BULLET PROOF YOUR COMPANY IN A RECESSION

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The recent global economic picture is not pretty. Virtually every country around the globe is feeling the effects of a recession. Domestically, the recession is affecting U.S. citizens in ways not seen since the Great Depression of the 1930's. In Maricopa County, Arizona as many as one in every ten homes is for sale and sales prices have plummeted. A home once selling for $225,000 was recently repossessed by a bank and after reducing the price to $105,000 received no offers.

Despite a gloomy economic forecast, there are steps a CEO can take to "Bullet Proof Your Business." Here are nine steps to improve your ability to weather an economic downturn.

- ***REVALUATE YOUR STRATEGIC PLAN***

  Perform a diagnostic review of all major functional areas targeting key initiatives for strengthening the Company in a slowing or recessionary economy. For example, programs products, services and/or segments historically producing loss leaders may no longer be affordable. Agree on a handful of initiatives, plan the tactical execution and monitor the results.

- ***GROWTH STRATEGIES IN A SLOWING ECONOMY***

  A slow economy is an attractive time to expand market share especially when competition is retrenching and cutting market share. The temptation to overextend or launch new products or services is very enticing. Pick only those products and services that will not consume significant cash flow for a long time period before reaching breakeven. Carefully evaluate tactics for new products or services to ensure the Company can safely absorb the negative cash flow generated.

- ***INVEST IN SALES AND MARKETING RESOURCES***

  In a poor economy, the temptation is to scale back sales and marketing as part of an overall company-wide cost reduction. It often proves to be an unwise decision. Investments in proven sales and marketing programs are needed. Marketing activities focused on demand generation increase the probability of developing new business opportunities. Cutting sales and marketing can correlate to lower revenues.

- ***BUILD CASH….CASH IS KING***

  This statement is well worn but true, especially today. Generally, companies with too much cash do not file bankruptcy. Implementing procedures to build cash is wise. Pay close attention to accounts receivable collections. Companies allowing customer payments to slide beyond terms are not only reducing their cash balances, but may have to draw on lines of credit to meet their internal cash needs. This may potentially result in unnecessary interest expenses.

• ***STRETCH CREDIT TERMS WITH VENDORS***

In many industries, vendors offering 30-day credit terms can be stretched to 45-day and even 60 days without incurring late fees or interest. Examine every vendor to identify those most likely to permit payments to stretch beyond the 30-day terms. A company typically paying $300,000 per month in vendor payments can enjoy a one-time pick of $300,000 in working capital by moving their average days in payables from 30 to 60 days, and potemntially at no cost.

• ***KEEP PLENTY OF "DRY POWDER" AVAILBLE***

Review your bank agreements to ensure access to sufficient working capital in case of a slowdown in customer collections. Access to working capital through a line of credit can temporarily bridge a gap between slowing collections and reductions in costs.

• ***CAREFULLY EVALUATE TAKING ON NEW DEBT***

Taking on new debt differs from one company to the next. Companies without significant leverage can tolerate new debt. It's important to understand bank covenants that ensure taking on new debt combined with tightening cash flow will not trigger covenant violations or create a monthly cash flow obligation, which could further reduce cash flow.

• ***TREAT YOUR BANKER LIKE AN INVESTOR***

Recessionary times often create bank covenant breaches requiring relief from the bank to continue uninterrupted operations. Most banks are willing to work with their customers during tough times when the bank has confidence in management's ability to execute against its Plan. Investors and bankers are generally focused to answer the same question. Does the Company's management have the experience, ability and skill to successfully execute its Plan? In recessionary times the frequency of communication must increase to instill confidence that the answer is yes. Many companies adopt a "bunker mentality" about talking with outsiders only and cut off communication with their banker. This can increase the probability of the bank's negative reaction to bad news.

• ***EMBRACE NEW METHODS OF MANAGING YOUR COST STRUCTURE***

- ***OUTSOURCING INTERNAL FUNCTIONS***

  Consider outsourcing departments or functions historically manned by employees. Examples: Information Technology, Finance, and Human Resources

- Outsourcing Information Technology ("IT") is more common in small and medium sized business ("SMB"). How does this work for your company? An outside firm provides the service and support for your IT, from the desktop to the data center. These outsourced firms offer data replication services, offsite data storage in Tier One data centers, security and communications management (anti-virus and spam filters), infrastructure support and 24x7 help desk support. Outsourcing IT departments can save up to 50% over the cost of maintaining company IT staff.

- Outsourcing the Finance and Accounting Department: For companies generating less than $75M in revenue, outsourcing the role of the chief financial officer and/or the controller will generate a cost savings without sacrificing experience. Fractional finance and accounting professionals are able to meet a company's needs on an as-needed basis. This can result in lower direct as well as overhead costs. Firms offering fractional finance and accounting services typically work at a client's site one or more days per week. Client companies no longer have the dilemma of sacrificing skills and experience in order to get someone affordable. The cost savings of using fractional services can approach 50% to 60% over the full-time staff. For more information on outsourced finance and accounting services, see our website. (http://www.cfo-advisory.com/)

- Human Resources management has become a demanding task requiring considerable resources for employee administration; to create and maintain employee benefit and retirement programs; regulatory compliance; develop performance management programs to name just a few. Time spent on administrative obligations is time spent away from growing your business. By outsourcing some or all of the HR tasks, employees frequently gain access to better benefits and management gains freedom to focus on the business.

- ***UTILIZE TECHNOLOGY TO REDUCE COSTS***

  - Think about moving toward a virtual office for some functions. This could involve web-based technology to hold meetings instead of incurring travel costs for face to face meetings. You may also want to consider remote or home offices for some employees.

  - Voice over Internet Protocols (VOIP) can be used to reduce long distance telephone charges. A slowing economy adds complexity and uncertainty to the planning process. An experienced financial executive can be a valuable resource in developing a sound financial plan and assist you in navigating through economic uncertainty.

  - Data management solutions: Paper records stored in file cabinet consume expensive floor space. Consider solutions that reduce or eliminate these records by utilizing electronic storage of records such as contracts, vendor files, and employee files.

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