

Tips to Avoid Small Business Bankruptcy

[Tweel](#) [in Share](#) 7 [Like 11](#) [Share](#) [G+1](#) 2

Highlight text anywhere on this page to tweet it.



If you've started a small business, the onset was likely filled with optimism and excitement. As you became immersed in the day-to-day, the reality of running it set in. As a small business, you deal with personnel complaints, pay overhead expenses, and strive to turn a profit. If your business isn't prospering as you'd anticipated, you could be facing mounting expenses

and shrinking profits, feeling that you're in-over-your-head, and considering bankruptcy. But before you file, consider these options that might help:

Make management changes

If you're in trouble, a change in management could help you revitalize the company, improve your business' standard procedures, and increase profits. Often, fresh eyes will spot problems that the current management may not recognize. If you are the one heading up management, it can be helpful to hire or promote someone else. While it's difficult to watch someone else manage your business, their lack of personal investment could allow them the courage to make necessary changes.

Renegotiate everything

Renegotiate leases, contracts with vendors, and loans to get terms that will better increase your cash flow and decrease your debt. If you let your business partners know that you are considering bankruptcy—which makes it difficult to impossible for debtors to collect on money owed—they may offer extensions or more favorable terms to give you the break you need. Vendors may be willing to sell you supplies on a consignment basis.

Lengthening payment terms from vendors and shortening payment terms for customers can increase your cash flow. Equally, consolidating loans can reduce your payments, decrease your interest rates, and give you some breathing room.

Institute big cuts

If bankruptcy is looming, now is the time to make drastic cuts. Reduce your staff (or replace full-time staff with part-timers), consider a less expensive location, and examine every single expense that is leaking money out of your business. If you don't cut costs, you could lose it all. Be bold and make necessary changes.

Sell things

Liquidate assets that are not essential to your business. Consider selling your real estate in the trendy part of town and renting a less desirable property instead. You might even sell off branches of the business so that the its core can become stronger.

Bring in a consultant

Some consultants specialize in turning around failing businesses. Sure, a consultant will require an outlay of cash, but it may be an worthwhile investment if they can identify exactly the problem and how to fix it. For instance, a consultant might see ways for you to tap into new markets or to reduce your cost of goods.

The consultant may propose debt restructuring, which allows you to reorganize your business debts and thereby make it more manageable for your company to pay creditors. For example, the consultant might propose a debt-for-equity swap, in which your creditors accept a stake in your company in lieu of payment. This could save you from bankruptcy, but a debt-for-equity swap is a complicated transaction, so you'll want to have a business attorney review the details.

Hire an accountant

Many small businesses operate without an accountant. Unfortunately, this can be a fatal mistake. You may be great at running the nuts-and-bolts of your business, but you might not be the right person to run the numbers. Hiring a professional accountant, even on a part-time basis, could reveal necessary changes to get the business' finances back on track.

Liquidate the business

If you just can't find a way to save your business, you may be able to resolve your debts and avoid bankruptcy by selling off the business and/or its assets. You and your creditors may be able to come to a settlement together that satisfies *enough* of your debt so that your creditors wouldn't benefit from suing you. If you can sell the business and walk away without debt, you'll sleep better at night, and have a better chance to try again.

Facing financial troubles in your small business is unpleasant, but it could help your business acumen in the long-run. If nothing else works, find a bankruptcy and debt lawyer to discuss bankruptcy options.

Brette Sember is a former attorney and author of more than 40 books, including The Divorce Organizer & Planner, The Complete Divorce, and How to Parent with Your Ex. She writes often about law, parenting, food, travel, health, and more. Brette also writes for AvvoStories, brought to you by Avvo, the leading online legal marketplace connecting consumers and lawyers. Avvo's free Q&A forum with more than 9 million questions and answers, along with on-demand legal services that provide professional counsel for a fixed cost, make legal faster and easier.