



Warady & Davis LLP
 Certified Public Accountants & Consultants

Special Report

How to Survive the Recession...Stronger Than Before—Strategic Considerations

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As difficult as the economy is currently, it's important to recognize that this is a time of tremendous opportunity for businesses with the vision, liquidity and courage to seize the occasion.

There are unique opportunities to be found in every phase of the economic cycle, and the current trough is an opportune time to reassess, reposition and re-engineer for the recovery that will inevitably come, the changed economic landscape that will emerge and the pent-up demand for products and services that will burst forth.

So how does a savvy business owner go about repositioning for an unknown and largely unknowable future?

Begin by assessing the market for your line of business as it is now and as it may be in two, five or ten years. Identify the shifts and changes on the horizon. Analyze what they will mean for your company, your suppliers, your clients, your competitors and the overall industry.

Next consider the macro trends that will drive the future of your business. Some obvious

macro trends include: the worldwide move towards sustainability, environmentalism and green consciousness; a focus on health, nutrition and wellness; greater globalization and more diverse markets; continued advancements in technology and communication.

Identify the relevant verticals that will most likely lead the way out of recession, such as renewable energy, IT, healthcare and agriculture, as well as the verticals that will continue to remain strong, such as government and education. Think also about those that have the farthest to rebound such as housing, real estate and finance.

With these macros in mind, begin to look more specifically at your own situation. Here are some key areas to focus on:

- **Cash flow.** Now more than ever it is crucial to manage your cash flow and keep your balance sheet strong. In addition to maintaining liquidity for ongoing operations, staying within your financial covenants and ensuring your bond or investment rating, it is vital that you keep your powder dry to be able to take advantage of unforeseen opportunities or obstacles that may arise.

- **Inventory.** Adjustments to inventory will be critical, as a surplus of goods can tie up cash reserves, require expenditures for transportation and storage, and eventually necessitate liquidation if the inventory becomes obsolete.
- **Products and Services.** The time is right to make those tough choices about shedding low-margin operations. Focus on products and services where you have special expertise, a definitive value proposition, and a competitive advantage. Be aware that customers are looking to increase productivity, expand capabilities and drive efficiencies within their own operations. R&D is more important than ever.
- **Personnel.** People are a company's most valuable – albeit costliest – resource. It may be a tempting way to cut expenses quickly, but layoffs entail costs and hassles such as severance, loss of talent and leadership, and the expense of finding, hiring and training new employees when the economy returns. The key is to keep HR expenses in line with revenues. Consider options that make long-term sense, such as alternative pay models, curtailing retirement fund matches, retraining and redeploying workers.
- **M&A.** As the recession plays out, there will be some choice opportunities to take over competitors, expand into new geographies and acquire upstream/downstream capabilities. Consider acquiring small add-ons to increase capacity, larger competitors to enhance market share as well as needed infrastructure or licenses. Also think about acquiring real estate while prices are depressed. It may be a good time to buy prime locations and set up for a move into a new marketplace.
- **Sales and Marketing.** Use research and technology to target your audience precisely and monitor your ROI on marketing and advertising closely. Keep a strong emphasis on sales to maintain your brand strength and market presence and to penetrate underserved markets with long-term potential.
- **Pricing and Margin.** The proper balance between growing market share and holding onto margin calls for a steady, constant focus on profitability and cash generation. Your value proposition should rely on quality and service as well as price. Avoid excessive price undercutting to gain market share as this will haunt you when the market recovers.
- **Cost control.** Cut costs in ways that don't affect customer service or product quality. Ask creditors to extend payables from 30 to 60 days. Negotiate deeper discounts from suppliers, as well as other providers such as your insurance company and your landlord. Pay down debt, re-negotiate loans and contract terms. Be opportunistic about financing and sourcing opportunities.
- **Customer Service.** Build stronger relationships with existing clients, especially loyal, long-term clients. Helping your customers get through this difficult time will pay off. Alienating or harassing customers for short-term gain is long-term folly.

In recent months the Fed has injected \$100 billion into the economy to stabilize the banking sector and get credit flowing again. While the effect on the economy as a whole will not be felt immediately, economic recovery will eventually follow. The key for your business is to prepare for that turnaround now. The strong will survive and thrive when the economy grows robust again.

*As always, we are available to help.
Call Warady & Davis LLP at 847-267-9600.*