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Saturday, February 9, 2008

Surviving an economic downturn

O.C. business owners tell experiences in past recessions



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Dan MacLeith started business in 1975 as the United States was emerging from a 16-month recession.

"I was 19 starting a little business all by myself. I was totally unaware of a recession," MacLeith said recently in a discussion about the survival of his company, **Pacific Westline Inc.** in Anaheim through four recessions (see sidebar) and, as he put it "who knows how many business slowdowns."

The economy is in one of those slowdown periods, and some economists, including those at Chapman University in Orange, predict a recession. So It's Your Business asked for survival strategies from experts and business owners who have been there, done that.

Their responses illustrate the adroitness that long-surviving business owners must have: Cut the right spending, focus on the right products and markets, strengthen the right business relationships and let others go. Their advice just might save some Orange County businesses in the current downturn.

CUT SPENDING

The most common action when business slows is to cut spending.

Pacific Westline originally made cabinets and grew to do custom millwork and fabrication for commercial interiors, especially in the restaurant industry. During the company's first recession, MacLeith tried to keep all employees even if he didn't have work for them to do.

"Big mistake," he said. "At the end of it, I had dug an even deeper (financial) hole and wasn't looked upon as an especially nice guy for it."

In subsequent downturns, Pacific Westline asked employees to share the economic pain, just as they shared the profits in good times. Some were laid off; others took cuts in pay or hours.

"Those that contribute the least had to go; those that are most valuable were protected as much as possible," MacLeith said. "And of course those at the very top go without pay at all."



SURVIVOR: Don MacLeith's company, Pacific Westline Inc., has survived four recessions by diversifying.

ANDY TEMPLETON, FOR THE ORANGE COUNTY REGISTER

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Surviving slowdown

Tips for weathering an economic slowdown:

- Build your banking relationship before you need financing help.
- Don't wait to be hit by revenue losses to look for spending that can be cut.
- Take a step back and define the core business and strongest profit sources of the business.
- Communicate with strategic partners,

such as your accountant, and with employees so everyone understands the financial situation.

- Tighten your credit policy.
- Keep close tabs on aging accounts receivable.
- Beef up customer service to resolve complaints and problems as soon as possible.
- Pamper your best, most profitable customers; drop the marginal, unprofitable ones.
- Strengthen company cash reserves.
- Develop a new product or service that can bolster revenues.
- Examine potential for diversifying clientele or industry sectors you serve.
- Plan to continue marketing that is most effective for your business.
- Keep inventories lean.
- If you must cut payroll, work with employees. Will they accept pay cuts to save jobs?

Past recessions

Recession dates from the National Bureau of Economic Research, which defines recession as a significant decline in economic activity spread across the economy lasting more than a few months, normally visible in real GDP and other data.

- March 2001 – November 2001
- July 1990 – March 1991
- July 1981 – November 1982
- January 1980 – July 1980
- November 1973 – March 1975
- December 1969 – November 1970
- April 1960 – February 1961
- August 1957 – April 1958
- July 1953 – May 1954
- November 1948 – October 1949

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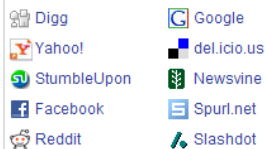
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David Anast, publisher of **Biomedical Market Newsletter Inc.** in Costa Mesa, certainly knows about going without. He started the company, which now has more than 60 medical-related publications, during the 1990-91 recession.



After being laid off from a publishing company, he started his own business and went without a salary for the first five years.

"I wasn't married. I bought no new suits, no new shoes, no dining out," Anast recalled.

Technology also helped Anast cut costs. In the early years he spent hundreds of thousands of dollars on postage, printing and mail list rental for his publications. As the Internet and e-mail gained acceptance, he cut and eventually eliminated those costs.

"We stopped shipping product seven years ago; it all goes via e-mail," he said.

Like MacLeith, Hilary Kaye, owner of **HKA Inc.**, a Tustin public relations and marketing firm, asked her staff to participate in spending cuts.

"In the very lean years, we successfully hung on by reducing everyone's hours 20 percent," she said. "I hated to do this, but my employees were glad to keep their jobs as many of their friends where suddenly unemployed."

OTHER FINANCIAL STEPS

Other financial actions complement spending cuts.

"A general recommendation that I make in almost all situations is to maintain a strong cash flow and get into a strong cash position to cover future problems that might arise," said Jim Anderson, a volunteer business counselor with SCORE-Orange County.

Donna Vestre of **South Coast Revenue**, a risk management consulting firm in Anaheim, said she is telling clients to get control of their accounts receivable.

"Tightening up your credit policy may help to increase your ability to gain credit worthy customers who will be more likely to adhere to your payment terms," she said. "Keep especially close tabs on your aging receivables."

Anast refused to borrow money in order to keep his Biomedical Market Newsletter as financially strong as possible. He saw competitors who borrowed in order to grow their companies fail and didn't want to follow that path.

DIVERSIFY AND LAUNCH

Economic downturns have a benefit for business, Anast said. "A recession gives you the opportunity to step back, rethink and review all sectors of your operation," he said.

In the 2001 recession, Anast actually launched a new product that proved to be a major growth vehicle for his company. It is an e-mail press release service specifically for the biomedical industry. He continually updates a database of half-a-million names.

"The only way to go is to launch a specialty product that cannot be found anywhere else," he said.

In this current economic downturn, he is ready to launch another new product, a searchable, sortable list of Orange County medical products and service providers. Once it's off the ground, he'll add lists for Los Angeles and San Diego counties.

Others point out the value of diversifying their products, services or industries.

Pacific Westline now has seven divisions that work across several industries, MacLeith said.

"It is not uncommon for two or three divisions to be running on all cylinders while a couple are struggling," he said. "The company as a whole can then be healthy, support all our workers and because of cross-training, keep most if not all working full time."

Public relations consultant Kaye said, "We have survived and thrived because our client list is so diverse. (In previous slowdowns) some competitors that focused on one primary industry did not survive, putting too many eggs in one sinking basket."

KEEP UP MARKETING

Kaye added that companies cannot afford to stop marketing, regardless of economic conditions.

"HKA is involved in several vibrant organizations. I kept in touch with referral sources, kept going to meetings of the organizations that were important to us... even when work slowed down. Every company, regardless of its industry can do the same and make it to the other end of a recession."

Anast agreed. He spent a recent week at a large medical device convention meeting with past and current clients and promoting his new product.

"New products are always sure revenue generators if marketed properly," he said.

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