



Trusted Advisors for Growth

Recession Proofing Your Business



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Recession Proofing Your Business

The word “recession” has increased in circulation the further we head into 2022. Economic predictions about the economy heading into a recession vary by economist. However, several factors point to a significant slowdown in the economy. Here are some steps to take to help protect your business from the inevitable turbulence in the economy and create ongoing resilience.

1. Solidify Relationships with Your Top Customers

Your customers will feel pressure to reduce costs during a stressful economy, which means that they will be more likely to switch suppliers for price concessions. Establish multiple communication paths and regular communication channels with your top customers. Show them where you add value beyond pricing such as high quality and on time delivery.

Your ‘A’ customers are generating the lion share of your revenue and profits. Make sure that you have solid relationships with this group. To identify your top customers, start by listing your customers by annual sales, sorting by highest to lowest. Next, divide the total number of customers by four. The top fourth is your ‘A’ customers, the next fourth is your ‘B’ customers, the next group is ‘C’s and the final fourth are your ‘D’ customers. You will likely find numbers like the table below:

Quartile	Customer Count	Sales	% of Total Sales
A	Top 25	\$\$\$\$\$\$	89%
B	25-50	\$\$\$	7%
C	51-75	\$	3%
D	76-100	\$	1%

Figure 1: 80/20 Quartile Table

What Steps Should You Take?

Increase the frequency of contact with you’re A & B customers. Make sure that you and your top leaders are connecting with these customers at multiple levels and on a regular basis.

Ask for new business. Check with your customers about new projects in the pipeline. Discuss what it will take to gain a higher share of their current spend.

Look for new ways to add value. Brainstorm ways that you can provide additional value. Look for ways to build and expand a protective moat around these customers.

Extend your contacts. Develop a deeper set of contacts within your ‘A’ customers. Having a set of contacts that is wide and deep will provide continuity. If your primary

contact is a buyer, make a connection to the purchasing manager. Similarly extend your contacts into engineering, operations, and quality departments. This will provide a level of protection if your primary contact leaves the company.

2. Tighten Up Your Cash Flow

We all know “cash is king”. This is especially true in a tough economy. Before the tough times hit, tighten your grip on your cash flows.

What Steps Should You Take?

Reduce your account receivable Days Sales Outstanding (DSO). You are not a bank. Do not let your customers borrow your money for any longer than the agreed-upon time. Tighten up on customers that continually stretch out the terms. You know, the customer that is supposed to pay in 30 days but pays in 42 days. Hold to your terms for all accounts.

Limit credit for C & D customers. Unless a C & D customer is strategic, there is little reason to extend credit to them. Utilize credit cards or online payment options. Incorporate the transaction fees into your pricing. Recall that your C & D customers are typically 4% of your revenue stream (refer to figure 1), they should not be holding on to your cash.

Trust but verify. This works for credit limits also. Utilize credit services to verify your customers' creditworthiness and verify the creditworthiness of new customers. It's frustrating to land a new, large account only to find later that they don't pay their bills.

Review your accounts receivable weekly. The best way to stay on top of your cash is to monitor and review it weekly. Address issues and keep the cash flowing.

Review your accounts payable. Know who your A, B, C & D suppliers are. Make a list like the one you made for your top customers. Negotiate concessions such as longer payment terms or shorter lead times with your key suppliers.

Ask your suppliers for ideas. Your suppliers are a great resource for best practices. They are likely able to offer suggestions for improvements that you may not readily see.

3. Improve Your Inventory Management

Ideally, you are turning raw materials into cash in the shortest time possible. However, many businesses lose track, and have too much inventory stuck in the pipeline. Inventory is cash sitting on a shelf.

What Steps Should You Take?

The first step is to make sure your inventory is accurate. Inventory shortages are a source of stress and a cash drain. Nothing is more frustrating than starting a build and finding that a key material is missing or short, leading to overtime and expediting costs to meet a promised commitment.

Next, take a critical look at all your raw and finished goods inventory. See if you can return unused materials that are sitting idle, utilize them in another project or sell them to a third party. Similarly, dispose of or sell off aging finished goods. Offer one-time discounts to customers to move the inventory through the pipeline and turn it into cash.

Tighten up on incoming materials. Do not extend your cash reserves by overbuying materials that cannot be turned into cash within a short time frame. Focus on improving your inventory turns and the speed at which materials enter your building and are turned into an account receivable. Apply this philosophy to all supplies and materials.

How Can KMS Help?

KMS' Lean Manufacturing experts can provide training and action plans to reduce inventory levels and identify ways to move the inventory through your pipelines faster.

4. Review All Non-Payroll Spending

Rising costs are a part of the business. Cost savings initiatives should be also.

What Steps Should You Take?

Increase focus on cost savings. Utilize your P&L and look critically at all line items. Seek to identify potential savings. Start a Cost Improvement tracking sheet. Solicit inputs from everyone in the company. Your employees are closer to the waste than you are, they will have several good actionable ideas. Reward people for coming up with ideas.

Be critical of all new spending requests. Have a process where dollars spent are controlled and reviewed. Careful not to create a bottleneck or delay having critical materials that are needed for the next shipment.

Be judicious about capital spending. Because you will expend cash or take on debt for capital expenditures make sure that the return on investment is rock solid before you buy. Much of your existing equipment is likely underutilized or underperforming. Improve preventative maintenance procedures, monitor equipment uptime and reduce changeover times to get the most of existing equipment. Do spend on capital that will provide significant throughput advantages. A new CNC with double the output of the dated and fully depreciated one you have can reduce your costs and potentially win you new business.

Dispose of unused assets. Take an inventory of all your assets, machines, computers, furniture, etc... Sell those assets that are no longer needed, or that you can do without. Doing this will add cash to your reserves and declutter your space.

5. Set and Stick to a Budget

Many businesses do not spend enough time planning or budgeting. Having an idea of where you are going and an outline of how you will get there is necessary for success. While no one can accurately predict spending down to the line item, you can get close in aggregate.

What Steps Should You Take?

Start by creating a budget. Use your previous P&L's to review spending categories. Next, create a sales plan and begin adjusting spending levels to meet your profit goals. Employ what-if scenarios to create contingency plans.

Next monitor spending by line item and adjust as necessary to stay on track to meet the profit target. Meet monthly with key leaders to review and adjust spending to meet your revenue levels.

Share the budget with your people so they know your expectations and what the limits are.

How Can KMS Help?

KMS works with companies on developing long term strategic plans, budgets to support them, and actions needed to implement those plans. KMS experts will then work with you, providing monthly insights and reviews to keep you moving the business forward.

6. Streamline Key Processes

Waste is present in nearly every process, from defects and errors to excess waiting. Apply Lean Thinking to streamline your processes and remove waste and reduce costs.

What Steps Should You Take?

Start with Value Stream Mapping your key processes. Learn to use this Lean tool to see waste in a process.

Utilize Kaizen Events to make quick improvements. Kaizen events are focused bursts of effort utilized to make significant changes quickly.

Educate yourself and your team. Utilize a Lean Mentor to jump-start the process. It is not unusual to see double-digit improvements by implementing Lean Thinking.

How Can KMS Help?

Utilize KMS' Value Stream Mapping and Kaizen tools to make quick and significant improvements.

7. Improve the Employee Experience

Look after your team. Currently finding skilled workers is extremely difficult. During a downturn we will typically look to reduce the payroll to save money, therefore losing skilled workers.

What Steps Should You Take?

Up your engagement level. Utilize an Employee Engagement survey to provide valuable feedback from your employees on how they perceive the company and the management. Determine ways to improve the issues.

Learn to coach and provide feedback. Innately people desire to be productive and do a good job, we want to add value. To do this we need objectives to achieve and feedback. Learn to be a listener and a coach.

Address employee issues. In times when it is difficult to find people, there is a tendency to become lax in discipline. Don't overlook issues, make sure you are documenting them and coaching along the way.

Reduce hours before headcount. Look to creatively reduce payroll expenses before reducing headcount. Skilled and trained employees are difficult to find no matter the economic conditions, keeping them should be a priority.

How Can KMS Help?

KMS' Employee Engagement, Leadership Development and Supervisor training tools will provide insight and development of this key resource.

8. Ramp Up Your Marketing Efforts

This sounds a bit counter-intuitive, but it will make sense. In a downturn, sales drop off and companies pull back on spending for marketing to save money. When these resources are reduced it is even harder to maintain market presence and locate new revenue sources.

What Steps Should You Take?

Continue funding or increasing your sales and marketing efforts. As your competition pulls back from the market you will still be present and available.

Enlist professional marketing assistance. Utilize marketing firms to assist you to increase your reach and to find new revenue sources.

Diversify your revenue sources. Look at what markets and industries make up your revenue portfolio. Not all markets follow the same economic cycles, you might be able to insulate your business by diversifying industries. Also, review the concentration of revenue by customer. A good rule of thumb is to have no more than 8%-10% of your revenue from any one customer and no more than 30% in the top 10 customers. If you are above these levels spend your sales and marketing budgets on diversifying your base.

How Can KMS Help?

KMS has a full spectrum of resources that can enhance your sales and marketing efforts from web site and SEO development to a full demand generation marketing program.

9. Increase Your Cash Reserves

Having a cash reserve can be the difference in making it to the other side of a downturn.

What Steps Should You Take?

Increase your cash reserves. While business is good, consider increasing your cash reserves. Just as you do with your personal finances, you should have a business emergency fund. How much you put into the reserve is dependent on a slew of factors. Start with three to six months of operating costs and adjust to conditions and needs from there.

Pay down debt. A high debt load will be an obstacle in poor economic times. When your emergency cash reserves are met, work on paying down debts.

Secure an emergency line of financing. Work with your bank now to secure additional funding or extended credit limits.

Maintain good credit. Having good credit is crucial. Keep up with payments to your suppliers. If you run into trouble talk to them. Most are willing to work with you if you are open to them. Also, make sure that you maintain good personal credit. Verify your credit status with the credit bureau, resolve any outstanding issues.

How Can KMS Help?

KMS provides a full financial ratio analysis along with the expertise to work with you to create actions to make improvements.

10. Be Prepared, Create Contingency Plans

It's not "if" there will be a downturn in the economy, it's a matter of "when." The first way to reduce the resulting stress is to implement the steps outlined above. Next, is to have a plan for when the bad times come.

What Steps Should You Take?

Know your Key Performance Indicators (KPI's). Many businesses do not utilize KPI's to help manage their performance. Using KPI's can provide valuable insight into the health of the business and advanced knowledge of when changes are required. Develop KPI's that are meaningful to your business. Use a balance of leading and lagging indicators along with external indexes that will provide valuable insights into your business and the market in general. Make updating and review of these metrics part of your monthly business planning process.

Plan for different scenarios. What steps will you need to take if revenues drop by 10%, 20% or 30%? What will happen if you lose your top customer? Use your budget as the basis for running what-if scenarios.

Be creative. We all know that the first variable cost to be cut is typically payroll. Think about reducing hours before reducing headcount and losing skilled employees. Work on creative solutions to address the needs of the business. Can you take a pay cut? Can you defer compensation? There are several creative ways to bridge the gaps.

Know how to handle a reduction in force. While we want this to be the last line of defense it's still best to be prepared for it. Understand the requirements and legalities of reducing your workforce. Talk to a labor lawyer to make sure you know how to handle the process legally. Much better to do it now than when the stress levels are extremely high, and your business is on the line.

How Can KMS Help?

Engage KMS's business experts to assist you in being prepared. KMS offers a suite of tools that can enhance your efforts and help ensure that you and your business are in good shape to weather the next storm.

In Summary

Much of the advice outlined above is just good business practice. Doing these things will provide excellent business results in good economic times and improve your ability to make it through the bad times.

Want to learn more about improving your business performance? KMS works with over 450 Kansas companies a year on improving their competitive futures. Check out our resources and give us a call or send an email to [start a conversation](#) that can lead to new insights.

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“KMS was able to take a very complex set of opportunities facing Mid-State Aerospace, distill them down to very understandable and prioritized list of actions to grow our business as well as develop a roadmap to address the COVID impacts from both an operational and economic standpoint.”

Robert Rogers, President, Mid-State Aerospace