Resilience Over Recovery: Safeguarding Your Business Ahead of Economic Downturn

By Patrick O'Neil, Senior Vice President of Commercial Banking and Savannah Market President for Bank of America

Even if all you had to worry about were the quality of your company's products or services and continued growth of its customer base, running a business would be challenging enough. However, companies are also subject to economic and environmental forces beyond their control. A change in the economic cycle could disrupt your cash flow, tighten your access to credit, rattle your customers and suppliers and even threaten the survival of your organization.

No one can precisely predict changes in the economy. Sometimes, they seem to come out of nowhere, as with the coronavirus outbreak, which, in addition to its personal toll, has made companies of all sizes rethink their short- and long-term plans.

Weathering ever-evolving conditions involves keeping up with trends and forecasts for your specific industry, following broader assessments of the economic outlook, ensuring the safety of your employees and, most important, taking a close look at your own operations. A careful review of your internal processes and your key relationships may prompt you to make changes that could make your business more efficient, flexible and resilient under any circumstance. As you respond to current conditions, here are some challenges and key steps to keep in mind:

Take a look at your cash flow

During both good and bad times, cash flow can be a central challenge for businesses and is often cited as a top reason small business fail. Companies with great products and loyal customers can still falter without sufficient liquidity to meet payroll, pay suppliers and keep the lights on.

To safeguard against temporary shortfalls:

- Ask your banker about overdraft protection
- Speak frequently with customers and suppliers to stay aware of any potential changes in their businesses that could ultimately affect yours
- Review how reliably your customers pay what they owe and create a watch list of those who consistently fall behind. A little probing may help you address issues proactively.

Assess your credit situation

Credit can be a lifesaver during challenging financial times. During the recessions of 1990-91 and 2001, the growth rate for commercial banking loans to businesses dropped to zero, according to the Federal Reserve Bank of St. Louis.[1]

In a difficult economy, lenders may be especially cautious about companies they don't know well. In fact, most lenders like to understand how a business performs over an entire business cycle. During good times, have you made capital expenditures to grow the business? During

[1] Federal Reserve Bank of St.Louis, 2016.

bad times, have you responded well to downturns? Knowing that your business has weathered challenges and responded effectively may give a lender the confidence to extend credit.

Give your company "survival training"

When a cyberattack takes down your website, a key employee leaves your firm or a natural disaster strikes, your company's everyday operations can be threatened. The risk of adverse events may be greater than you think, and they can be particularly devastating during times of economic stress.

By 2018, business cybersecurity breaches had increased by 67 percent in five years,[2] and during the first seven months of 2019, the U.S. experienced six climate and weather catastrophes with losses of more than $1 billion each.[3] One in four small businesses fail to reopen after a natural disaster. Preparing your company to withstand challenging circumstances can make the difference between re-building and going out of business.

Keep tabs on expenses

During the Great Recession of 2008-2009, nearly 75 percent of company leaders identified cost cutting as a top priority.[4] However, trimming expenses across the board during an economic crisis can backfire. Instead, take stock now of all of your processes, from front-line to back-office functions, to determine what kind of savings might be possible when needed.

Make a plan for what to cut. Work through "what if" scenarios ahead of a downturn to determine the least painful and most effective reductions. Consider renegotiating agreements with suppliers or adjusting payment terms to align with revenue cycles.

In addition, automate where possible. An estimated 45 percent of jobs now performed by people in the U.S., at an annual cost of $2 trillion,[5] could be automated with existing technologies. Administrative tasks like payroll, and other record-keeping, can often be digitized at minimal cost. However, be careful when it comes to reducing headcount. Automation can be an opportunity to re-train or re-focus employees on more value-added areas of your business.

Competing in business today requires endless resilience amid disruptions that can reinvent entire industries without warning. The steps outlined above are best practices that can help make your company stronger in the face of challenging, and often uncontrollable, external forces. The more you do to plan essential aspects of your company's financial future, the more control you'll have over your and your business' future success.

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[2] Accenture, Ninth Annual Cost of Cybercrime Study, 2019.
[3] National Oceanic and Atmospheric Administration, 2019.
[4] McKinsey, Global Survey, 2010.
[5] McKinsey, 2015.