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Recession-Proof Your Business

Small Biz experts tell you how to prepare for the worst—stay lean, talk to your customers, and don't stop hiring and marketing

by [Karen E. Klein](#)

This year stock values have taken a wild ride, fueled by worrying economic news, from the mortgage crisis to home sales declining to a credit crunch. While a formal recession can only be declared in hindsight, talk of a downturn—or at least a slowdown—has been rampant. What's a small business owner to do if the current economic climate extends through 2008? Business consultants are busy weighing in on this question, so we rounded up some of their advice.

Don't be caught off guard if the slowdown hits your company, says Gregg Landers, director of growth management consulting at CBIZ Accounting Tax & Advisory Services, San Diego. "Prepare a worst-case, 12-month cash flow scenario. Assume a 10% to 20% drop in revenues and identify what changes you would make and when," he says. If you need to, improve your management reporting so you can identify leading indicators for your firm. You don't want to react late after you notice a drop in your monthly financials.

To keep your company lean, you should set and measure inventory targets and keep in daily or weekly communication with your sales and operations staffs, Landers says. You may also want to [weed out unprofitable customers](#) (BusinessWeek.com, Oct./Nov., 2007). "Every company has customers that cost more than they add to the bottom line. Identify them, evaluate how to make them profitable customers, and if that's not possible, politely hand them to your competition," he says.

To keep from losing business, keep in close touch with your customers. "Show that you care. Understand how their business is being affected and look for ways you can help. Lasting relationships are built in hard times." And look for new market opportunities, recognizing that when the business climate changes, customer needs will change as well. That may mean new markets will open up for you, he says.

Jay Siff, chief executive officer and founder of direct marketing firm Moving Targets and Loyal Rewards, based in Perkasie, Pa., says his mom-and-pop retail clients have been struggling for nearly two years. "I can draw a line from the day Hurricane Katrina hit, through the spike in oil prices that followed. I instantly started hearing from my customers that their business was slowing down and their expenses were going up. Each month, their margins got thinner and thinner," he recalls.

Develop strategies to land more customers. Siff has counseled his clients that if they want to make their companies grow they will have to steal customers from their competitors, period. "The pie is shrinking. For the auto repair shops, cars are more reliable and need less frequent service. In the restaurant world there's been overbuilding and the average number of meals eaten out has declined for the first time in a number of years," he says. "The successful small business is going to have to win a bigger share of that shrinking pie."

The way to do that, particularly for retailers, is to create a positive experience. "Make sure you give every customer the best experience you can. That means clean restrooms, courteous staff, eye contact, handshakes. You've got to do this better than the other people out there," Siff says. Another good option for local businesses is community involvement. "Join the Rotary Club or the Chamber of Commerce. Sponsor a Little League team. Let the Girl Scouts do a car wash in your parking lot. This is part of bonding with your community and becoming an established part of it."

He also believes small companies need to reach out to the new residents in their communities. "They're going to choose someplace to buy their pizza and their shoes. You want to have an active campaign to greet them and bond with them," which is what his company and other direct-marketers do.

Spend on hiring. Tom Gimbel, CEO of Chicago staffing and executive search firm The LaSalle Network, says business owners should hire—not fire—during a recession. "Most of the time, economic downturns are short-lived," he notes, a powerful incentive to keep the bigger picture of long-term growth in sight. "It's easier to invest training time for new hires during slower growth periods. Employees that are fired during a recession will have to be re-hired—which costs companies a lot more money in the long run," he says.

Another strategy is to look around for people who have been laid off from other companies and pick up some available talent. "This is a great time to find top performers who will help bring your company to the next level," he says.

Continue to get the word out about your business. Dan Feder is co-chief executive officer of San Diego-based [Five Point Capital](#), an equipment leasing firm whose clients include many small businesses. He counsels those clients to continue marketing and advertising, rather than dropping those expenditures and decreasing cash flow. "The first instinct of many businesses is to kill the marketing expense. What they don't realize is that could make things worse," he says. If you can't afford a full-blown marketing program, choose cheaper alternatives such as e-mail marketing, blogs, public relations, and online newsletters.

He also recommends staying positive. "Think of ways to bring in new types of customers, maybe partnership opportunities, or new products and services. Many businesses stop doing things that will help them grow in fear of the recession, and then do just that—stop growing."

Entrepreneurs must keep their personal credit ratings high, since business borrowing often depends on personal credit in the small business universe. "Curb your spending and don't give the bank a reason to charge you more money by being late on payments, says Ken Kamen, president of Mercadien Asset Management.
