? In a down economy, strategic capital allocation is critical and needs to incorporate information about consumer demand. Market intelligence can tell you which of your customers’ needs are not being met, allowing you to prioritize your resource investments. It can indicate whether your current location is inconvenient and lacks parking, for example, in which case you might consider investing in real estate and expansion.
- Many businesses try to redefine themselves during economic shifts anyway, so it may be a good time to reexamine your branding messages. Is your company brand clearly defined? Are you consistently following through on your brand promises? Demonstrate to your customers that you have expertise in catering to specific needs of theirs. Be “an inch wide and a mile deep” instead of trying to be everything to everyone. If your brand promises are reasonable but your customer service levels, products, or services are not meeting them, find out why. If your brand is promising more than you can realistically deliver, redefine it to be reflective of your actual capabilities.

Optimizing your Marketing Budget

Marketing represents an investment, not just an expense. Like other investments, it must be evaluated as a long-term strategy for growing profits, weighed against current cash flow and budgetary needs. Because the returns on marketing investments are often delayed and difficult to estimate, marketing is frequently the first department on the budget chopping block when times get tough. Metrics can help determine which cuts will hinder your business and which ones will help it.

Before you start to delve into the return on marketing investments (ROMI) and budgeting for your various marketing tactics, assess which of them are working and which are not. There is no point in trying to justify funding for a tactic that is ineffective. You can use sales data to track growth relative to when new tactics were implemented. You can also poll customers to find out how they heard about your business or a particular promotion. When you are evaluating the efficacy of your current practices, try to remain objective. Do not assess them based on what seems easy or inexpensive or based on your instinct (although this may be a factor in some cases, particularly where metrics are unavailable). Determine the underlying reasons for each tactic’s success or failure. It may be that a particular tactic just needs a certain level of resources to be effective.
Once you have determined which strategies are effective, weigh them against their respective costs. This is where the metrics come into play. An overall ROMI indicates how much of a return you are getting for your entire marketing budget. Using sales and cost data, you may be able to parse out particular marketing tactics, estimate the returns from each one, and determine which were the most effective. In the event that you have no data or limited data to use, you may have to rely solely on other research or on your gut feeling. In this case, focus on the tactics you know to be successful and place limited resources into the questionable ones.

Once you have assessed your marketing strategy portfolio and its various components, you can decide which are crucial to visibility and growth and which are marginally productive activities that can be cut to save costs with minimal impact to short or long-term sales. Consider the following practices in analyzing and optimizing your marketing budget in a down economy:

- Some strategies and tactics take time to reach their full potential, so consider both a one-year and a lifetime ROMI. The lifetime refers to the life of that particular marketing campaign or tactic, so that might be a few years, for instance. The two could indicate significantly different levels of performance.
- Marketing tactics that are clearly successful should be supported and perhaps expanded. Those that are somewhat successful can be further developed if it is determined their mediocrity is due to a lack of resources (contingent on the availability of additional resources). Those that are of marginal benefit should be cut.
- Use cost-per-impression analysis to determine which tactics have the most impact at the lowest price. Cost per impression indicates the dollar amount it takes for a particular tactic to reach a single person. It can be very helpful in determining cost-effectiveness of marketing tactics. For example, let us say you are choosing between a newspaper and online advertisement. The newspaper ad costs $1000 and is estimated to be seen by 1000 people, giving a cost per impression of $1. The online ad costs $2000 but is expected to reach 5000 people, giving a cost per impression of $0.40. Even though the online ad creates a larger up-front cost, it may be worth it since each dollar spent will reach farther.

**Advertising, Promotions, and Sales**

Periods of economic uncertainty or decline are the perfect time to re-evaluate advertising and sales strategies. It is often said that necessity is the mother of invention; when budgets are shrinking and media exposure is paramount, marketing professionals have to get even more creative than usual. Print advertising, television ads, etc. are still used but do not always make financial sense, particularly in a challenging economic environment. Those particular channels can be very expensive and are becoming less effective as more people switch from post mail to email, television to online media, etc. Determine whether they are appropriate and viable for your purposes based on your target audience. Some alternative, low cost options include guerilla marketing, social media, and networking/grassroots marketing.

Guerrilla marketing has gained a great deal of attention in recent years for its high-impact, low-budget focus. Guerrilla marketing tactics can be unconventional, bold, and sometimes risky, so use good judgment in determining whether they will work for your customer base. For example, ideas include flash-mobbing, allowing local graffiti artists to tastefully decorate your building, and engaging in
random acts of kindness on behalf of your business (e.g. paying for someone’s groceries).

Social media is a now-standard form of marketing that can be relatively low-cost. In general, your website will be the first place customers go to learn more about your business and the products or services you offer. Consequently, maintaining an appealing, user-friendly website is paramount. But a website alone is not always sufficient to keep your business at the forefront of your customers’ minds. Businesses are increasingly relying on social media like Facebook, Twitter, and Instagram to promote events, product lines, and other elements of their business. It often costs less than other types of outreach and can reach large numbers of people in a matter of hours. It does, however, require a certain amount of time to make sure online material is aesthetically pleasing, user-friendly, well-thought-out, and in compliance with company policies.

Networking and grassroots marketing are other popular methods of reaching current and new customers. Grassroots marketing can be described as the opposite of mass marketing. It involves connecting with small groups of consumers and building enthusiasm for your business which can then spread to larger groups. In a down economy, such tactics are advantageous for their low cost and narrow focus. Since they rely on building community connections, they can also result in increased word-of-mouth referrals, testimonials, and customer loyalty. One grassroots/networking option is to sponsor community events.

Apart from reexamining your advertising campaign, you may also want to revamp your sales strategies. Costs can only be cut so much, so increasing revenue is a great way to improve your cash flow. However, successfully doing so can be particularly challenging in a difficult economic climate when consumer confidence and spending dip. Market research can come in handy as you try to determine what modifications to your products and services will be most effective at increased sales volume. Consider the following when developing improvements to your sales strategies in a down economy:

- Make sure your staff is well-equipped and trained to maximize sales. If they are not, increase training in customer service and knowledge of your business’ products/services. Consider hiring an experienced, high-performing salesperson who can lead your sales team.
- Find new sales opportunities (e.g. gaps left by your competitors). In a tough economy, some businesses may start to withdraw. This can represent an opportunity for you to chip into their customer base. For example, if a competitor stops their delivery services and you have the resources to manage additional business, consider starting or expanding your own delivery services.
- Can you redefine your product or service such that it will be less likely to get cut from your customers’ budgets? If your product or service can help save time or money, be repurposed, or add value in some other way, you may be able to maintain sales by emphasizing how those benefits can help your customers through an economic downturn.
- When your resources are limited, focus on current customers. Bringing in new customers is certainly important, but do not do so at the expense of your existing ones. It is often the case that the top 20% of your base account for 80% of your sales. Offer special treatment, loyalty discounts, and customer appreciation events if you can to build on established relationships. Follow up on any letdowns in customer service and make sure concerns are addressed. Do not provide any reasons for current customers to switch away from you, or for new customers to avoid trying you out.
Improving and Leveraging Public Relations

The information age has made reputation an increasingly fragile and important factor in business success. Consequently, the importance of managing business relationships and public image has grown dramatically. In a down economy, poor liaising can put additional stress on a business’ already strained financial health. Some businesses can afford to neglect or even abuse relationships with customers, vendors, and business partners, but most are increasingly sensitive to the negative consequences of such behavior. Businesses who cultivate healthy relationships with others foster goodwill and support systems that can extend beyond contractual obligations, which can be helpful during tough times.

The previous section discussed the importance of retaining current customers by providing exceptional customer service, but cultivating a relationship with your customer base can be taken a step further. Reinvesting in your community can appeal to your base on a pragmatic and emotional level, particularly when the economic belt starts to tighten. While it’s important not to spread yourself too thin, establishing yourself as a business that gives back to its community can give you an advantage over other businesses that put all their profits in retained earnings or executive bonuses. Consumers may choose you over your competitors because they trust you to give back when you are able to do so. Even the smallest gestures can mean a lot.

Community reinvestment can also be an inexpensive form of publicity. Sponsoring a fundraiser for or volunteering with a local charity not only shows moral character and compassion, but also gets the company name out in the community. Volunteers can post flyers with the company logo. Local radio stations sometimes publicize fundraisers, resulting in free publicity for the sponsors and organizers. There are many ways in which a charitable function, while perhaps accruing some immediate cost, can benefit the company in the short and long term. However, be smart and exercise caution in your contributions. They should make sense for your business. Contributing too much or in the wrong ways can put your financial standing and/or public image at risk. There is some risk fundraising for controversial or political charities, so be careful not to alienate your current or potential customer base in your charitable efforts. If you can, select causes that align with your business mission and goals and make strategic contribution decisions that could circle back to benefit your business. That may sound self-interested given the topic at hand but, in addition to being a sensible business practice, it can actually allow you to give more than if you were to give without regard to the potential aftereffects on your business.

Maintaining good relationships with your vendors and business partners is equally important. There are certain interactions that will be dictated primarily by contractual agreements, but going above and beyond those agreements can help you gain good will that you might be able to leverage in times of difficulty. For example, agreeing to fair prices, paying bills early, and establishing good credit with your vendors when business is booming may cause them to be more lenient when times are tough and your cash flow is strained.

The bottom line is to be courteous, ethical, and honest in your business interactions. If you are having financial troubles, find a truthful but delicate way to communicate that to your customers, employees, and vendors. Concealing weakness out of pride or fear can backfire. Thank those to whom you cater and with whom you work for their continued support and assure them that you are taking measures to
Other Marketing Best Practices

Throughout this section, we have listed a variety of strategies and tactics. Here are some additional recommended practices for marketing in a down economy. For further information on these and other ways to improve your marketing approach, please ask your banker or see the additional resources section.

- Get the word out about your business! When the economy gets tough, it is possibly the worst time to retreat. Increase outreach and advertising if you can. Be creative. Go door to door if you have to. Engage in local business or civic groups, attend events, network, and take other actions to build your connections and exposure in the community.
- Leverage your referral activity. Invest in techniques to increase the referrals you get from current customers and business partners. Offer incentives and follow up with thank-you notes.
- Add value and reduce the complexities or difficulties of doing business with you. Make it simple and convenient for your customers and business partners to interact with you. This might entail automating certain functions such as making payments or placing orders. Depending on your business and customer base, it may be worthwhile to create a mobile app.
- Balance your needs with your customers’ needs. Some business owners have professional or personal obligations that prevent them from engaging in certain operations that would significantly increase their profits. While it is important to meet those needs, business owners should be aware of the tradeoffs they are making and may want to brainstorm possible alternatives. For example, if you and your family have religious needs that prevent you from operating on certain days of the week, consider hiring another employee who can manage your business on those days.

SurThrival Tip No. 17: Manage Human Resources Efficiently

Excellent human resources should exist in good times and bad. Always focus on hiring the best people for the job and designing jobs optimally. Collaborate and communicate with employees on job design, efficiencies, and cross-training.
During an economic slowdown, some business owners rush into layoffs, pay cuts, or cuts to human resource (HR) activities such as training. However, these decisions sometimes cause a net increase in expenses and decrease in productivity for the company. This section covers issues related to managing human resources in a down economy and offers some management options. Before getting into the main topics, the following points are general observations that can help HR align with and support the rest of your business, and vice versa.

Keep in mind that talent recognition, recruitment, and retention is not just an HR function but a function of the entire company. All personnel in the business are responsible for drawing in vibrant new employees, either by actively searching for them (like HR talent recruiters do) or by exhibiting the kind of leadership and corporate culture that attracts intelligent, ambitious, and ethical individuals. Remind employees and management that their performance and interaction not only affects productivity, but can either facilitate or sabotage HR’s efforts to secure and retain new hires in Alaska’s already challenging and limited labor market.

Your HR management will be vital to navigating the financial and emotional tensions that may arise during periods of economic uncertainty. As consumer confidence wanes and unemployment starts creeping upward, HR managers have to be able to address employees’ concerns with respect, compassion, and sincerity. At the same time, those managers are responsible for monitoring HR budgets and keeping costs down. Many business owners struggle with their human resource professionals (and with themselves) on how to balance intangibles like employee morale with concrete figures and costs. If your HR managers can show how low morale leads to a certain amount of turnover which creates a specified cost, then management can make more tangible comparisons between HR needs and the needs of other departments. Every department should be able to show how their activities affect the bottom line, but this can be particularly difficult in human resources. Having HR managers who excel in both interpersonal communication and cost analysis will be of enormous assistance in managing financial and human resources.

Work Systems, Job Design, and Outsourcing

Before you start cutting positions and reducing pay, make sure you have a firm understanding of your employment structure. Business owners should always have a sense of what their optimal and minimum employment levels are (i.e. the employment structure that corresponds to optimal performance and the minimum requirements to remain operational, respectively). Similarly, it is important to have an understanding of which functions are critical to operations and which are nonessential. With this knowledge, you can better determine what tradeoffs will optimize human resource management given the resources you currently have. It is critical to bring your HR management into the discussion early so that a plan of action can be laid out.

Regularly reevaluate job design and work systems to identify inefficiencies. Think broadly. Request feedback from your employees on what changes can be made to processes or available resources to make their work more efficient and effective. Hold focus groups with employees across departments to see whether some functions would be better placed elsewhere. Any changes to procedures should maintain the appropriate checks and balances and comply with company policies.

Outsourcing and automation could introduce major gains to efficiency and significant cost savings. Many companies now outsource activities like data collection and employee benefits management.
When you consider outsourcing, make sure to keep core activities internal. In general, avoid outsourcing financial controls, customer service activities, and other activities that could put the business’ finances, core competencies, or public image at risk. Automation is another popular alternative to traditional, manual work. Businesses are increasingly using automated systems to place orders, collect payments, etc. Make sure any outsourcing decisions give you the scale of optimal return.

Consider the following when you evaluate work systems and job design:

- What are your minimum and optimal employment levels? Have you developed a prioritized list that dictates which should be the first and last jobs to be cut? Do you have key personnel you must protect?
- What measures can you take to gather information and brainstorm options? These can include meetings with management, surveying employees, organizing inter-departmental focus groups, and bringing in an external consultant if internal analysis is insufficient.
- What parts of your business, if any, could benefit from outsourcing or automation? Make sure not to externalize your core activities.

**Retention, Turnover, and Layoffs**

Increasing retention of good employees and decreasing turnover in key positions is a constant struggle for many businesses. In a down economy, unemployment is typically high and applicants often compete for a limited number of positions. However, Alaska’s shortage of skilled labor makes finding good workers difficult even when the economy slows. Depending on the level of skill and specialization, it can be quite difficult to fill certain positions. Once those positions have been filled, a number of issues such as an unhealthy work environment, insufficient compensation/benefits, or a lack of upward mobility can make it difficult to retain workers. Some ways to attract quality workers and increase retention are:

- Keep employees engaged and productive. If there is not enough work to keep everyone busy all the time, consider investing their time in training, professional development, developing new products, or other improvements.
- If your budget prevents you from offering competitive salaries across the board, strategically structure salaries to make sure that at least the most difficult-to-fill positions are competitive and have attractive incentives.
- Do not overlook employees for opportunities. Promote from within, if possible, and reward high performers. Try to incorporate employees’ stated preferences (e.g. for more vacation time, a flexible schedule, a bonus at year-end, etc.) when rewarding performance.
If you find that layoffs become necessary, there are ways to ease the pain to your employees and your business. If HR has been brought in early enough on this potential step, they should be well prepared to help avoid any surprises. Your employees will be looking to you for answers and your honesty is crucial. Before you can answer their questions, however, you have to answer your own. Do you know what positions are critical to your organization? Identify your key employees early and figure out what they need from you. How much will each layoff affect overall sales, costs, and productivity? Do you have union employees? How might that affect potential layoffs? Prior to speaking with your staff, anticipate as many questions as possible and generate thoughtful responses.

Carefully analyze your company budget and metrics to determine how many cuts you need to make before you start letting people go. The following are some recommended best practices to minimize the financial and emotional impact of layoffs:

- Involve your employees in difficult discussions and listen to them. Consult them regarding collective pay cuts or voluntary part time schedules. Survey the staff or create focus groups to determine alternatives, and tell them how many jobs each alternative could save.
- Decide who will be let go as soon as possible. While your key employees are “safe”, look at others in your employ and determine who to let go and why. You might consider seniority, salary, pay grade, productivity, and other factors. Once you have generated a list of candidates, be sure to consider legal implications. Do a disparate impact analysis to ensure that there is no unintentional discrimination. The rationale for the decisions should be clear, concise, and based on business needs.
- Make layoffs as deep and quick as they need to be, and do them only once. Dragging them out and delaying inevitable cuts can hurt morale, decrease productivity, and cause safe employees to worry about their job security. The remaining employees will watch how their co-workers are treated. Be sure to show compassion and support, convey any decisions in person, and consider offering outplacement services to help them find jobs.
- Assemble “exit kits” including a list of contacts and outplacement services to assist in finding another job, information about benefit options like early retirement (if an option), letters of recommendation (depending on company policy), and information about training and professional development in and outside the company.
- Make sure you are in compliance with your company’s termination and layoff policies and know what is required of you under the Worker Adjustment and Retraining Notification Act (WARN), the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), and any other applicable federal and state regulations.

If layoffs are carried out, you also have to consider the impact on workers that remain. Employees may suffer from diminished job security, increased workloads, different work assignments, new priorities, and knowledge drain from those that left. Determine if and how to alter compensation for the remaining workers. Increasing their pay may seem insensitive given the recent layoffs and begs the question of whether some of those jobs could have been saved. However, remaining workers will have to pick up the slack for the positions that were cut and it stands to reason that they should be compensated accordingly. It might be appropriate to announce a revised raise schedule or a bonus at year end if certain goals are met to focus employees on their future.

Human resource management will inevitably become part of your public relations campaign. You cannot drop everything to accommodate employees, but failing to exercise compassion and care
when times are tough can negatively impact recruiting, sales, business partnerships, and public image in general. Take care of your employees and do your best to help them through transitions to maintain a reputation as a choice employer.

Employee Morale

Last but certainly not least, employee morale can be a huge factor in a business’ success or failure. Good employee morale can lead to increased productivity and employees’ willingness to take pay cuts, postpone bonuses, and make other sacrifices for the sake of the company’s success. Low morale can result in the loss of your most valuable employees and reduced productivity among other things.

Ways to improve morale and strengthen relationships include acknowledgment for good work, low-cost gestures of appreciation, and reminders to laugh and smile despite the difficulties many individuals may be facing. Throwing a pizza party, putting snack-baskets in the break room, sending out a weekly email highlighting company or individual accomplishments, or having office games (like a scavenger hunt) are small gestures that might help lift the spirits and build team spirit among your workers.

Engage employees in the brainstorming and dialogue when difficult decisions are necessary. Significant communications (e.g. regarding layoffs) should be honest and early and should come from the president/leadership of the organization. Be genuine and respectful in all communications and actions, and do not make promises you cannot keep. While telling employees about potential layoffs or pay cuts is not exactly uplifting, it is important to be transparent. They may not be happy to hear the bad news, but it is better than being blindsided. Try to shift the focus from past events and current circumstances to future opportunities and visions of progress. At the same time, understand the sequence of events that led to the current issues and identify preventative measures and responsive actions that could be implemented in the future. Consider using an “appreciative inquiry” approach as opposed to “problem solving.” Building camaraderie and focusing on developing solutions will maintain morale and employee engagement when times are tough.

SurThrival Tip No. 18: Be Creative with Compensation and Benefits

Think beyond just salary and medical benefits and consider creative approaches to compensation and benefits. Balance your approach to provide the best benefits to your employees and strengthen your business.

Compensation is a double-edged sword: on one hand, you want to give your best employees enough incentive to stay with the company instead of searching for employment elsewhere. On the other
hand, many businesses have succumbed to economic challenges by trying to retain more workers than they could afford. It is a delicate balancing act that must be complemented by efforts to strengthen the relationships between a company and its employees.

This may be the best time in the world to think creatively. Options should be considered that may never have been tried before. Ask your HR team to review any new ideas and help figure out how to address existing problems. For example, as a cost saving measure, businesses will sometimes assign part time schedules on a volunteer basis. Some employees may want to reduce their hours, but may have concerns about losing benefits as they switch from full-time to part-time. If you do not extend health benefits to part-time employees yet you want to save labor dollars and encourage workers to voluntarily reduce their hours, it may make sense to change your definition of who is covered.

Employee engagement and transparency are critical. If you mask financial problems from your workers and suddenly start laying workers off, your best employees may feel insecure about their jobs and start seeking employment elsewhere when, in reality, their jobs may never have been at risk. Communicate honestly with your employees throughout the process. By involving them in the discussion, you can increase the level of trust and collaboration between management and employees.

When examining your compensation and benefits policies, ask yourself the following questions:

- Are your employees content with the current compensation and benefits they receive? If not, what improvements would they like to see? Determine what is feasible, communicate your options to your staff, and take their opinions and preferences into consideration.
- What are some creative options that may be able to balance cost savings with the ability to offer competitive salaries, retain workers, and maximize productivity?
- Are you communicating enough with your employees? Be receptive to employees’ concerns and do your best to address them honestly without causing undue apprehension. Reassure them as best you can, but do not make promises you cannot keep.

**SurThrival Tip No. 19: Look for Efficiencies in Operations**

Optimizing work flows and technology should occur in any economy. The best improvements often arise organically from employees. Listen to them and respond.

From increasing the efficiency of daily tasks to preventing fraud to optimizing insurance policies, there are many ways to improve operations. However, making such improvements requires time and money. Those resources can be scarce even when business is booming. In a slowing economy, that scarcity is exacerbated and available resources are increasingly needed to maintain daily operations.
and keep the business afloat. Finding cost-effective ways to continue the development and improvement of operations is critical to maintaining profitability and a competitive edge. This section offers insight on how to use limited resources to optimize workflow, risk management, policies and procedures, auditing, insurance, and technology.

**Workflow**

Businesses never stop improving workflow. As technology and business models are improved, new ways of making processes more efficient arise. When the economy is strained and cash flow slows down, even minor savings in time and costs can make a great deal of difference to the bottom line and overall success of the business. Fortunately, many such improvements arise organically (i.e. they are found by employees in the course of regular business activities). Unfortunately, the time and cost of hiring consultants to find additional improvements can be significant.

When you are anticipating a potential economic slow-down, do not let the apprehension of the future prevent you from thinking big and making calculated investments that will help improve your margins and prepare you for tough times. Thinking big could mean incorporating analytics into your business model. Many small business owners operate more on their instinct and experience than anything else. Those are incredible tools, but analytic software sometimes offers insight that even the keenest instinct might miss. Furthermore, it is increasingly cheap and easy to implement. The necessary initial investment of resources to research and implement “big business” strategies like these can be a deterrent for some business owners, but utilizing those tools may free up significant resources later on when you really need them.

Below are some ideas to develop and improve your workflow:

- **Internal feedback** is an inexpensive and effective tool for analyzing and improving workflow. Gathering input from your workers can also strengthen ties between employees and management and make workers feel engaged and appreciated. Surveys are perhaps the most common way of collecting feedback as they are anonymous and easy to administer. However, it is sometimes difficult to get a sufficient level of depth and honesty from a survey. Emphasize anonymity, ask open-ended questions to elicit thoughtful, honest answers, and offer incentives to improve the response rate. If your business is too small for surveys and anonymity to be viable, try to create an environment in which your staff is comfortable expressing their ideas and concerns. Keep an open door policy, offer constructive criticism, and do not stifle innovation or dialogue.

- **Management/employee lunches or meetings** are a way to collect in-depth feedback. Provided employees are comfortable speaking candidly to upper management, this option gives employees a chance to voice any concerns or suggestions not passed along via the employee’s immediate supervisor.

- **Review policies and procedures** to help maintain consistency and prevent mistakes, improve productivity, clarify roles, and prevent legal and ethical dilemmas, among other things. Each of these improvements can lead to significant efficiencies and savings. Use market intelligence and engage your employees in the review process to ensure that policies and procedures are clear, concise, and aligned with your business mission and goals.

- **Clarify which tasks should be assigned to which roles.** Executive management should focus on creating wealth, developing the business, and other high-return tasks. In a small business, the
CEO sometimes completes other tasks because there is no one else to do them. If upper management finds itself stepping in frequently to fill gaps in the workplace, consider hiring an additional employee. It will cost more in the short term, but it can allow managers to engage in more high-level leadership activities that will grow the business in the long-term.

Risk Analysis

Risk analysis is concerned with identifying and managing the different sources of risk to your business. These include but are not limited to financial, legal, and safety risk. Risk analysis and management can fall by the wayside when times are tough, but neglecting them can result in devastating consequences. In this section, we will discuss some risk management best practices. We will focus on legal and safety risks here.

Legal risk is a broad topic that pertains to every aspect of business: competitive strategy, human resources, financials, etc. If you have specific concerns, it is best to speak with an attorney. Here we make note of issues that may be more likely to arise in a difficult economy and recommend measures for managing them and optimizing legal expenses.

Another reason you should know the responsibilities associated with your business structure is because failing to meet them can have legal consequences.

Legal fees can stack up quickly, but the following suggestions can help optimize those expenses:

- An ounce of prevention is worth a pound of cure. Determine reasonable measures to prevent legal issues from arising, but be careful not to over-invest. One of the best consultants with regard to legal risk mitigation is a good insurance broker. They can help you not only optimize your coverage, but also minimize the number of claims in the first place. Insurance brokers can often provide useful insight into risk mitigation based on their experiences with other businesses. Furthermore, since they will pay all or part of the claims you receive, they have a vested interest in helping you preclude those claims.
- Check with a lawyer to verify that your procedures and practices are consistent with your business structure. While this may seem basic, it is easy for procedural formalities to fall by the wayside when an organization’s resources are stretched thin, and it can sometimes have legal consequences. Corporations, for example, that do not follow corporate form can suffer legal repercussions.
- Minimize legal issues in the office by making sure workplace conduct and employee interactions are free of hostility and harassment. The legal, emotional, monetary, and reputational consequences of dealing with harassment claims have escalated significantly in the past several decades. Communicate regularly with your employees about appropriate workplace conduct. Consider holding quarterly workshops on topics such as conflict resolution, depending on the needs of your staff.
- If something comes up that may lead to litigation, consider alternative methods of resolving the issue such as mediation or arbitration. These can result in a mutually agreeable and less costly outcome for both parties.
- Ask for bids from a variety of law firms. A large firm with extensive resources can sometimes be the best option for large projects, but some small firms are just as capable of handling sizeable projects at a lower cost. Obtain bids and assess each firm to determine which one best fits your
needs based on their capabilities, culture, etc.

Some areas that can falter when times get tough are worker safety and risk management. That can lead to increased accidents and injuries, which in turn can lead to increases in worker’s compensation, legal fees, and public relations issues. Make sure safety and risk management remain a priority. Evaluate your cash flow alongside your risk of and ability to pay for accidents to determine how much to invest in extra precautionary measures.

Educate workers on risk and safety. Whether you are teaching them how to detect email scams, understand safety risks at your facilities, or maintain a healthy work environment, their understanding of risk and safety will directly relate to your business’ risk management success. If internal risk analysis is cost-prohibitive, consider hiring an external consultant to assess risk and recommend cost-effective management options.

Audit

Auditing is a critical (but often optional) business practice. It can be costly, time-consuming, and doesn’t always add immediate value. Many businesses consequently forego it, especially when cash flow is slowing and resources are limited. However, it is even more important to maintain internal audits in such circumstances as it can preclude major losses from wrongdoing and negligence.

In times of difficulty, it is natural to turn to your most trusted employees to support and protect the business. Indeed, they can be a major ally in keeping things running smoothly. However, unfamiliar financial pressures can cause significant stress and increase the likelihood of accidents or fraud. A shifting economy can also affect your vendors, customers, competitors, and business partners. One of your current vendors might experience significant turnover that affects their performance or ethical standards. Sometimes, the frequency of shoplifting increases in a down economy. As much as you may trust your business partners, customers, vendors, and employees (even those to whom you are related), implement preventative measures in recognition of the economic pressures on your community and watch for red flags.

While formal audits can be costly in terms of financial and time commitments, there are alternatives. For example, business owners can structure tasks such that it is difficult for things to slip between the cracks or be manipulated by a single person. Consider doubling up on accounting tasks or having a second person review accounting activity. Improvements to hiring practices and employee management can reinforce an environment of accountability. Some improvements may require additional resources, but they could protect your business from bigger problems down the road.

Technology

Researching and investing in new technology is not usually the best use of resources in the middle of an economic downturn. However, if you are financially stable and expecting belts to tighten sometime in the near future, getting a head start by incorporating new technology, analytics, etc. to boost efficiency could result in significant savings in time and money later on. As you evaluate your current technology and potential alternatives, consider the following:

- What are you capable of given your current cash flow? Consider the costs and advantages of
new technologies and how they will impact your current and future cash flows and operations.

- When it comes to new technology, be wary of jumping in too quickly. It might be more prudent to wait until others have tested new equipment or procedures and proven them effective. You may not get a jump on the market, but you won’t suffer the consequences if those innovations are faulty.
- Have you determined the suitability of potential technologies to your business model and operational needs? When looking into the track record of unfamiliar technology, look beyond the official testimonials and check whether it is appropriate for your purposes. Testimonials will be focused on success stories, so look beyond them to find failures. Determine why that technology was ineffective in those cases. It could have been the result of fundamental flaws in the technology, or just because the technology was poorly suited to the needs of that particular business.

If your cash flow and other resources are already limited, do not engage in any major overhaul of your current technologies unless it is a legal requirement or otherwise necessary to continue operations. Do, however, make sure your information technology is secure. Review IT infrastructure and security to make sure your documents, data, and systems are not at risk in case of cyberattacks and other potentially disruptive events.

**SurThrival Tip No. 20: Optimize Your Insurance**

Oversized premiums or insufficient coverage can hurt your business in good times and bad. Determining the best insurance for your needs can help you save in the long run.

**Insurance Review**

Most businesses conduct regular insurance reviews to ensure their coverage meets their needs and is still cost-effective. In an economically challenging environment, oversized premiums or not having the right coverage can have bigger than usual impacts on your business. Some ways to optimize your insurance practices and limit your exposure are:

- Meet with your insurance broker to go over your plan and make sure it still makes sense for your business. Depending on your cash flow needs and ability to make large payments on a claim, you may be able to restructure your plan to increase or reduce your premiums.
- Depending on the size and complexity of your business and insurance coverage, it might be worthwhile to hire a third party insurance consultant. They can offer a second opinion on the appropriateness of your costs and coverage. This can be especially valuable if you do not have a well-established relationship with a broker who can advocate for you.
- Obtain bids and consider other options when your contracts come up for renewal. You may be able to secure a comparable contract for a better price or with better service elsewhere. Measure the cost savings against the value-added services and relationship with your current broker to determine whether they are worthwhile.
Review contracts with vendors and other outside individuals and organizations and be aware of their contractual obligations and actual capabilities. Businesses can be exposed to risks such as workers’ compensation claims from their vendors, for example, so look for exposure to claims beyond your organization. Review your vendors’ insurance and financials if possible to ensure they have all the right boxes checked and are unlikely to have problems that could impact you. If you do not have surety bonds or some other guarantee that contracts will be fulfilled, make sure those with whom you have working relationships are fiscally reliable and will be able to follow through. Assemble contingency plans in case they cannot or will not. For example, if the economy is getting worse, businesses start to struggle, and one of your subcontractors defaults, you are stuck with an unfinished job at best. At worst, you have an unfinished job and you’ve already paid them in part or in whole for the work they failed to complete. Consider surety bonds to guarantee jobs will be finished and you won’t have to pay double or fight to get money back.

SurThrival Tip No. 21: Build Strong Supply Chain and Vendor Connections

Be vigilant in reviewing your supply chain and vendors. Strengthen your ties and diversify in good times so no surprises arise in bad times.

Inventory and supply chain management have historically been major concerns to Alaska businesses due to the state’s distance from other hubs of production and supply centers. Difficulties related to supply chains have been reduced in recent years due to improvements in the transportation industry, decreased shipping costs, and increased local production of goods and services. However, challenges still exist and could be exacerbated in a difficult economy. This section offers some best practices for managing inventory, supply chains, and vendors.

Optimizing Inventory and Supply Chain Management

Inventory management represents not only an investment in dollars, but also in time, technology, facilities, and organizational workflow. However, it can produce many benefits. While large-scale supply chains are limited to relatively few industries in Alaska (natural resources, retail, etc.), there are many other businesses that can benefit from improving their inventory and supply chain management. Ways to improve these processes include the following:

- Create a systematic approach to the acquisition, management, and disposal of materials. Break your supply chain down into categories of materials and optimize each category separately instead of managing them all in the same manner. Managing these segments individually can improve the overall efficiency of your inventory and supply chain management.
- Optimize reverse logistics and waste management processes. Disposal or return of materials can require as much coordination and cost management as the acquisition process. If
applicable, agree on return policies with your vendors, coordinate returns, collect deposits or credit for returns if available, and determine the most efficient and responsible ways to manage waste.

- Consider implementing Just-In-Time (JIT) inventory management. JIT, now a popular inventory management concept in business, involves ordering inventory so that materials/goods arrive just when they are needed. This method maximizes efficiency by minimizing the amount of storage space needed for raw materials and finished goods, but it makes businesses vulnerable to delays in the supply chain. It can also reduce savings from buying in bulk, since orders are smaller and more frequent in JIT. These issues are of particular concern in Alaska where weather or technical difficulties occasionally cause shipping delays. However, retaining a small cushion to protect against such delays may be a good way to maximize efficiency while minimizing the risk of stock-outs. JIT also works best when suppliers are known to be reliable and demand is fairly consistent over time (or major changes can be anticipated).

- Use tracking software and analytics. While many small businesses can manually manage their small inventories fairly easily, a moderate to large level of inventory can benefit from more exact analysis.

- Inventory fraud and theft can become more of an issue when times are tough. Think ahead and implement preventative measures to mitigate those risks.

- Consider outsourcing storage, order fulfillment, and other non-core functions related to inventory and supply management. This can lead to significant savings and efficiencies.

- Explore alternatives to ordering parts from out-of-state. In-state production of some materials is becoming more common, and some manufacturers can use 3-D printers to make their own parts. 3-D printers could also have applications for businesses that have the need to create models or develop prototypes of certain goods.

### Vendor Management

An uncertain economy can test relations with vendors, so it is a good time to strengthen ties and avert potential difficulties before they arise. Consider the following when evaluating your vendor management practices:

- With regard to your current vendors, look for warning signs indicating they may be falling behind. Establish back up plans for time-sensitive projects. In general, it is a good habit to assemble and periodically review contingency plans in case vendors fail to perform.

- Monitor performance. Maintain quality checks and review invoices to make sure you are getting the right orders and being charged the correct amount. These checks are sometimes neglected when business owners are scrambling to keep their business running smoothly, so make sure procurement or invoicing mistakes do not create an additional challenge.

- If your current contracts are coming to an end, ask for bids from other companies and remember that a better deal does not always entail a lower cost. A vendor may make a bid that falls above their competitors’, but the quality of their goods, services, and value-added improvements may be worth the premium. If you have established a good working relationship with a vendor that performs well and is reasonably priced, it may be better to stay with them than seek out small savings from another vendor of indeterminate quality.

- Before deciding on a vendor, verify their reliability and ability to meet your needs. Consider the tradeoffs between newer and older businesses. New and cutting edge has its advantages, but companies that are a little older and have proven they can withstand economic swings and
other challenges may be better allies in a down economy. Consider both their contractual obligations and their track record of actual performance.

- Review the terms of your contracts such as length of time (especially for technology), clauses, fee schedules, flexibility, renegotiation, renewal, etc. Make sure the terms will be manageable in a tight economy and think ahead to renegotiate potential problem areas.