



RECESSION

sales - best month

Preparing Your Business For a Recession

A recession is a period of negative economic growth over at least two quarters and can be challenging for many businesses. However, business owners can take steps to prepare for a recession and position their companies for growth as the economy recovers. This document covers six tips to help you and your business prepare for a recession.

Update your accounting and projections

Up-to-date accounting records and financial projections are essential for navigating a business, especially through a recession. Unfortunately, many business owners fail to keep financials and projections updated when times are good. Thus, the first step is updating accounting records, revisiting financial projections, and formulating a plan.

Closely review historical financial statements, especially the income statement and transaction detail. Identify unnecessary expenses that can be reduced or cut altogether.

Use your recent actuals to create or update income statement projections and create a model to test different scenarios. Consider what might happen if sales decrease by various amounts or if certain costs grow due to inflation.

Create cash flow projections to identify risks and potential future needs. Look for opportunities to improve cash flow from operational, investing, and financing efficiencies such as better collections, improved payment terms for vendors, more efficient inventory, and greater credit availability.

Finally, create balance sheet projections to see how your assets and liabilities might be affected. Pay close attention to how balance sheet and cash flow ratios might affect any existing debt covenants and the company's ability to access additional debt.



Improve collections

Focusing on accounts receivable can result in significant positive cash flow for most companies. It's especially important to reign in receivables if your business carries any debt. Overdue receivables have a higher risk of collection and can cause a business to use available credit and incur unnecessary interest expense.

Assess past due accounts receivable and focus on collections while the economy is still strong and customers can pay. Consider whether certain receivables should be written off for tax savings and whether you should re-evaluate certain client relationships. If a customer is having trouble paying during a normal economy, they'll probably have a tough time paying during a recession.

If you have excessive past-due receivables, then reassess your internal policies and procedures. The clean-up of your accounts receivable should not be a one-time effort - procedures should be in place to keep all receivables current on an ongoing basis.

Increase your line of credit

Banks are more willing to lend money when you don't need it and less inclined when you actually need it. For this reason, consider securing or increasing your line of credit now while not in a recession. This can provide you with the financial flexibility necessary to support operations if needed during a future downturn.

Cut expenses

Downturns force business owners to make the difficult decisions they may have been putting off. Your business has probably accumulated unnecessary expenses over the years, which tend to add up quickly. Now is the time to take an honest look at all expenses, including staff, that aren't necessary or providing a positive return on investment.



Automate where possible

Automation enables your business to do more with less. Automation helps to reduce costs by eliminating the need for manual labor. It can speed up processes and improve efficiencies. And finally, it can create a more consistent, high-quality experience for your customers.

Analyse which operational processes take excessive time, are redundant, or consistently cause operational problems. Could software, hardware, or process reengineering make it more efficient and consistent? There is a good chance you can find an automated solution for many time-consuming processes that can save money and provide a better customer experience.

Get close to your customers

Just as you might be reassessing your vendors and expenses, your customers may be reassessing you. Now is a great time to connect with each customer. Assess their satisfaction with your product or service, future needs, and any risks of losing them as a customer. Not only will this help to strengthen customer relationships, but it may also uncover additional needs you can fulfill.



Final Thoughts

Contact our office if you'd like help preparing and strengthening your business ahead of a potential recession.

We'd be happy to discuss your unique situation and how we can help you navigate a recession and create a strong foundation for future growth.



About Olsen Thielen

Olsen Thielen is a full service accounting and consulting firm, and a "Top 25" firm in Minneapolis and St. Paul, Minnesota. We focus on providing top quality solutions for our clients through our traditional accounting and tax services, as well as non-traditional services like valuations, business succession planning, employee benefits and human resources consulting, back-office cloud accounting solutions, estate, gift and financial planning, and fraud and forensic accounting.

Olsen Thielen was founded on the belief that personal attention, trust, and quality service were the key elements to helping our clients succeed. As we celebrate our centennial, that commitment remains stronger than ever. Our longevity and growth can be attributed to building strong relationships with our clients and continuing to earn their trust.



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