



# **BULLET PROOF YOUR COMPANY IN A RECESSION**

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The global economic picture for 2009 and 2010 is not pretty. Virtually every country around the globe is feeling the effects of a great 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 that will improve your ability to weather an economic downturn.

- ***REVALUATE YOUR STRATEGIC PLAN***

Perform a diagnostic review of all major functional areas targeted at identifying 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 evaluating tactics for new products or services will ensure the Company can safely absorb the negative cash flow generated.

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

In a poor economy, the temptation to scale back sales and marketing efforts as part of an overall company-wide cost reduction plan often proves to be an unwise decision. Investments in proven sales and marketing programs are needed to surface a smaller number of selling opportunities. Marketing activities focused on demand generation raise the probability of developing new business opportunities. Cutting sales and marketing costs will likely correlate to lower revenues.

- ***BUILD CASH....CASH IS KING***

This statement is well worn but true, especially today. Companies with too much cash do not file bankruptcy. Implementing procedures to build cash is a wise step to take. Pay close attention to collections of accounts receivables. Companies allowing payments from their customers to slide beyond terms are not only reducing their own cash balances, but may have to draw upon lines of credit to meet their internal cash needs, thus incurring unnecessary interest expense

- ***STRETCH CREDIT TERMS WITH VENDORS***

Within many industries, vendors offering 30-day credit terms can be stretched to 45 and perhaps 60 days without incurring late fees or interest. Examine every vendor and 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 typically at no cost.

- ***KEEP PLENTY OF “DRY POWDER” AVAILABLE***

Review your bank agreements to make sure you have access to sufficient working capital in case you experience a slowdown in collections from customers. 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***

This mantra differs from one company to the next. Companies without significant leverage can tolerate new debt versus a highly leveraged company. It is important to understand bank covenants and ensure taking on new debt combined with a tightening of cash flow will not trigger covenant violations or create a monthly cash flow obligation further taxing 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 to navigate through tough times, if the bank has confidence in management's ability to execute against its Plan. From this point of view, investors and bankers are focused on the same question. Does management have the experience, ability and skill to successfully execute its Plan? In recessionary times the frequency of communications must increase to instill confidence the answer that question is yes. Many companies adopt a contrary view or “bunker mentality” talking with outsiders only when necessary. Bankers hate surprises, so cutting off communications tends to increase the probability of a negative reaction to bad news instead of a workable solution.

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

- ***OUTSOURCING INTERNAL FUNCTIONS***

Outsource departments or functions historically manned by employee-based functions. Examples are Information Technology, Finance, and Human Resources:

- Outsourcing Information Technology (“IT”) is gaining traction in the small and medium sized business (“SMB”). According to research company IDC, outsourced IT services is growing 13% to 15% per year, and is expected to reach a market size of \$2.2 billion by 2010, and by 2011 SMB's will account for 66% of the outsourced help desk market.

How does this work for your company? An outside firm provides the services and support from the desktop to the data center. These 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 a company owned program.

- Finance Department: For companies generating less than \$75M in revenue, outsourcing the chief financial officer function will generate a cost savings without sacrificing experience. Fractional CFO services are scalable to meet a company's needs and result in lower direct as well as overhead costs. Firms offering "Fractional CFO Services" typically work on a client's site one to three days per week. Client companies no longer have the dilemma of hiring an affordable CFO, but sacrificing skills and experience. These firms perform the same functions as a full time CFO, only in a part time environment. The cost savings of utilizing a fractional CFO approach can approach 50% to 60% over the full time CFO. For more information on outsourced CFO services, see our website. (<http://www.cfo-advisory.com/>)
- Human Resources: HR 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**

- Virtual Office/remote computing: Move toward a virtual office for some functions involves using web-based technologies 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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