



Article 66

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Recession Makes Business-Plan Revisions Imperative

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It's a safe assumption that most of the companies doing business today didn't include recession-survival tactics in their plans for 2008-2009. This means that the assumptions underlying their business plans are probably outdated, even for companies launched just a few months ago.

That's how quickly things can change in a global economy buffeted by unstable financial markets, tightened credit and faltering consumer confidence. And that's why forward-thinking companies maintain their advantage by having and progressively updating a written business plan.

For some businesses, the dramatic scenery change of a deepening recession means that the sales assumptions in their original business plans are now overstated and unrealistic. Other businesses — the lucky ones that stand to profit in a slow economy — have business plans that understate their possibilities for expansion and revenue growth. Either approach — over-reaching or under-reaching, based on an invalid business plan — could endanger the unwary business owner.

To increase the chances of surviving this financial winter, companies should revisit the long-term and short-term portions of their business plans and adjust in light of changing circumstances. Those in charge should consider the following:

Evaluate changes in the external environment and how they can affect the business.

Competitors, existing and potential customers, suppliers, trends in technology and demographics, government policies and regulations — especially in light of a new federal administration — and the overall economy are among the elements to consider.

Review market analysis and approach. Will recent changes in the market affect demand for a product or service? Have consumer spending practices changed? If so, how might those changes affect the business? How should the business alter its product offerings, pricing, delivery systems or packaging to accommodate market changes?

Reassess the competition. Have any large competitors dropped product or service lines because they can't afford to provide them? What about the territories they served in the past? Perhaps new demands are being ignored and once-served communities are being abandoned. Is there a new or anticipated void that can be filled more economically than in the past?

Reconsider the operating plan. If demand has slowed, could operations be consolidated to save

money? Are there new sources of raw materials that can be tapped given changes in volume? Are new suppliers willing to provide discounts, reduced delivery rates or other value-added features? Can facilities be used in a different way to increase efficiency?

Rework the financial analysis. Make sure sales assumptions are realistic — neither too optimistic nor too pessimistic. Consider how the revised assumptions affect cash flow. Is the budget for raw materials acquisition still accurate, or has inflation raised costs? If demand for a product or service is elastic, should retail prices be re-examined? What about delivery or facilities costs? Examine expenses line by line to determine if the assumptions are still accurate, and adjust volume or value based on revised assumptions.

Finally, a business plan is not an immutable document chiseled into stone for eternity. It's a dynamic document, a management tool that helps businesses adapt to changing conditions and conflicting forces so they can stay on course and within budget. For more information about business plans, go to www.nmsbdc.org.

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