

# Tax News

February 2008

## Doing Business in an Economic Slowdown

Whether the U.S. is in an official recession or not, it is clear that the economy is not as robust as everyone would hope. And the prospects for a quick recovery are not very encouraging. There are a number of steps that business owners and executives can take to successfully deal with an economic downturn. Here are some strategies to help your business weather the storm.

*Know What is Going on Around You.* Keep aware of economic developments in your region that affect your business directly. Are your suppliers and customers feeling the pinch of a tight economy? What impact will that have on you?

*Take Lessons from the Past.* If you have been in business a while, you probably have gone through economic slowdowns before. What warning signs of a downturn did you see back then? What, in retrospect, would you have done differently back then to address the slowdown's impact on your business?

*Know Your Business' Situation.* Economic slowdowns don't affect all regions of the country, or all businesses within a region, the same way. Understanding how your business fits into the local or regional economy and how your industry is being affected are keys to helping you understand what the downturn will mean to you.

*Cash is King.* This old saying is especially true in a downturn. If you expect your business will be affected, having cash to pay your suppliers and your other obligations will ensure you can remain in business and be prepared to succeed in the prosperous times to come. This can be accomplished by carefully monitoring your cash flow and taking steps (speeding up collections, for example) that can put more cash in your coffers.

*Develop a Contingency Plan.* What if your business is hit hard by the stagnant economy? Having contingency plans for a variety of possible scenarios is important. Determine at what point you might have to defer capital expenditures, lay off employees, or sell assets in the event a dire scenario becomes reality.

*Trim Expenses.* This is a no-brainer, but figuring which expenses to cut and in what order is a valuable exercise. You don't want to institute widespread cuts now that might restrict your business' options when the economy recovers unless you really need to.

*Purchase Intelligently.* Use smart strategies such as bunching your orders (to get larger discounts or free shipping), negotiating longer term, lower fixed price deals (remember, your suppliers might be hurting, too), taking discounts, and avoiding late charges.

*Monitor the Credit You Offer.* Extending credit may be an important aspect of your doing business. But extending credit to customers indiscriminately can result in heavy losses due to bad debts. Screening new customers' credit-worthiness is always important, but especially in a slowdown. And don't hesitate to look at existing customers' payment histories and decide if you are willing to extend further credit to them.

*Take Advantage of Your Strengths.* A business downturn can represent opportunities as well, especially for businesses that are on a very sound financial footing. For example:

- Consider replacing equipment or buying new technology. Many manufacturers and dealers will be more than willing to sell on very favorable terms.
- Upgrade your staff by adding talented people who may have been let go by a competitor in a cost-cutting move.
- Look for acquisition or merger candidates. Hard economic times may make a competitor available at a very favorable price.

These are just some of the ways your business can prepare for – and survive – an economic downturn. Call Doeren Mayhew today at 248.244.3000 to discuss your planning strategies for difficult economic times.