RECESSION-PROOFING YOUR BUSINESS

By Phillip M. Perry

Editor's note: Door and access businesses should be proactive and make thoughtful changes to help mitigate the ravages of a recession. Learn clear and effective steps to fix underperforming business segments, maximize employee potential, and renegotiate outstanding loans in this story.

The business world is teetering on the edge of a recession. "We are seeing evidence that the economy is slowing down," said Anirban Basu, chairman and CEO of Sage Policy Group. "Retail sales and industrial production are falling. Layoffs are occurring at companies such as Microsoft, Peloton, Twitter, and Amazon."

The not-so-secret force driving the economic crisis is the Federal Reserve's moves to raise interest rates — a proven cure for inflation that, unfortunately, also dampens business growth. Recessions tend to quickly gain force once they begin, as commercial enterprises shift from chasing demand to cutting costs. History shows that organizations taking swift remedial action rebound faster once hard times recede.

Take stock

What are the best managerial moves in the face of a recession? The current recession is more complex than usual, with businesses getting squeezed from two directions. From the revenue side, a decline in receipts means less cash to cover expenses. From the cost side, increasing prices are punching up operating expenses.

"Over the past six months or so we have seen a rise in the cost of materials and delays in construction and customer payments in the door and access industry," said Josef Roberts, founder of E Squared Consulting in Atlanta. "Distributors and dealers are buying materials that are much more expensive than before. And delayed receipts are exerting their own pressures. The result is a cash squeeze."

For door and access businesses, this unusual dynamic has created a treacherous operating terrain. "A recession is much more dangerous when it is combined with inflation, since prices are going up at the same time that revenues are coming down," said Oded Koenigsberg, deputy dean at the London Business School.

Turn inward

Consultants advise casting a bright light on internal operations. "Now is the time to get under the hood and examine the individual components of a business," said Travis W. Harms, president of Mercer Capital. "Inefficiencies have almost certainly arisen during the post-pandemic boom. When times are good, managers tend to focus externally on generating revenues and delivering on obligations. It's all too easy to let operations get a little bit flabby. Then, when the tide goes out, problems are exposed."

While the knee-jerk reaction is to cut costs, that too often retards future profits. "When the economy turns down and companies lack sufficient cash, they all of a sudden are tempted to let go of core assets they really should hold onto for the long run," said Basu. "The temptation is to cut too deeply."

A better course is to analyze the dynamics of any problem segments, then make adjustments to enhance profitability. Only if they seem unsavable should they be eliminated.

Collect receivables

Another important step is to raise operating revenue. "In a time of economic weakening, the key is cash," said Basu. "Cash can get you through anything." Accelerating the sale of stale inventory and extending accounts payable are proven tactics. Perhaps the most effective step is to accelerate the collection of accounts receivable, said Harms. "Start calling folks who are past due."

Reaching out to customers can bring a side benefit, said Sam Brownell, founder of Stratus Wealth Advisors. "You get to know people a little bit better, and maybe you can work something out with them that strengthens your relationship going forward."

Another proven tactic is to repackage goods and services into bundles more closely aligned with customer needs. "There are very few products and services that come as-is without being part of a bundle," said Koenigsberg. "When we buy an airline ticket, we get not just transportation but also food, baggage handling, and service on the plane and in the terminal."

The same goes for your products and services. Can longer lead times be exchanged for lower prices for customers in need of discounts? Can you offer free delivery for long-term purchase agreements?

Rank your customers

Not all customers are created equal. Now is the time to assess the profitability of each one. "Especially when heading into a recession, it's important to rank your customers in terms of quality factors," said Brownell. "We suggest making a list of customers in an Excel spreadsheet. Then, start asking critical questions about each customer:

continued on page 52

continued from page 50

1. Which customers tie up the least number of resources?
2. Which customers are willing to be flexible if, for example, supply chain disruptions mean they can't get exactly what they need?
3. Which customers are the most loyal?
4. Which customers pay on time?
5. Which customers are the most price sensitive?

Rate each customer from 1 to 10 on each factor. Then figure out how to do more business with the customers who get the highest scores.

Cut expenses

Underperforming fixed assets can be another source of funds. "It's not uncommon for a business to accumulate non-operating assets during good times," said Harms. Examples include vehicles, inventory, property, and equipment (such as forklifts). "See if you have some stuff sitting in the back lot tying up capital, along with requiring payments for licensing and insurance and fuel," said Harms. "Maybe it's time to sell it."

While cutting too deeply can harm a company, some attention must be paid to reducing any expenses that have been allowed to grow too high during good times. "It's good to focus not just on the amount of expenses but also the structure of your expense base," said Harms.

"Are your costs primarily fixed or variable? If the former, that is supportable when things are going well. But a recession is an opportunity to reconsider. Can you convert some fixed costs into variable ones, reducing your expense base accordingly?"

For example, "Do you have long-term leases you may not need? Is there a way for you to adapt a more flexible approach where you're not being locked so much into long term payments?" Renegotiating may mean more expense in the short run, but more management flexibility in the long run.

Retain top performers

Brownell said to make sure you've got the right employees in the right places and determine who is critical to the operations of your business. "Who are your vital cogs? Who could you not get along without? Who are the people who can perform cross discipline tasks in the event of a reduction in force? Those are the people you want to shore up now, and make sure that they feel valued, and they know that you're going to stick with them."

It's more important than ever to retain your "A Players" in this tight labor market. Palisin said, "Retention has been an ongoing issue for the last couple of years. You need to make sure you have a stable workforce, and that your company culture helps to retain your best people."

Your top employees can be a source of innovation and even cost savings. "People on the front lines see things that those in the front office don't," said Palisin. "So, it's important to solicit their ideas, empower them, and make sure they have the opportunity to contribute."

Present career opportunities

Companies can also increase employee loyalty by offering clear career paths. Provide opportunities for people to find more value in their work and to move forward. Be honest with the current challenges of the company. Acknowledge that there may be need for some sacrifice, including foregoing bonuses or reigning in the company credit cards. "That kind of forward planning will make you feel more in control of the situation as opposed to just sitting there and getting buffeted by these exogenous economic factors," said Harms.

Try and identify underperformers. "During the post-pandemic recovery period, many firms staffed up massively in their efforts to chase demand," said Basu. "But some of those workers have not been performing as well as one might have wanted. That's the kind of worker that probably could be let go to help raise cash flow today to preserve fiscal health tomorrow."

Consult bankers

Tough times require a fresh outreach to primary lenders. "Now would be a great time for any business using any type of financing, whether it's longer-term debt or a line of credit, to reach out to their banker and have a conversation about what can be done in the event of a downturn," said Brownell.

Some questions to explore: Can interest rates be locked in? Can lines of credit be extended? Can monthly payments be reduced? "The whole idea is to ensure continuing access to capital. You don't want to be surprised by your bank reducing your line of credit because of changes in your P&L (profit and loss)."

Take special care that your changing profit picture does not inadvertently violate the terms of any outstanding loan agreements. "Maintaining a dialog with existing lenders is critically important in a recession, because some loan document ratios may be affected," said Palisin. "Bankers need to know where you stand financially and what's going on with your company."

Prudent companies also create a Plan B for funding sources. "Having alternative sources of financing in place can be helpful to facilitate mergers," said Palisin. "But companies need to do their homework. Some of the alternative financing sources can be expensive, especially in a high interest rate environment."

Seize opportunity

Successful enterprises see economic downturns as opportunities to solidify and increase their market presence. "Businesses need to focus not only on how to get through a recession, but also on how to be stronger coming out of it," said Harms. A close look at the competition can uncover opportunities that will strengthen a company over the long term, he added. Is a market sector being abandoned by a competing enterprise?

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Finally, strong enterprises can take advantage of opportunities to absorb weaker ones, said Palisin. "For companies with strong cash flows and healthy financial ratios, it can be financially feasible to look into potential mergers and acquisitions."

The key to success is to remain healthy during a recession so you can take advantage of the opportunities that arise when the economy recovers, said Roberts. "The most successful companies in a downturn will be those that execute the best."

continued on page 54

continued from page 52

TEST TIME

ARE YOU PREPARED FOR A RECESSION?

Find out by scoring 10 points for every "yes" answer to the following questions. Total your score and check your rating at the bottom of the quiz.

1. **Have you examined internal operations and shored up underperforming business segments?**
2. **Have you taken a fresh look at accounts receivable and contacted late-paying customers?**
3. **Have you ranked your customers in terms of qualities such as sales volume, term flexibility, and loyalty?**
4. **Have you rebundled goods and services to better meet the needs of customer segments?**
5. **Have you identified "lazy capital" in underperforming assets, such as inventory, vehicles, and property?**
6. **Have you identified fixed assets that can be converted to variable ones?**
7. **Have you looked at each variable cost through a lens of reducing its impact on the bottom line?**
8. **Have you invited your employes to contribute ideas for increasing profits in recessionary times?**
9. **Have you reached out to your banker to explore more favorable financing terms?**
10. **Are you monitoring the activity of competitors to spot new market opportunities?**

WHAT'S YOUR SCORE?

80 or more: Congratulations! You have gone a long way toward buffering your business against the ravages of a recession.
Between 60 and 80: It's time to retool your operations to prepare for a downturn.
Below 60: Your business is at risk. Take action using the suggestions in the accompanying story. ■