

How to Successfully Navigate Your Business through an Economic Downturn

By Terry H. Hill

1

An economic downturn is a phase of the business cycle in which the economy as a whole is in decline. This phase basically marks the end of the period of growth in the business cycle. Economic downturns are characterized by decreased levels of consumer purchases (especially of durable goods) and, subsequently, reduced levels of production by businesses.

While economic downturns are admittedly difficult, and are formidable obstacles to small businesses that are trying to survive and grow, an economic downturn can open up opportunities. A well-managed company can realize the opportunity to gain market share by taking customers away from their competitors. Resourceful entrepreneurs capture the available opportunities, from an economic downturn, by developing alternate methods of doing business that were never implemented during a prior growth period.

The challenge of successfully navigating your business through an economic downturn lies in the realignment of your business with current economic realities. Specifically, you, as the business owner, need to renew a focus on your core clients/customers, reduce your operating expenses, conserve cash, and manage more proactively, rather than reactively, is paramount.

Here are best practices that will help you to successfully navigate your business through an economic downturn:

Goals:

The primary goal of any business owner is to survive the current economic downturn and to develop a leaner, more cost-effective and more efficient operation. The secondary goal is to grow the business even during this current economic downturn.

Objectives:

- Conserve cash.
- Protect assets.
- Reduce costs.
- Improve efficiencies.
- Grow customer base.

Required Action:

- **Do not panic...** History shows that economic downturns do not last forever. Remain calm and act in a rational manner as you refocus your attention on resizing your company to the current economic conditions.
- **Focus on what YOU can control...** Don't let the media's rhetoric concerning recessions and economic slowdown deter you from achieving business success. It's a trap! Why? Because the condition of the economy is beyond your control. Surviving economic downturns requires a focus on what *you can control*, i.e. your relevant business activities.

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2

- **Communicate, communicate, and communicate!** Beware of the pitfall of trying to do too much on your own. It is a difficult task indeed to survive and to grow your business solely with your own efforts. Solicit ideas and seek the help of other people (your employees, suppliers, lenders, customers, and [advisors](#)). Communicate honestly and consistently. Effective two-way communication is the key.
- **Negotiate, negotiate, and negotiate!** The value of a strong negotiation skill set cannot be overstated. Negotiating better deals and contracts is an absolute must for realigning and resizing your company to the current economic conditions. The key to success is not only knowing how to develop a win-win approach in negotiations with all parties, but also keeping in mind the fact that you want a favorable outcome for yourself too.

Recommended Best Practice Activities:

The Nuts and Bolts... The following list of recommended best practice activities is critical for your business' survival and for its growth during an economic downturn. The actual financial health of your particular business, at the outset of the economic downturn, will dictate the priority and urgency of the implementation of the following best practice activities.

1. **Diligently monitor your cash flow:** Forecast your cash flow monthly to ensure that expenses and planned expenditures are in line with accounts receivable. Include cash flow statements into your monthly financial reporting. Project cash requirements three-to- six months in advance. The key is to know how to monitor, protect, control, and put cash to work.
2. **Carefully convert your inventories:** Convert excess, obsolete, and slow-moving inventory items into cash. Consider returning excess and slow-moving items back to the suppliers. Close-out or inventory reduction sales work well to resize your inventory. Also, consider narrowing your product offerings. Well-timed order placement helps to reduce excess inventory levels and occasional material shortages. The key is to reduce the amount of your inventory without losing sales.
3. **Timely collection of your accounts receivable:** This asset should be converted to cash as quickly as possible. Offer prompt payment discounts to encourage timely payments. Make changes in the terms of sale for slow paying customers (i.e. changing net 30 day terms to COD). Invoicing is an important part of your cash flow management. The first rule of invoicing is to do it as soon as possible after products are shipped and/or after services are delivered. Place an emphasis on reducing billing errors. Most customers delay payments because an invoice had errors, and therefore, will not pay until they receive a corrected copy. Email or fax your invoices to save on mailing time. Post the payments that you have received and make deposits more frequently. The key is to develop an efficient collection system that generates timely payments and one that gives you advance warning of problems.
4. **Re-focus your attention on your existing clients/customers:** Make customer satisfaction your priority. A regular review of your customers' buying history and frequency of purchases can reveal some interesting facts about your customers' buying habits. Consider signing long-term contracts with your core

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By Terry H. Hill

3

clients/customers which will add to your security. Offer a discount for upfront cash payments. The key is to do what it takes to keep your current customers loyal.

5. **Re-negotiate with your suppliers, lenders, and landlord:**

- i) **Suppliers:** Always keep your negotiations on the level of need, saying that your company has reviewed its cost structure and has determined that it needs to lower supplier costs. . Tell the supplier that you value the relationship you have developed, but that you need to receive a cost reduction immediately. Ask your supplier for a lower material price, a longer payment cycle, and the elimination of finance charges. Also, see if you can buy material from them on a consignment basis. In return for their price concessions, be willing to agree to a long-term contract. Explore the idea of bartering as a form of payment.
- ii) **Lenders:** Everything in business finance is negotiable and your relationship with a bank is no exception. The first step to successful renegotiations is to convince your lenders that you can ultimately pay off the renegotiated loan. You must point out to your lenders why it would be in their best interest to agree to a new arrangement. Showing them your [business plan](#) and your action plan that includes your cost-savings initiatives, along with "the how" and "the when" of the implementation of your plan is the best way to achieve this goal. Explain to them that you will need their cooperation to insure that you can survive, as well as, grow your business during the economic downturn. Negotiated items include: the rate of interest, the required security to cover the loan, and the beginning date for repayment. A beginning date for repayment could be immediate, within several months or as long as a year. The key is to realize that your lender will work with you, but that frequent and continual communications with them is critical.
- iii) **Landlord:** Meet with your landlord. Explain your need to have them extend the term of your lease at a reduced cost. Make sure you have a clause in the lease agreement that entitles you to have the right to sublet any or all of the leased space.

6. **Re-evaluate your staffing requirements:** This is a very critical area. Salaries/wages are a major expense of doing business. Therefore, any reduction in the hours worked through work schedule changes, short-term layoffs or permanent layoffs has an immediate cost saving benefit. Most companies ramped up hiring new employees in the good times, only to find that they are currently overstaffed due to slow sales during the economic downturn. In terms of down-sizing your staff, be very careful not to reduce your staff to a level that forces you to skimp on customer service and quality. Consider the use of part-timers or the current trend of outsourcing certain functions to independent contractors.

7. **Shop for better insurances rates:** Get quotations from other insurance agents for comparable coverage to determine whether or not your present insurance carrier is competitive. Also, consider revising your coverage to reduce premium costs. The key is to have the right balance-to be adequately insured, but not under or over insured.

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8. **Re-evaluate your advertising:** Contrary to the other cost-cutting initiatives, evaluate the possibility of increasing your advertising expenditures. This tactic realizes the advantage of the reduced "noise" and congestion (fewer advertisers) in the marketplace. The downturn period a great opportunity to increase brand awareness and create additional demand for your product/service offerings.
9. **Seek the help of outside advisors:** The use of an advisory board comprised of your CPA, attorney, and **business consultant** offers you objectivity and provides you with professional advice and guidance. Their collective experience in working with similar situations in past economic downturns is invaluable.
10. **Review your other expenses:** Target an across-the-board cost-cutting initiative of 10-15%. Attempt to eliminate unnecessary expenses. Tightening your belt in order to weather the downturn makes practical, financial sense.

Proactively managing your business through an economic downturn is an enormous challenge and is critical for your survival. However, through well-planned initiatives, an economic downturn can create tremendous opportunity for your company to gain greater market share. In order to take advantage of this growth opportunity, you must act quickly to implement the above best business practices to continue realigning and resizing your company to the current economic conditions.

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