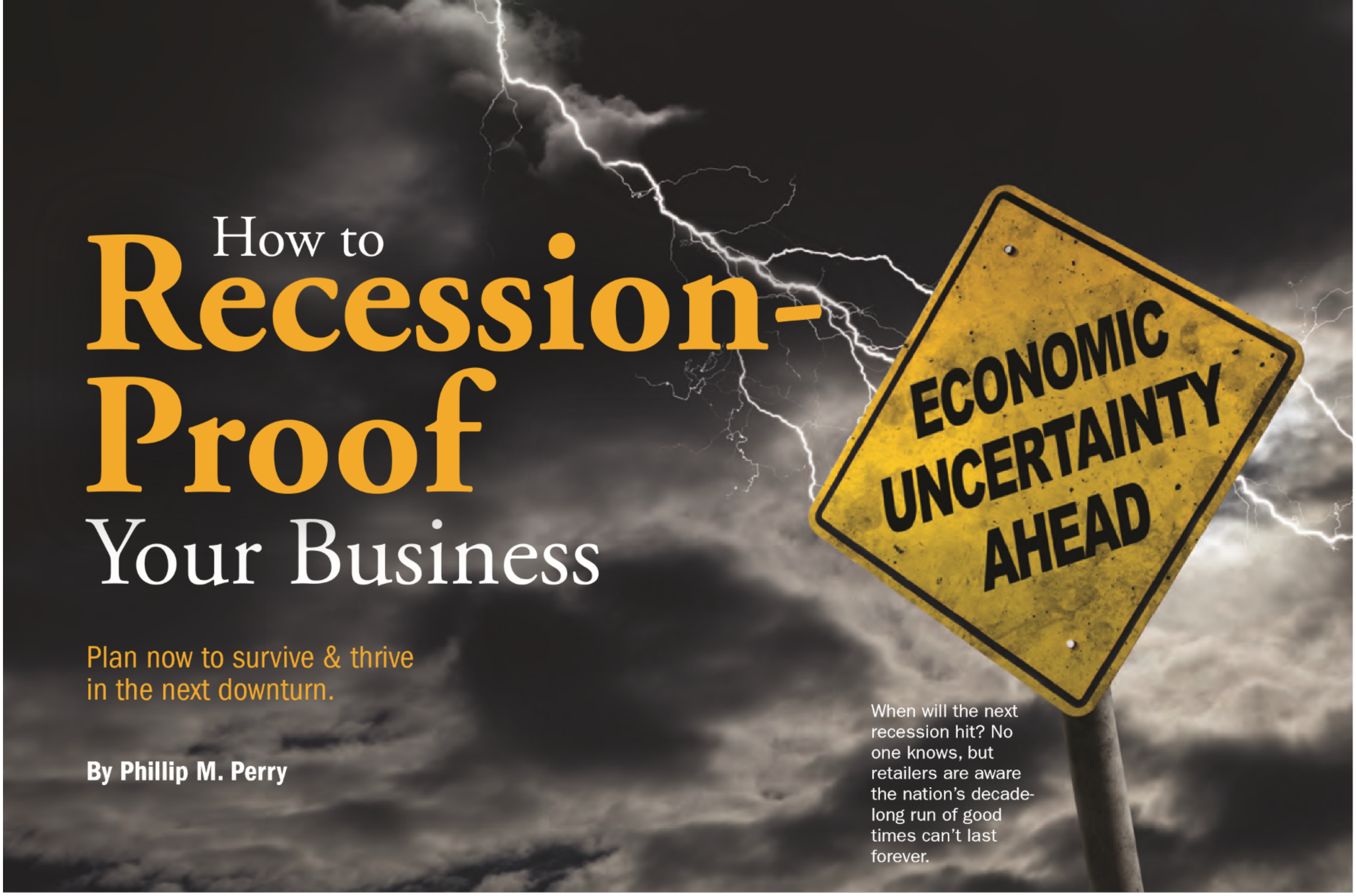


How to Recession-Proof Your Business

Plan now to survive & thrive in the next downturn.

By Phillip M. Perry

When will the next recession hit? No one knows, but retailers are aware the nation's decade-long run of good times can't last forever.

When will the next recession hit? No one knows, but retailers are aware the nation's decade-long run of good times can't last forever.

Two-thirds of the nation's chief financial officers expect the United States to tip into an economic downturn by the third quarter of 2020, according to a Duke University/CFO Global Business Outlook survey.

Reasons? Experts cite potential triggers as disparate as a serious U.S.-China rift, an interest rate misstep by the Federal Reserve, the growing levels of corporate debt and the ballooning federal deficit.

Any one factor might tip the economy into a recession—loosely defined as a significant drop in economic activity lasting more than a few months.

LEMONS TO LEMONADE

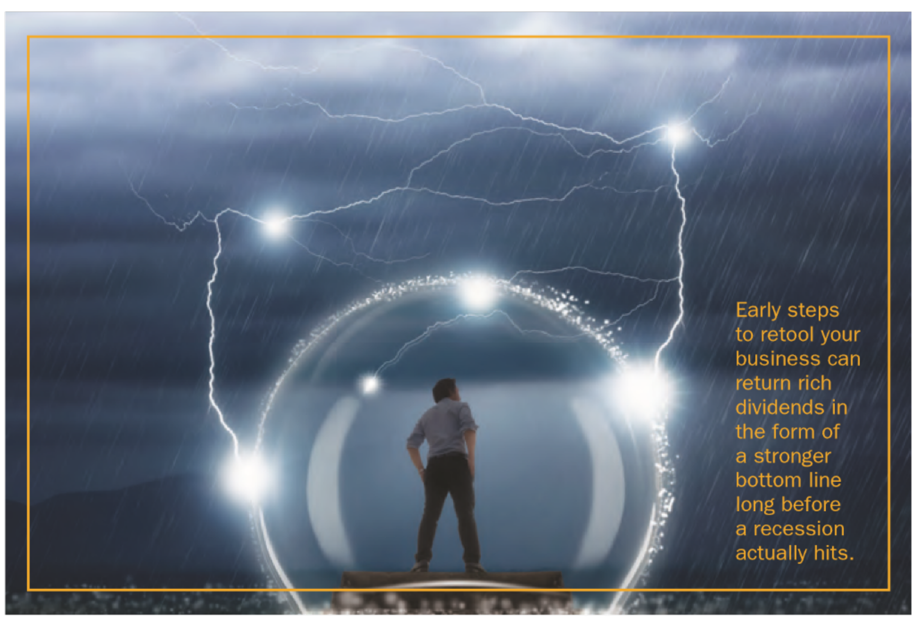
Whatever its cause, a recession is bound to pose bottom-line challenges. So, can the pain be lessened?

Yes, if you take certain steps to retool your retail operations in advance of the slowdown. And the time to start those steps, say the experts, is now.

"Churchill said 'never waste a crisis,'" says John McQuaig, managing partner of McQuaig & Welk, the Wenatchee, Washington-based management consulting firm (mcqw.com). "His advice is just as relevant when it comes to preparing for one. Don't waste the time that still remains before the arrival of the next recession."

Waiting too long is risky.

"Shooting from the hip in a downturn often leads to business decisions that are compromises or worse," says Michael Asbury, founder of Elevate Coaching and Consulting, Trinity, North Carolina (elevate-outcomes.com). "Unprepared retailers are left with fewer options when tough times arrive, and those options are usually bad ones."



Early steps to retool your business can return rich dividends in the form of a stronger bottom line long before a recession actually hits.

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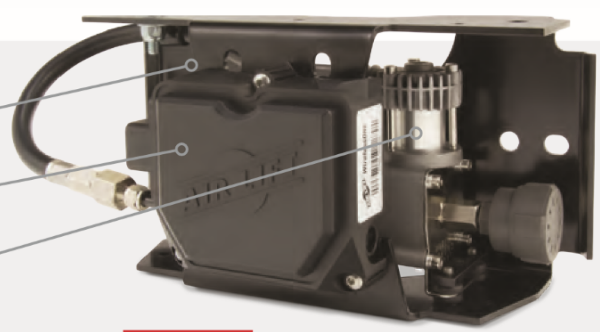

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While no one is happy when the economy softens, a downturn can serve to reveal opportunities for making your business stronger and more profitable. Turn hard times into an advantage.

Early steps to retool your business can return rich dividends in the form of a stronger bottom line long before a recession actually hits. And, once the economic downturn does begin, your lean and mean machine can beat the competition.

"With the right preparation, an economic downturn can be more of an opportunity than a problem," says Lisa Anderson, president of LMA Consulting Group, Claremont, California (lma-consultinggroup.com). "While less capable retailers fall by the wayside, your own business can expand its customer base."

Bonus tip: Businesses that prepare for a recession tend to pull ahead during and after the slowdown, says a report in *Harvard Business Review.*

PLAN FOR GROWTH

So, what do you do, exactly? Above all, avoid the common mistake of undisciplined cost-cutting.

"Focus on expanding your business—not on just cutting back," says Cliff Ennico, an attorney and business consultant in Fairfield, Connecticut (cliffennico.com).

As you approach a recession, strengthen your market position by developing initiatives to win new customers.

Selling more to your existing market—and expanding it—need not be expensive. You can likely ferret out new ways to get more from your current organizational structure. Further, rationalizing your current resources often translates into a reduction of expenses.

"Every business suffers from costly fat that tends to grow over the years, especially during long periods of growth," says McQuaig. "Now is the time to identify where your people are wasting their efforts and how your operations can be made more efficient. Is an entrenched bureaucracy, for example, slowing your customer response time?"

Rationalizing your operations can unleash unrealized potential.

"Most businesses have a lot more capacity than they realize," says Asbury.

Unlocking efficiencies will help shorten your backlog and allow you to process orders more quickly. At the same time, he says, you can become a more reliable supplier.

"Your on-time delivery and quality can cultivate loyal repeat customers," he adds.

Here's another way to increase capacity: Leverage the digital revolution. A recent *Harvard Business Review* study found that successful companies tend to use funds from reduced operating budgets to invest in productivity-boosting technology.

But wait: Isn't a recession on-ramp the wrong place to increase spending? Not if it results in a more profitable operation, says McQuaig.

"Doubling down may seem counterintuitive, but it can be the best way to prepare for an economic slowdown."

Bonus tip: Remember the adage, "You can't cut your way out of a recession."

TRIM INVENTORY

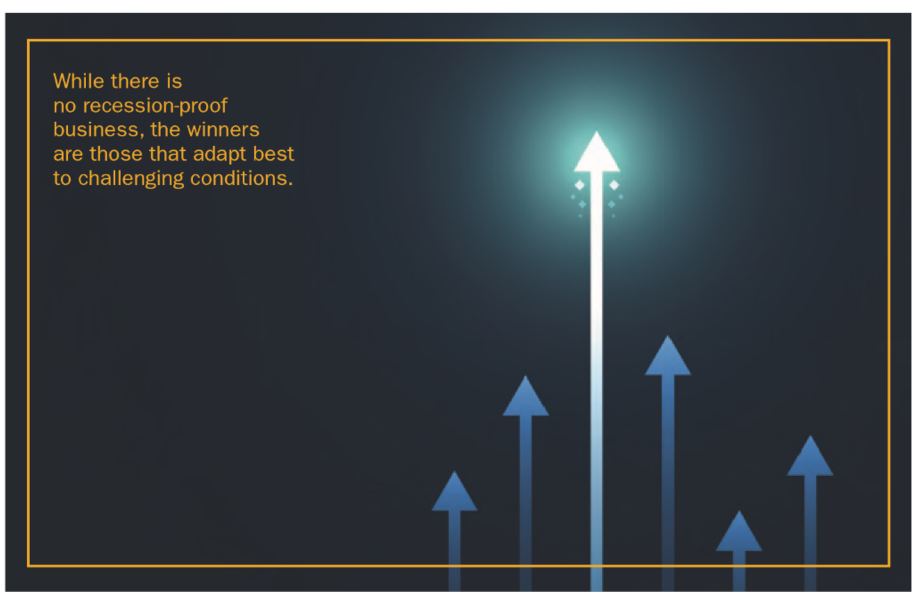
Excess inventory is a drag on profits at any time. In a recession, it can spark failure.

"I have seen more stores go out of business because of bloated inventory than anything else," says James E. Dion, president of Dionco Inc., a Chicago-based retail consulting firm (www.dionco.com). "If you're not careful, your inventory can sit around for months until it has no value and the consumer is tired of looking at it."

Managing inventory through technology is a lot easier today than before. But the human factor can also play a big role.

Experts advise making a special effort with vendors. Make sure you are getting all the discounts to which you are entitled. But also make your loyalty known.

"If you do not have good relationships with your supply chain, start today to improve them," says Daniel Feiman, managing director of Build it Backwards, a consulting firm in Redondo Beach, California (builditbackwards.com). "It will help you reach a critical goal of managing the inventory you need rather than the inventory you have."



Also, avoid the temptation to overbuy.

"Never buy more than you need to get a lower price," recommends Dion. "Vendors may offer free shipping, for example, if you buy a certain minimum."

Turn the offer down if it will result in bloated inventory.

"Buy only what you need and are comfortable selling."

At the same time, buying more from fewer suppliers can be a smart way to foster good relations.

"Many independent retailers buy a few items from each of a large number of suppliers," says Bob Phibbs, a retail consultant based in Coxsackie, New York (retaildoc.com). "But they do not enjoy any priority treatment that way. It's better to patronize fewer vendors and do more business with each of them."

Finally, let your suppliers help with inventory control.

"The more information you can feed to your suppliers about rates of sale, the better," says Dion. "Give them your POS data. When they get information about drop-offs in demand they are better able to react and offer some inventory balancing, return and exchange of products. There can be a lot of opportunities if you treat your suppliers as partners rather than adversaries."

Bonus tip: Write off obsolete inventory now. Waiting until the recession hits will increase the bottom-line impact.

SERVE THE NEW CUSTOMER

The modern consumer is acquiring merchandise very differently from previous generations. How do you adapt your store to meet changing needs?

Serving the millennial means moving to mobile.

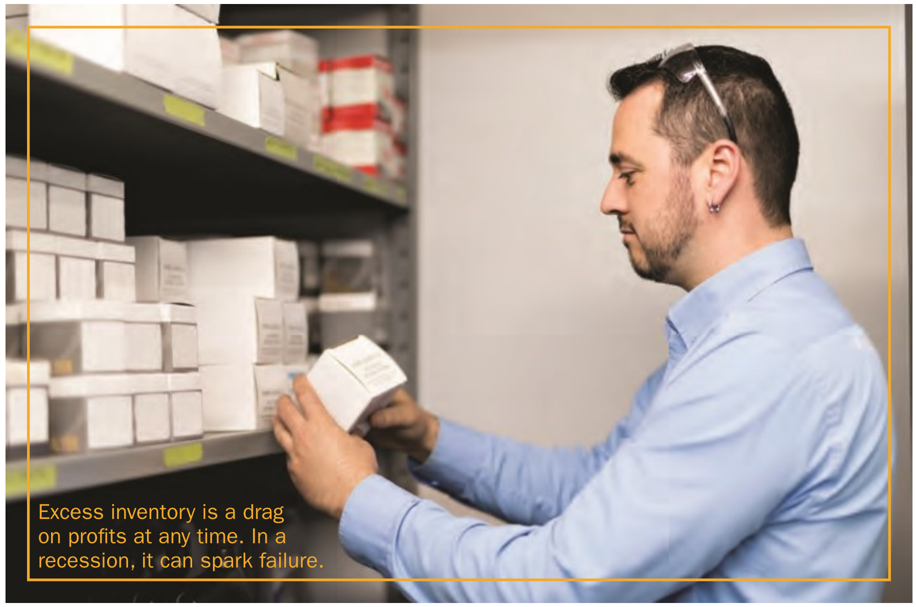
"Millennials are not paying attention to traditional marketing such as loyalty programs," says Dion. "Their heads are in their phones. You need to ask, 'How is my mobile exposure reaching this consumer? Have I invested in a robust mobile site?'"

Success means more than adapting an old website to mobile, however.

"The real Holy Grail is a purpose-built app that offers something special," says Dion. "Maybe you can schedule services right on the app; maybe it can quickly and efficiently offer information vital to the end user."

Think service, says Dion.

"Millennials are into 'do it for me.'"


Excess inventory is a drag on profits at any time. In a recession, it can spark failure.

Millennials also haunt social media.

"You need a social media presence, especially on Facebook," says Phibbs. "There is no other social media platform as powerful as Facebook. It attracts people from different generations and allows for private groups. Remember that a lot of people become aware of brands through their friends."

Bonus tip: Millennials love games, so your mobile app should offer one. For example, maybe the shopper can earn points in trivia quizzes.

CONTROL CASH FLOW

A recession can send a retailer's normal revenue rhythms into a tailspin.

If cash is king, working capital is the heir apparent. You need enough reserve financial capability to tide you over during a cash flow squeeze.

"My first concern for any business anticipating a downturn is the smart management of cash flow," says Feiman. "Start to monitor more closely what is coming in and going out. Are turns slowing? Is your cash being locked up for longer periods?"

Make accounts receivable top of mind.

"Use your aging reports proactively, not reactively," says Feiman. "When receivables start to become stale, communicate early with customers. If there's an issue, resolve it."

When good customers start slowing their payments, you'll want to respond in a way that avoids alienating them. Keeping on top of the problem will require good communication skills.

"Call and ask the customer if there is any problem," suggests Ennico. "You might say something like, 'I know times are tough. Are you hurting?'"

If the customer is experiencing a temporary problem, your loyalty to them can pay off down the line.

"If you help customers now, they will stick with you forever."

Cash is a two-way street. Monitor how quickly funds flow out as well as come in. The goal is to stay liquid.

"If you have cash, you have options," says Feiman. "If you run out of cash, you are out of business."

Don't just rely on financial statements that look backward, he adds.

"Use cash budgets that look forward."

Bonus tip: Remember Feiman's basic rule: "Collect an old receivable before making a new one."

TRIM FIXED COSTS

While you're monitoring those cash currents, consider your variable and fixed costs. The former tend to be related directly to business activity and there is often little fat to be trimmed.

It's the second that often holds the most promise. Identify discretionary expenses that can be cut.

"You really have to watch fixed costs such as lease payments, depreciation and building-related expenses," suggests McQuaig.

Many companies over the past decade have succumbed to the temptation of increasing fixed costs in anticipation of higher revenues.

"The problem is that those costs will not change very fast as your income starts to go down."

In a declining market, fixed costs tend to eat into the bottom line.

Cutting fixed costs can spark dramatic increases in profit, adds Asbury.

"If you can increase your sales while holding fixed expenses constant, a good portion of the increased revenues will flow straight to the bottom line."

Even if certain fixed costs can't be cut overnight, starting the thinking process early can pay off later.

"You might not be able to shrink your physical space this month," notes McQuaig, giving one example. "But now might be a good time to plan a possible reduction two years down the road."

Bonus tip: Cut variable costs by retooling your procedures to more closely meet customer needs.

SECURE WORKING CAPITAL

If cash is king, working capital is the heir apparent. You need enough reserve financial capability to tide you over during a cash flow squeeze.

One way to do that is to trim your outstanding debt.

"The best thing you can do now is pay off your credit lines," Ennico believes. "Have them ready as cash reserves in case you need them down the road."

Again, an early start pays rich dividends. Arrange for any additional credit lines while the economy and your business are still in good shape.

"The time to negotiate with banks is when you don't need them," says Ennico.

If having sufficient reserve capital is a requisite for success, so is an appropriate debt structure.

"If you have expensive short-term borrowings against long-term assets, you might want to negotiate longer-term debt," says McQuaig. "The lower payments will help you work your way through softening rev-

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enues if operations shrink. You can always accelerate payments down the road, but you cannot decelerate them."

You might be able to take other steps to clean your balance sheet. Examples: Can a significant portion of short-term debt be restructured through a 10-year Small Business Administration-backed loan, resulting in smaller monthly payments? Or, can your straight line of credit be made less expensive by turning it into one secured by accounts receivable?

Bonus tip: Postpone major initiatives unless they promise to generate timely significant revenue.

DIVERSIFY FUNDING SOURCES

Time is also of the essence when it comes to long-term debt. Banks hold their cash tighter when recessions begin.

"It is easier to borrow now, when banks can see you have healthy cash flows," says McQuaig. "The situation is far different when your income starts to drop. Waiting too long to apply for loans gets a lot of businesses in trouble."

Make sure you are on solid ground with your primary funding source.

"Now is a good time to have a conversation with your banker," says Feiman. "Ask questions such as, 'What if a recession hits? What if I need a little more working capital? What do you need from me today to pre-approve that?' If you give your banker enough time, just about anything can be worked out. But, if you run into the bank at the last minute for financing, the story is far different."

Also, no matter how secure you are with your main bank, have Plan B ready to go.

"You want to cultivate a secondary financing relationship," says Feiman. "Tell the institution you will not be making them your primary source today, but you want to start a relationship that leads to their stepping up to the plate if and when they are needed. Consider starting a small account to encourage their commitment."

Trimming unproductive fixed costs and wasteful expenses are both great ideas. But avoid the common temptation to short-change marketing.

"While you need to be careful and strategic in what you spend, promotion, advertising and growth-related initiatives are mandatory, even before and during a recession," says Joel G. Block, president of Bullseye Capital, a management consultancy in Agoura Hills, California (bullseyecap.com). "If you neglect them, your business will not continue to grow. You will potentially shrink into oblivion."

Bonus tip: Sell unneeded assets now, using the cash to pay down debt and reduce leverage.

RETOOL & RECHARGE

While no one is happy when the economy softens, a downturn can serve to reveal opportunities for making your business stronger and more profitable. Turn hard times into an advantage.

"View the recession as an opportunity, not a threat," says Ennico. "Take the time now to ask how you can expand your business when the downturn arrives, even though you will not be making as fat a margin. What are the services and businesses you can get into without too much change? How can you show current and new customers you are willing to better meet their needs?"

Above all, be flexible.

"Good businesses make money in good times and bad," says Ennico. "While there is no recession-proof business, the winners are those that adapt best to challenging conditions." ***TS***

*New York City-based journalist **PHILLIP M. PERRY** publishes widely in the fields of business management and law.*

Enlist Your Employees

Make recession-busting a team effort. Push your business into high gear by enlisting the energies and ideas of your employees.

"When it comes to personnel, the biggest downside is a lack of communication," says Lisa Anderson, president of LMA Consulting Group, Claremont, California. "Keep your employees in the loop by letting them know that economists are predicting a recession. But rather than causing panic by casting the economic downturn as a bad thing, present is as an opportunity to gain market share by spending more time with shoppers, solving their problems and convincing them your store will be around while competing suppliers fall by the wayside."

Brainstorming with your staff can uncover hidden treasures.

"Employees have a vital perspective on the market, because they are so close to customers," says Daniel Feiman, managing director of Build it Backwards, a consulting firm in Redondo Beach, California. "Encourage them to speak up with their ideas."

This is also a good time to build flexibility and agility into your workforce.

"Crosstrain skills so you can move people around in response to unanticipated shifts in the workload when the recession arrives," says Anderson. "And also consider utilizing temporary labor to fill in the gaps, performing any work duties you are not sure will carry into the future."

Resist the temptation to trim the workforce too deeply when hard times arrive, however.

"While cost-cutting can be important when preparing for a recession, try to keep your trained workforce in place," says John McQuaig, managing partner of McQuaig & Welk, the Wenatchee, Washington-based management consulting firm. "Many times, companies cut their staffs too deeply, then cannot recover after a recession because skilled workers are not in place to regenerate revenue."

Bonus tip: When a recession hits, eschew morale-busting layoffs in favor of more productive labor-saving adjustments such as hour reductions, furloughs, part time positions and performance pay.

—Phillip M. Perry