



**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 Jackson Thornton

Each day, the professionals and consultants at Jackson Thornton provide the resources and high quality business advisory accounting services that have forged decades-long relationships with clients across the Southeast.

From a “macro” view of strategic planning to a “micro” view of tax returns and audits, we look at your business’s big picture, ready to help assess your financial goals and develop plans to reach them. Through our business support accounting services, Jackson Thornton can determine the cost effectiveness of your business’s daily operations while developing a long-term strategy that both conserves resources and maximizes profits.

Another difference we offer: As with a smaller advisory accounting firm, you have the full attention and individual focus of those experts in the services you require. But, as with a larger corporate firm, you have the broader depth of experience of our coalition of industry consultants, specialists and accountants – in case you need more than one expert to get a job done.



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