

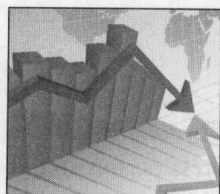
# SUCCESSFULLY NAVIGATING THE DOWNTURN

## ECONOMIC AND COMPETITIVE SURVIVAL STRATEGIES:

- Downsize
- Debt Work-Out
- Re-Invention
- Effective Marketing

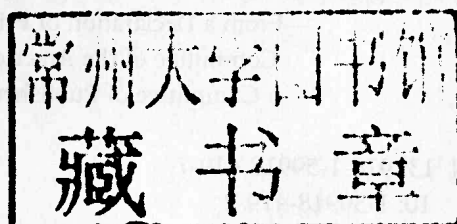


DONALD TODRIN



# Successfully Navigating the Downturn

Donald Todrin



**Ep**  
**Entrepreneur.**  
**Press**

Publisher: Jere Calmes

Cover Design: Andrew Welyczko, CWL Publishing Enterprises, Inc.

Editorial and Production Services: CWL Publishing Enterprises, Inc., Madison, Wisconsin, [www.cwlpub.com](http://www.cwlpub.com)

Copyright © 2011 by Donald Todrin. All rights reserved.

Reproduction of any part of this work beyond that permitted by Section 107 or 108 of the 1976 United States Copyright Act without the express permission of the copyright owner is unlawful. Requests for permission or further information should be addressed to the Business Products Division, Entrepreneur Media, Inc.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

—From a Declaration of Principles jointly adopted by a  
Committee of the American Bar Association and  
a Committee of Publishers and Associations

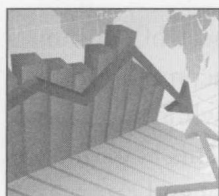
ISBN 13: 978-1-59918-419-7

10: 1-59918-419-2

Every effort has been made to ensure that the information in this book is accurate and current at the time of publication. However, laws, regulations, policies, contact information, and so on may be changed without notice. This book is not a substitute for individual advice rendered by a professional who is able to work with you one-on-one.

## **To my wife Diane Todrin**

After 32 years of peaks and valleys, opening and operating over 56 distinct businesses, most of them ultimately successful, my wife has stood by me through thick and thin, rich and poor, good and not-so-good times. I am eternally grateful to her for supporting my doing whatever I wanted in my business arena. She is a saint. I dedicate this work to her. She has earned it.



# Preface

## Ready for Battle

**I**f you haven't noticed, it's a war out there. In any economy, building a small business is a challenge. When revenues shrink, the fight for customers and their dollars can be the ultimate fight for survival. Yet if you blame the economy or come up with any other excuse why your business is not flourishing, then you aren't fighting for your company.

Here is the most frequent excuse I hear from owners with an underperforming business: "The economy is bad."

You make or break your own business. Take responsibility. Look around and you will see there are businesses doing very well. Why, you ask? Because they are not concerned about excuses, only action plans and good business practices that result in growing sales and profits.

There are successful businesses opening and operating in every economy, every day, every season, every year, that are located next door to failures. If we truly believe success or failure is a function of external forces, we are doomed, as external forces always happen and are typically out of our control. Since we cannot control these factors but can control our own business practices, we must direct our energies toward that which we can control as we chart our business course to reflect necessary and appropriate changes.



This book is not an A–Z textbook on running a small business; there are shelves full of them, mostly in college bookstores. This book homes in on the essentials for operating a successful small business in this fast-changing battle zone.

There are numerous books that focus on one aspect of running a business, such as branding, sales, or finance. It's not uncommon to have a pile of must-read books gathering dust at the bedside while more pressing demands fill the precious time allotted for reading. This book reports from the trenches with advice you can only learn by trial and error, from trying into what is working in the marketplace and what is not.

While most books are written to be read from beginning to end, you can pick this one up and thumb through the table of contents to find topics to help you solve your most difficult business problems or to help you grow a more profitable business. Each topic is short and succinct, and so you can read the book in short increments and implement strategies as you go.

I encourage you, however, to read even those sections that you think you're good at, because it's easy to forget what's important after living in an economy where revenue flowed freely. So jump in anywhere and read as much as you can, when you can; then implement.

It is a wonderful spirit we nurture in this country, where anybody can dream, open a business, and succeed. Success will come when you have a plan and business skills, and only if you adapt and keep up to date with the needs of the changing world around you.

## Acknowledgments

Claudia Gere: my editor and publishing consultant. In a word, she is the best. She is patient, very knowledgeable, tireless, and she translated my material from some foreign unknown language into a quality presentation. It would never have happened had she not been my leader.

Don Parsons: my first mentor. He taught me the concept of standards and how to live up to them. He showed me the value of doing the right thing . . . no matter what. He is a great man.

Fred Seibert: a third mentor, who taught me the value of people. He showed me how to live, as well as how to do business. I count him as a friend and a mentor. I am fortunate to have his influence in my life.





The Magnificent 7: my men's group, with Ed Hunt as one of its leaders. These men helped me learn what it means to be the man I want to be and helped me get there. Their influence is beyond description.

Bernard and Annette Todrin: my parents. My father taught me how to be the business man I am. He taught me this by my watching how he lived and worked. There could be no better a role model. I am very fortunate. My mother taught me wisdom. She is a very wise woman and has always given me what I needed. I am a very lucky man to have such terrific parents as role models.

Richard and David: my brothers, who have been huge influences in my life.

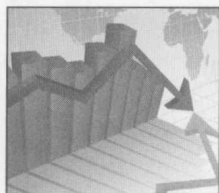
My daughter Elizabeth and my son Aaron. My best and most important work. I measure my wealth by my family's happiness; they are happy, therefore I am successful.

To the men in the trenches at Second Wind, the men in the front lines doing the hand-to-hand small business combat, saving families, one business at a time: Norm Schell, Peter Tur, Adam Duso, Adam Gleason, Harry Greenhouse, Greg Wales, Richard McGravey, and Joe Conforto. These men get it, know what's at risk, and refuse to lose . . . They are my inspiration. Kenny Butler: Leading me to places I did not even know existed. Dave Tomolillo: Teaching me that the brutal truth is a gift.

To every small business in America, the engine of growth, the source of most jobs, and the backbone of the country.

### **Disclaimer**

The advice given in this book should not be construed as legal advice or tax advice. Consult your lawyer or tax consultant as appropriate prior to implementing changes.



# Contents

## Preface

xiii

## 1. Surviving the Downturn

1

No Business Will Escape ... Prepare

1

Learning from the Greatest Entrepreneur of All

2

How Long Will This Recession Last?

4

Be Positive and Defeat the Downturn

6

The Quick-Response Strategy

7

Change Strategies or Perish

9

Rules to Survive the Downturn

10

Downsize

12

The Six Biggest Downsizing Mistakes

13

Renegotiate Anything and Everything

15

Beware, a Poor Economy Leads to Bad Decisions

17

Reinvent Your Business or Perish

18

More Powerful Downturn Reinvention Strategies

19

Dozens of Restaurants Close; One Has Waiting Lines

21

The Virtual Business Strategy

22

## 2. Look at Your Options

25

Escape When You Can't Recover

25

You're Unemployable—Make Your Business Work

26

What You Can Do If Your Business Fails

28

Why You Need Advisors

29

Have Your Business Inspected

30

Follow Your Gut

32





<b>3. From Innovator to Manager</b>	<b>35</b>
Management by Doing or by Leading	35
Do You Have a Pyramid or a Flat Organization?	37
Why Flat Is Best	39
Management Lessons from President Obama	41
Inspecting Your Managers for a Flat Organization	42
Flat Management Practices	44
<b>4. Hiring Right</b>	<b>47</b>
When to Hire, When to Fire	49
Job Descriptions	49
The Worst-Employee Problem	51
Work-at-Home Employees	53
Independent Contractor versus Employee	54
Big Mistake: Making Your Best Salesperson the Manager	56
<b>5. Employee Management Musts</b>	<b>59</b>
Smile, Your Employees Are Watching!	59
11 Ways Your Personal Attitude Affects Performance	61
Managers Manage Systems; Systems Manage Employees	63
Systems for Managing Everything Imaginable	64
Be a Good Manager ... What's Stopping You?	65
Incentives, Training, Reviews ... a Career Path	66
Why Managing Salespeople Is a Must	67
Sharing Your Business Financials with Employees	69
Scheduling Vacations	71
<b>6. Training with Purpose</b>	<b>75</b>
Develop from Within	75
Cross-Training	76
Use Training to Eliminate Do-Overs	77
Forging Leadership Skills in Times of Crisis	79
<b>7. Meaningful Evaluations</b>	<b>83</b>
Performance Reviews	83
Self-Assessment to Start	84
Mastering Productivity	85
How Firing Benefits Employer and Employee	86
<b>8. Get On Board with Social Media</b>	<b>89</b>
Social Media for the Business Arena	89
Social Networking Is the New Wave	90
The Power of Social Networking	91



Facebook, the Next E-Commerce Wave	92
How Social Networking Works for Small Business	93
<b>9. Marketing Without Money</b>	<b>95</b>
Effective Low-Cost Marketing for Local Markets	95
So Many Wasted Advertising Dollars	96
The Forgotten Benefits of Public Relations	97
Great Logo Graphics Reasonably Priced	99
A Dozen Fast Ways to Become a Recognized Expert	100
Eight Rules for Using Specialty Items	102
Attend State and Regional Trade Shows	103
How to Successfully Work a Trade Show	105
Business Is Out There ... Go Get It!	108
<b>10. Generating and Closing Sales</b>	<b>111</b>
Relationship Building, the Heart of the Sale	111
What Are You Selling?	113
Sell What They Need, Not What You Think They Want	113
The Power of Personal Presentation	114
Increase the Perceived Value	116
Find a Market Niche	117
Ask for Referrals	119
The Tipping Point Through Referrals	121
Testimonials Sell	122
Free Samples ... Be Innovative	123
Sometimes the Best Choice Is One	124
How to Beat a Competitor's Competitive Advantage	125
No Means Yes ... Just Not Now	126
Increasing Your Call Volume to Increase Sales	129
Going Up Against Major Competitors	130
Selling to the Major Chains and Distributors	131
The Problem with Using Brokers	134
<b>11. Run a More Profitable Business</b>	<b>137</b>
Consider Charging the Highest Price	137
Service, Service, Service ... and More Service	138
Challenging Traditional Discount Strategies	140
You Want Net Profit, Not Gross Revenue	142
Gross Revenue and Cash Flow versus Profitability	143
When Increased Gross Revenue Nets Less Profit	145
Rent to Your Business and Reap the Benefits	147
Expand the Invoice ... Improve Your Bottom Line	148



Are You Focused on the Wrong Part of Your Business?	149
Horizontal or Vertical Expansion	151
No Growth Without Capital	152
Beware the Dangers of Merchant Cash Advances	154
<b>12. Know Your Numbers</b>	<b>157</b>
Understand the Language of Business	157
Know Your Business Key Indicators	158
Key Indicators and Accountability	160
Managing with Key Indicators	161
Where Is the Cash?	163
Budgets ... a Mystical Concept	164
Projections ... Your Crystal Ball!	166
Making Accurate Revenue and Expense Projections	167
What Should Your Business Be Earning?	168
What Is Your Business Worth to Sell?	170
<b>13. Essential Financial Systems</b>	<b>175</b>
Important Invoice Terms	175
Setting Up a System for Collecting Receivables	176
Bill-Paying Strategy and Cash Control System	179
Presenting Financials That Tell the Right Story	181
Hold Your Accountant Accountable	183
Why Are You Paying So Much in Taxes?	185
You May Not Have to Pay Taxes on Your Paycheck	187
<b>14. Payroll Essentials</b>	<b>189</b>
Designing an Effective Commission Rate	189
No More Overtime ... There Is a Better Way	191
How Much Revenue to Allocate for Payroll	193
What to Do When You Can't Make Payroll	194
Are You Taking a Paycheck? Why?	196
<b>15. Partners and Franchises</b>	<b>199</b>
50-50 Partnership Structuring Strategies	199
The 50-50 Recipe for Disaster and What to Do About It	200
The Danger of Co-Owners Comanaging	202
50-50 Partner Buyouts	204
Joint-Venture Magic	206
Franchise Not Working? Get Out	207
<b>16. Protection Strategies</b>	<b>209</b>
Are You Protecting Your Customers' Deposits?	209
Put It in Writing	210

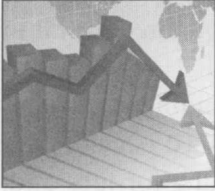


File Your Homestead	213
Do Not Operate as a Sole Proprietor or Partnership	213
Custom-Designing Bylaws and Operating Agreements	215
Litigation Bluff as a Business Tool	217
Using the Noncompete Agreement	219
<b>17. Lender and Other Workouts</b>	<b>223</b>
Consider the Workout Alternative	223
The Pitfalls of Bankruptcy versus the Workout	224
Debt Workouts Are Not a Get-Rich-Quick Plan	226
24 Workout Indicators You Can't Ignore	227
Why Not Ask the Bank to Reduce Your Loan	229
Speedy Decisions and Rapid Implementation	
to Avoid Losses	229
Protect Your Liquid Assets	231
The Danger of Negotiating One Issue at a Time	232
Avoid Turning Forgiveness into IRS Debt	233
Understanding Secured, Unsecured, and Tax Debt	234
You Must Be in Default to Begin	235
Preemptive Workouts, the Secret Path to Survival	236
Business Negotiation, Not a Legal Issue	238
<b>18. Workout Advice</b>	<b>241</b>
Lawyers Do Battle; Bankers Talk Business	241
Do You Need a Lawyer?	242
Bank Intimidation Without Representation	243
Beware the Bank's Advice When Defaulting	244
Avoid Your Banker's Turnaround Referral	245
Be Truthful with the Bank	247
<b>19. SBA Workouts</b>	<b>249</b>
A Few Words	249
Beware the Dangers of SBA-Guaranteed Loans	250
Beware of Cosigning a Note Guaranty	253
Modifying Your SBA Loan ... Not the Way to Go	255
What Happened to Payment Deferrals?	256
Defaulting on Your SBA-Guaranteed Loan	257
Shorter Default Period for SBA-Guaranteed Loans	258
An SBA Loan Workout Can Be Done	259
How Much to Offer in the Offer in Compromise	262
SBA Disaster Loans ... a Disaster	263
Workout Myths	264



Changing Rules for Offers in Compromise ...	265
for the Good	266
Fast-Food Service for Loan Workouts	266
<b>20. IRS Workouts</b>	<b>267</b>
Resolving Unpaid 941 Taxes	267
10 Realities of IRS Tax Debt Payment	270
Determining the Responsible Party for Tax Debt	272
Understanding the Offer in Compromise	274
Choose Your Poison: Compromise or Payment Program	276
Don't Wait for the IRS to Attach a Lien	277
Why Hiding Assets Doesn't Work	279
Beware the IRS Collection Tools	280
Why You Need Experienced Representation	282
Beware the IRS Agent, the Wolf in a Lamb's Suit	282
What to Do About an Overly Aggressive Agent	283
Who Will Tell Your Story?	285
<b>21. After the Workout</b>	<b>289</b>
Let Go!	289
Stop Doing the Same Ol' Thing	290
Why Let It Happen Again?	291
Resuming Business with Vendors	292
<b>22. Getting Out on Top</b>	<b>295</b>
Selling Short to Turn Foreclosure into Victory	295
Kill a Business If It's Not Making Money	296
Closing Your Business and Allocating Cash	297
Parts May Be Worth More Than the Whole	299
<b>23. Parting Words</b>	<b>303</b>
50 Ways to Succeed ... What Works	303
<b>Index</b>	<b>307</b>

## Chapter 1



# Surviving the Downturn

### No Business Will Escape . . . Prepare

**E**very business will be affected by this economic meltdown. There is no escaping. Those that think they will escape are fooling themselves.

The root causes are universal and will impact every business, in a kind of domino effect, with profits tumbling one after the other. I spoke with my insurance agent, and she reported revenues down over 30 percent. “Why?” I asked, “It makes little sense. People are not yet taking their cars off the road, are they?”

“No,” she responded, “but they are not buying new cars, so the insurance premiums are less, and also people are reducing their coverage to lower their bills. All in all, it amounts to an overall 30 percent decline.” Then she added, “And defaults are up for nonpayment.” Her hours were cut, as were her staff’s.

A produce delivery business I represent, which I assumed would be relatively immune to the downturn, is likewise experiencing a deep reduction in revenues. People are not eating out as much, the small business owner reports. Thus, consumption at restaurants is down, reducing his revenues by 30 to 40 percent. He is making fewer and smaller deliveries.





We need not discuss the auto industry, the housing market, and the trades and businesses that are supported by these markets. Can you even imagine the depth and width of their tremor? Of course, the financial markets lost tens of thousands of jobs nationally. New York City alone experienced a 20 percent decline in its revenue flow as a direct result of the reduction in the financial market.

The unemployment statistics are sobering. Depending on whose numbers you are looking at, unemployment is at least 10 percent, and another 5 percent of the population is no longer looking for jobs and, thus, not counted.

Even Microsoft has laid off 5,000 people.

It's the ripple effect that will undo us all. Fewer people working, more foreclosures, less purchasing power. It affects every business. The reason gas prices have declined so much is a direct result of less demand for fuel. Factories, trucks, and, yes, cars are using less fuel. Can you imagine the amount of reduced demand required to reduce gas consumption as much as it has gone down? It must be huge.

**It's the ripple effect that will undo us all. Fewer people working, more foreclosures, less purchasing power. It affects every business.**

Of course, this is also a global issue: Imports and exports are declining, providing additional momentum to the downturn.

I hear some small business owners saying that they believe the bottom is near, that they are surviving, that they are OK, and that they expect to persevere throughout the recession with modest adjustments. These small business owners are kidding themselves. The bottom has not been reached, and it will be a long slide until it does. We are in for a five- to 10-year disaster. Everyone will be affected; every business will be reduced.

Plan, adjust, and prepare. Failure to do this will be at your own peril. There is no escape. Downsize; do your preemptive workouts. Market effectively and not only can you survive, but you can maintain profitability.

Failure to adjust will end in a slow death ... or maybe a rapid one.

## **Learning from the Greatest Entrepreneur of All**

I recently read the book *1776* by award-winning author David McCullough. If you are not familiar with it, it is the story of the first year of the American Revolution. During that year, the Continental



Congress commissioned Washington as the Commander in Chief of the Continental Army. In and of itself, his appointment was a leap of faith, as Washington had limited battle experience and none in small-skirmish or large-scale war strategy.

Worse yet, he had few experienced leaders capable of handling the men in the field. His troops were completely untrained and were equipped with few arms and little ammunition. The men came and went as they pleased, depending on weather and family needs at home. Sickness often disabled as many as one-third of his men at any given time.

Even worse, they were confronting the greatest army and navy in the world at that time, well trained and well armed. The British navy comprised 400 ships armed with hundreds of guns. The Revolutionary forces had no navy and few guns and were badly outnumbered by a ratio of 10 to 1.

In the winter, the Revolutionary forces had no tents and insufficient clothing and shoes to keep them dry and warm. It was, in a word, pathetic to consider this ragtag band of farmers, hunters, and a few aristocrats an army. It was an undisciplined, untrained, unarmed, unequipped band of passionate men who fought among themselves and had no idea how to conduct warfare.

Washington's strategies were most often wrong. His lack of experience led him into one defeat after another, and yet he persevered. That is the quality of an entrepreneur. The one characteristic used most often in reaching the desired goals—not experience, intelligence, or skill, but perseverance. An entrepreneur refuses to lose, rejects defeat, insists on reaching the goal no matter how slim the odds or likelihood of victory.

The Revolutionary leaders bet everything they owned, including their lives. They gave up their families, power, wealth, and comfort to battle against the most formidable force in the world, knowing that should they lose the war and survive, they would all surely hang. Yet, against the most impossible odds imaginable, they persevered.

This is the true hallmark of an entrepreneur, perseverance, and George Washington demonstrated this trait to the greatest degree. When the going gets tough, we can all take a lesson from Washington as the ultimate entrepreneur. He gave birth to the most amazing business the world has ever seen against the most severe odds any entrepreneur ever bet against, and he won, giving life to America.



When your situation seems grim, and the challenge is seemingly impossible, too difficult to go another day, remember George Washington and his perseverance. Then do it. Persevere. He won so we could enjoy the freedom to fight our own battles safely and securely. We can never give up, or we will be dishonoring his entrepreneurial victory.

## How Long Will This Recession Last?

There are many conflicting opinions regarding the length and depth of this so-called recession and the difficulty it will cause us all. The world financial markets will have a huge impact on our recovery, as they too have a tremendous impact on what happens in our financial markets. Academics and the economists hedge their bets, some suggesting that this recession will last at least through 2012, but they say this also depends on what actions our government takes to shorten it. Others say it is a 10-year trough, with small incremental growth after we eventually bottom out.

**Academics and economists hedge their bets, some suggesting that this recession will last at least through 2012, but they say this also depends on what actions our government takes to shorten it.**

Unfortunately, I agree with the second opinion about a long-term change in the economy for the following reasons. Unemployment will continue to rise as more and more jobs will be eliminated. According to a CNN Money news report,<sup>1</sup> “The hemorrhaging of American jobs accelerated at a record pace at the end of 2008, bringing the year’s total job losses to 2.6 million or the highest level in more than six decades.” And there is much more shrinkage coming. Once gone, rebuilding the workforce to reflect the previous economy either will take a long time to accomplish or, in all likelihood, will never happen. Once gone, gone forever. Different people will be filling different jobs during the recovery, and this will take time. I believe the financial downspin can be reversed in a few years, but it will take five to 10 years to rebuild to where we were at the first point of decline.

Further, the second influence, which will help determine the duration of the recession, is the recovery of the world’s financial markets.