7 Steps to Reduce Business Debt in 90 Days

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When smaller businesses undergo a slowdown like the one many are currently experiencing (not that there's any precedent for this specific circumstance), owners often target increasing their sales as a primary strategy to reinvigorate their profit goals.

Debt reduction, potentially a more achievable step to healthier net profits, is often a secondary consideration, but a focus on recurring debt can provide for significant long-term benefits in operation of an efficient organization, freeing up both money and resources for other, more profitable endeavors.

When company owners begin the process of reducing corporate debt, they should also consider opportunities for reduction of personal debt obligations in tandem. Often a business owner's ability to leverage additional capital is also dependent on their personal debt-to-income ratio. If perceived as being potentially unable to repay their personal obligations on schedule, doubt may be introduced into the overall solvency and stability of the company and its debt responsibilities.

Related: How Should Entrepreneurs Manage Their Debt?

Here is a step-by-step process that I utilize to support debt reduction for businesses.

Step 1: Identify ‘good’ versus ‘bad’ debt

The first critical step is to review a company’s balance sheet for outstanding debt, with a precursor understanding that not all of it should be considered bad. For example, if a company has a significant amount of liability associated with the ownership of an office space, that could be considered good debt due to the long-term benefit of potential appreciation and taxable offset opportunities. If a large portion of a company’s current debt is associated with revolving credit not backed by collateral (e.g. credit cards), that is likely something to identify.

Step 2: Tackle the current debt aggressively

Quite often, small businesses may have an overreliance on credit cards to push through a cash-flow deficit. Documenting liabilities by monthly payment and percentage charged with a focus on prioritizing largest percentage items first is ideal. For example, I had a recent experience supporting a company that had 20 credit cards in active use, some with an annual percentage rate (APR) as high as 25 percent. After several months of diligent focus, they managed to eliminate all the credit cards with interest rate of 10 percent or greater and increase their cash flow.

Step 3: Take on new debt strategically

Adding debt can be a positive decision if it will push your company towards its strategic goals. As an example, many small enterprises in 2020 were approved for the Economic Injury Disaster Loan (EIDL) loan that the SBA offered for businesses

impacted from Covid-19. Even though the EIDL is a loan, it is interest-free loan for the period of one year. With that, companies are able to leverage the loan to pay off debt with the plan prior to interest being incurred. This can serve as a very advantageous means of cross-leveraging debt, while not taking on additional ongoing burden.

Step 4: constantly monitor your credit usage

Numerous tools exist for the purpose of effectively managing credit and monitoring your score with the credit-reporting agencies. One such example, CreditKarma.com, not only monitors your score, but will highlight the metrics used to generate those scores, such as credit being used versus credit available. As a general guideline, business owners need to target usage under 9 percent, which will influence a stronger personal rating from the reporting agencies.

Step 5: Build relationships with lenders

There is no single option when choosing a funding source. Lenders are always vying for new customers and will market new prospects aggressively. It’s critical that companies perform adequate due diligence before selecting a partner and, once committed, spend the time to nurture the relationship. In fact, a community credit union often offers comparably comprehensive services and support capabilities as large banks, and they are committed to building a long-term partnership based on personal relationships. These relationships can provide timely insights into non-obvious options for debt restructuring, loan servicing optimizations and more.

Step 6: Renegotiate or rethink your existing debt

An economic downturn is often an opportune time to renegotiate your existing debt. Lenders are more open to restructuring loan payments or resetting an interest rate in line with federal rate guidance, and they will likely have access to programs aligned to support the current financial reality.

Step 7: Consider grants

Loans are not the only means of additional funding. Often, if a company is scaling their team and providing benefit to development of the local community, there are likely grants available from regional organizations focused on economic development. While grants have certain stipulations in order to qualify, these can provide a needed influx of funding or offset debt that would be accrued elsewhere in the organization. One specific example is Indiana's Next Level Job Program, which offers local employers up to $100,000 if they commit to training new or existing employees with approved educational certification in high-demand skill domains.

Debt need not be an overly burdensome aspect of your business's financial reality, but it does need to be managed with some guardrails on ongoing management and appropriate types and areas of application. With these steps being applied, it can be a positive, functional part of achieving your business goals.

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