CEO Thought Leadership

RECOMMENDATIONS FOR C-SUITE LEADERS

RECESSION EDITION NAVIGATING FINANCIAL CHALLENGES

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This guide is based on best practices of independent private businesses in the small and mid-sized markets. These recommendations are derived from "lessons learned" from C-suite leaders across the nation.

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866.321.1822 • info@thebestandbrightest.com • thebestandbrightest.com

BEFORE A RECESSION

These steps should be taken before a financial hardship or slowing of the economy. It will be too late once a recession or financial hardship occurs.

Build up cash reserves: It's essential to have enough cash reserves to cover at least six to twelve months of operating expenses. In the event of a recession, this will help ensure that the company can continue to operate and meet its financial obligations. Cash gives leaders choices and is a proactive measure against hard times.

Assess debt obligations: Consider refinancing debt or negotiating better terms with lenders before a recession hits. This will help lower your debt obligations and improve your cash flow. Ideally, a zero-debt policy is best and most companies with no debt can actually thrive during an economic slowdown.

Diversify the company's customer base: It's important to have a diverse customer base that isn't heavily dependent on one industry, client, or geographic region. This can help mitigate the impact of a recession. Also keep in mind the 80/20 rule, which highlights the importance of strategic client management and the need to focus on building strong relationships with the company's most valuable clients, while also maintaining a broad base of customers, to ensure long-term success. Diversification can take two to five years to build and many employers learned this lesson during the Great Recession of 2009. Diversify clients, industries, and geography. Seek alternative methods of sales and new opportunities outside of existing product lines and clients. Investigate such things as finding new uses for products, finding clients or product sales from manufacturing waste, or different industries that need your services or modified services.

Lines of credit: Establish a line of credit with a few banks before it's needed, so the company doesn't utilize its reserve in emergency scenarios such as a recession. Customers' payments may be delayed and a line of credit can fill any gaps for operational fixed costs.

Fire Bad Clients: Executives should audit clients annually. Are they truly profitable, do they pay on time, do workloads justify the margins? There are numerous consultants that can audit your client relationships and determine whether they are good for the business or not. Many times executives see gross revenue as a driver verses efficiency, culture fit and profitability.

Interview Banks and Have Multiple Banking Relationships: Each bank has its own policies and procedures during hard times. The general rule of thumb is to have ongoing conversations and updates with your banker. They should know your key contacts at your firm and relationships should be established. It's wise to have more than one main bank to rely on to have an extra layer of resources and security for tough times.

Separate Personal and Business Finances: Many entrepreneurs and small business owners have their personal assets with the same bank that does their business banking. It is not recommended to go this route and to separate personal banking needs such as savings, mortgage, personal loans with a separate bank. If there are problems in the future, there is a separation between personal finances and professional banking needs.

DURING A RECESSION

Monitor cash flow, payables, and vendors: Keep a close eye on cash flow and make adjustments as needed. Look for ways to cut costs without sacrificing the quality of products or services. An example would be leadership reviewing company efficiency with spending. Go with an "every penny" model. It can be as bold as having every check signed by the CEO or assigned leader. Audit vendors for value, assess replacing positions and need for different types of positions, audit technology solutions, and purge anything not of value or wasteful.

Communicate with lenders: Stay in communication with lenders and be transparent about the company's financial situation. This can help with negotiating better terms and avoiding defaulting on loans.

Focus on customer retention: During a recession, it's more important than ever to keep existing customers happy. Look for ways to provide value and keep them engaged with the company's brand. Customer surveys and phone calls will be insightful. How is your customer handling the recession and how can you help them? What solutions can you provide to help ease their recession woes?

Performance data and indicators: During challenging times, it's imperative to make strategic decisions based on data. In situations where cash is limited, even the smallest mistake could be the deciding factor between success and failure. Do you have the right key performance indicators in place? Are there enough leading indicators to make decisions quickly? Quarterly performance metrics should be converted to monthly reports, weekly to daily, etc. It's essential to analyze the company's financial trends, review numbers, and evaluate forecasts before implementing any changes in your business.

Do not cut marketing and sales budgets: Tweak marketing and sales and strategize on how to get wins during slow times. Your team can find opportunities for your products despite economic conditions, so creativity and exploration of sales opportunities should continue. Marketing campaigns and social media needs to continue, so customers know your brand is solid during hard times.

Opportunities abound: Because you built cash during good economic times, you now have many opportunities. What has been 'stuck' strategically that can be solved? What acquisitions can you make? What talent is now readily available? What investments can you make the most of? Take advantage of your proper pre-recession planning.

POST RECESSION

Reassess debt obligations: After a recession, it's a good idea to reassess a company's debt obligations and see if there are any opportunities to refinance or negotiate better terms. Pay down any debt to create nimbleness.

Invest in growth: Consider investing in new products, services, or markets that can help grow the business and recover from the recession.

Continue to monitor cash flow: Even after the recession is over, it's important to continue monitoring cash flow and making adjustments as needed. This will help ensure the long-term financial health of the business.

Don't go back to the "old way": It's so easy to say, "when the economy gets better, we can go back to...." Old habits die hard. Keep your expenses streamlined and put a financial committee in place to determine what should stay gone forever and what expenses that were cut have harmed the business and should be corrected.