

Ask the Advisor

Q: How can I prepare my business for a tighter credit cycle?



A. Tightened credit conditions are almost inevitable when the economy slows down. The cost of credit rises and lenders naturally become more risk-averse. There's no way to get around the reality of tighter credit markets, but certain strategies can help your business survive — and even grow — during the downturn. Consider these six strategies:

1. Keep lenders in the loop. Communicate proactively and frequently with your lenders, instead of waiting until you have an urgent need or problem. Keep them abreast of your company's strategic plans and share your successes. But also let them know as soon as possible about potential issues. Your lenders are likely facing increased scrutiny themselves, and will feel more comfortable knowing you're keeping them in the loop about how your company is doing.



2. Give lenders more business. Whenever possible, give potentially lucrative noncredit business to your most important lenders. Consider, for example, transferring deposit accounts to your lenders. This will help build goodwill and strengthen your relationship. Moreover, lenders are more likely to support a good customer when financial conditions are tight.

3. Maximize your flexibility. Add flexible provisions to the terms of your credit agreements before you actually need them (when you'll have fewer options). Discuss with your lender extensions and other options for existing loans as soon as possible.

4. Talk to a credit arranger. A credit arranger, who helps negotiate or develop credit terms and documents, may be useful if you're trying to access multiple forms of capital. Credit arrangers can also help if you need several investors to carry out growth plans, such as an acquisition. For many smaller businesses, however, a CPA or financial advisor — professionals who have objective credibility with banks to negotiate terms — can assist with these matters.

5. Manage liquidity. Keep receivables profitable with strict payment terms, sales tracking and frequent reviews of excess inventories that can be reduced or eliminated. Also, your project budgets may have been drafted well in advance of actual projects, so be sure to reassess budgets closer to the project's inception and on an ongoing basis for possible overestimates.

6. Plan ahead. If you're anticipating a sale or acquisition in the near future, build in extra time to complete the deal. When credit is tight, lenders are likely to conduct more extensive due diligence and require stricter compliance with collateral requirements and documentation. And lenders may more closely scrutinize your growth projections and analysis to determine how your deal might withstand a harsher economic climate.

These are just a few ideas to help prepare for a slowdown in the credit cycle. Depending on your business's size or industry, you may need to consider other strategies. Just remember that, beyond stringent numerical guidelines, all banks have the capacity to make subjective decisions and sign off on your loan terms. ■