



Preparing Your Small Business for a Recession

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Jim Blasingame is the host for the radio and Internet talk show *The Small Business Advocate*. *U.S. News* talked to him about what a weaker economy might mean for small-business owners and how fear can be their worst enemy.

What's the state of small business in the face of a possible recession?

We have real problems like high gas prices and high inflation. But we also have counterbalancing positive fundamentals. We have a strong economy in many ways. We still have high employment. Whether we're in a recession or not, small-business people are still going to be in business six months or a year from now when we're out of a recession.

What are the real problems facing small-business owners?

Every time gas prices go up, that's like a tax on us and our customers. The gas issue is a real challenge. Another issue that's potentially a challenge is the credit crisis. The way it's found itself from Wall Street to Main Street is that the banks want to make loans, but the bankers I've talked to tell me they have tightened their standards. They've anticipated that regulators will tighten their restrictions. There still is credit available for small businesses—they might just have to work harder. You're going to need more documentation.

I think the credit card issues are going to start impacting small businesses. I think credit card companies are tightening up on their standards, too. Especially a lot of start-ups—their cash flow is augmented by credit cards.

How much are small businesses really being squeezed by those problems?

Right now, I don't see anything that's all that ugly. Over the next three to six months, we'll find out how bad this is going to get. If you're in the real estate industry, your business is not going pretty well right now. But there are a lot of other industries where the economy is not that bad for them. I don't know if we're even in a recession yet.

How should small businesses prepare for a possible recession?

Spend more time talking to your customers and less time listening to the talking heads on television. Don't be afraid of the future—take charge of it by asking your customers what's going on. This economy is not going to shut down. If we're in a recession, it doesn't matter. People are still going to buy stuff. It's our job to give our customers the maximum opportunities to pay from us. That might mean we've got to work a little bit harder. We've got to manage our businesses a little more efficiently.

When things are going great, your customers are calling you. But in times like these, I think we need to go out and take our customers to lunch more. When they come into your store, ask them how they're doing. Now you become a partner. The people who will survive whatever we're going through will be the people who have learned to become partners. In the 21st century, you've got to become a partner with the customers, not just a vendor.

Preparing Your Small Business for a Recession *Interview with Jim Blasingame*

Why do you say that?

The 21st-century business is much more about relationships than about just business. There was a time when not everything you could buy was a commodity. Today, everything is a commodity. What is something you use every day that you couldn't buy from a thousand places online? If I sell something that you can get a thousand places, why would you buy from me? Because you like the way I treat you. And the only way I can find out how to do that is by asking you.

How should small-business owners avoid getting into trouble in a weaker economy?

The main thing is to know what you're spending versus what you're bringing in. If you've established certain spending habits for operating expenses, those may be based on what you were selling in 2007. Some things you purchased in '07 might be a luxury in 2008. You might say, "Maybe we should bring this in house. Certain things we used to have other people do, but maybe we should start doing it ourselves."

Another thing that's very important is that every business owner has to be knowledgeable about accounts receivable days. You've got to start calling on your customers earlier rather than later to make sure they're going to pay you. You can't let these accounts receivable get out of hand. More and more of your vendors will be requiring you to pay on time. If you let your customers stretch you, you're going to be out of cash. So I would be very familiar with your accounts receivable aging list. I would check that every day. You may have to get on the phone. If in the past you had an employee call and check on accounts, you may have to do it yourself.

You've talked in the past about how an "emotional recession" can be as dangerous as an actual recession. What do you mean by that?

The more we talk about a recession, the more we talk ourselves into negative performance. Warren Buffett said the other day, "Well it looks like we're in a recession." If we hear that so much in the media, it becomes real to us. And then we start taking action based on what we believe is reality. I've asked a lot of experts this question in the last three months. Is it possible that we could talk ourselves into one? More and more financial experts are saying, "Yes, that's quite possible." To me, if your sales are off 5 to 10 percent, that's not a recession—that's an adjustment. If your customers are not running for the hills, there may be a recession next door, but it doesn't mean you're in a recession. When you see a glimmer of new activity, you've got to take advantage of it. What happens is that we start operating with a recessionary mentality. When we do that, we're behind the curve when the economy turns. I believe small businesses will lead this country out of what we're in right now. They've got to be ready to do that.

Why do you believe that?

No. 1, we're more nimble. No. 2, we're not beholden to Wall Street, and this is one time that that's an advantage, not to be beholden to Wall Street. Small companies can't go to Wall Street for capital. That's a disadvantage when things are good. But we're not beholden to the stock price. We're going to make aggressive entrepreneurial decisions. Hang the analysts!