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Voices: Patrick Ross, Sequester Lessons for Advisers

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Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Patrick Ross is a certified public accountant and partner at Haskell & White, an accounting and business-advisory firm in Irvine, Calif.

Our firm serves small businesses and middle-market companies. We watched the recent sequester in Washington and think that there are a lot of parallels between the sequester and what happens when small businesses have to cut costs. Specifically, we recognized the knee-jerk reaction in Washington during a budget crisis to make cuts across the board as something that a lot of our clients do.

This isn't always the best strategy, whether you are the American government or a small business. And I think there are some lessons to be learned from the sequester that all advisers can pass on to their clients.

It's human nature to do something when faced with a problem, even if short-term gains might have an unforeseen long-term impact. After a small business is faced with reduced revenue, from the loss of a key customer, for example, the first reaction can be to cut the budgets across the board without taking a thorough look at how the cuts affect each part of the business or departments.

There is no one-size-fits-all plan, but the first thing advisers can do is have conversations with their clients early about will happen when they need to make budget cuts. Make sure that it's written down so that if cuts have to be made the client can jump into action.

Also small-business owners need to have access to capital to cover lost revenue. This often means making sure the client has a strong relationship with their bank. Clients should establish good credit while the business is healthy. That way when they need help the relationship will already be in place.

When it comes time to cut the budget, rather than making large butcher cuts, advisers should help clients make smaller scalpel cuts in the areas that are actually losing money. Often clients will be afraid of touching the "sacred cows," departments that might be considered untouchable. We saw that with the government not being willing to touch entitlement programs such as Social Security. Advisers should help business owners recognize when their sacred cows should be subject to scrutiny as well.

It can be against the entrepreneurial spirit of small business to look for outside help, but advisers should encourage their clients to do so. Whatever problem they're facing, whether it's market loss or product obsolescence, there's someone out there who has faced the same problem and made it through the other side. So they should not be afraid to ask colleagues or outside professionals, advisers, or consultants for help.

Finally, advisers should check in periodically with their small-business clients to make sure any plans are updated. While advisers shouldn't be afraid to ask tough questions, ultimately they have to make sure that the plan is the client's own, or the client will never be completely on board. In the end, it's about maintaining a dialogue and encouraging clients to constantly think about what they're going to do when there is a loss of revenue and tough cuts have to be made.