

Despite new highs on Wall St., small business USA continues to experience survival challenges. Keep in mind, this is the same small business that is the economic growth engine of the country. New companies the size of General Electric do not sprout overnight. All business was once small business.

One of the challenges continually faced by small business is dealing with creditors. Unlike a large company, the small business cannot afford to swing and miss very often, if at all, since their cash flow position is often at the margin. I recently encountered a business that was delinquent on rent and sales taxes and was about to be sued by another company for services rendered. Another owner said to me, "that company nearly knocked us out" when their supplier's product proved unreliable. This company was being sued by their supplier for non-payment. The problem was that supplier indirectly caused the non-payment. In both of these cases, the juggling act eventually led to legal action, which unfortunately is becoming more common.

Before non-payment leads to legal action, some small companies react by paying the creditor who makes the most noise or is the most persistent. While that might alleviate the immediate stress, it may not ultimately help the small enterprise by utilizing cash flow most effectively. Prioritizing debt repayment thus emerges as yet another skill required by small business. I suggest devising a plan to create these priorities. Consider the following factors:

1. How many days is the debt past due?
2. Has a collection notice been issued by the creditor?
3. Is a collection agency assigned?
4. Has a civil action been initiated?

Of greatest importance in this analysis is TIME. At each point in this continuum, the business owner will have progressively less time. If the debt is overdue by 90 days, the situation is starting to get warm. By the time of civil action initiation, the kettle is boiling. Even if a lawsuit has been filed, the defendant may not be served with the suit for a week or longer depending on local conditions. At that juncture, the 30-day clock starts to respond to the suit. Failure to respond could lead to a judgment in favor of the creditor and the potential for garnishment and asset seizure.

When creating the plan to manage debt priorities it is vital to identify the business impact of each.

1. How important is the relationship with the supplier?
2. If the supplier relationship were severed, could another supplier serve as a suitable replacement?

3. What laws exist in your state regarding landlord/tenant relationship? What does your lease say?
4. How strict are utilities in your area?
5. How does your city or state tax authority handle delinquencies?

The juggling of priorities, not just debt priorities, is an ever-present challenge for small business. Once the business prioritizes its debt obligations, it should formulate the plan and begin dialogue with creditors. If the plan reveals challenges regardless of how debts are prioritized, it may be the moment to ask for professional assistance from a debt restructuring consultant. The ultimate goal is to preserve the business.

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