

Recession!

Now that we've all said it, what do we do now?



While it appears the U.S. economy may currently be in recession, not all businesses will be affected in the same way. In certain industries, businesses may experience a decrease in revenues, while businesses in other industries could continue to grow. Regardless, there are steps that all businesses can take to prepare for a potential slowdown, as most businesses will be affected directly or indirectly by the prevailing economic conditions. The magnitude of the preparatory steps that should be taken will generally depend on the trends of your industry's lead indicators and its projected impact on your company's financial performance.

During a recession, access to cash is

critical. Without liquidity, a business cannot function. In order to ensure access to cash, companies should take steps to strengthen their balance sheets. A business can build cash reserves by deferring dividends and distributions and/or terminating all non-critical projects. To avoid unexpected write-offs, companies should manage receivables more closely. This is especially true if your clients and customers are in industries that have been negatively affected by the slow down. Companies should keep their borrowing down in order to leave room for additional debt that may be needed to help a company manage through a tough spot. Each year, as your line of credit renews, it is usually a good

idea to increase your limit to include a buffer above your borrowing needs for the next year. You can also gain access to cash by renegotiating your company's credit terms with vendors. Each of these steps will help your company increase its access to cash:

- Defer unnecessary dividends or distributions
- Manage credit policies and receivables more closely
- Maintain a lower than normal debt to equity ratio to allow for future borrowing
- Keep extra room on your line of credit
- Extend your terms with vendors

Be aware that the steps listed above are only a temporary fix if the core of your business is not sound. Diversification can be a key step toward reducing the risk of an economic slowdown and how it will affect a company's growth. Companies with a diverse product and service offering will have a better opportunity to attract more clients than companies that are focused on a few products or services. This is especially true if these few products or services are provided to clients in a hard hit sector of the economy. Additionally, a company should look to diversify its customer base. It can accomplish this by increasing the number of customers it serves and by looking for customers in areas of the economy that are stable or still growing.

Sometimes, you do not have to look too far to find a solution to a slowdown. Try to improve your customer relationships. Maintaining or even growing your current customer base during a downturn is critical.

The following steps can help you in



keeping the business you have:

- Find new ways to add value to existing clients
- Offer superior customer service
- Ask for referrals
- Ensure your pricing is competitive

When your current client base is stable, make sure that your target market still knows you are there! It's critical that you keep marketing your services and products. Without sales and marketing, clients in need of your services will not be able to find you. Try to find cost effective ways to keep in front of your target market. These include your website, email marketing, postcards, and networking.

While times are good, growing revenue can cover up excessive spending and mismanagement. As revenue growth slows down, expense management is critical to maintaining a company's profitability and viability. As you are examining your expenses, keep an eye on your company's trends in gross margin and profit margin and address any significant drops in these area immediately.

- Review all discretionary expense items closely
- Cancel or suspend low priority projects
- Renegotiate vendor terms
- Review and react to changes in the labor market
- Employ labor saving technology to reduce costs or consider outsourcing non-core functions

The most important rule to remember when running a business during a recession is to keep your doors open. The real winners are the companies that are open and ready to grow during the next rally. If you are fortunate enough to be able to grow through the recession, that's icing on the cake.

Source: Ted Rose is the President of Rose Financial Services, based in Rockville, MD. If you have any comments or questions, he can be reached at info@rosefinancial.com or 301.527.1130.

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