

Dealing with the downturn:

practical tips for turbulent times



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Current economic conditions reinforce the importance of having a sound strategy to help you navigate through turbulent times. Contact us at Gross Mendelsohn for objective guidance in helping you make sound business decisions in this economic downturn. In the meantime, we offer some tips to help you assess your current situation and deal head on with economic challenges.

1. **Prepare a cash flow projection for the next three to six months.** This will give you a good sense of your current cash position and anticipated cash needs. Going through the exercise of preparing a cash flow projection often helps a business owner get a good handle on the business and what needs to be done to stay in a positive cash position.
2. **Calculate your breakeven point.** Analyze your fixed and variable costs to determine the level of revenues you need to reach a breakeven point in profitability. Your breakeven point is the point at which your variable income overcomes your fixed costs. When you eliminate or reduce fixed costs, you can lessen your breakeven point and be more profitable.
3. **Reduce inventory to free up working capital.** If you have inventory, consider whether you can reduce inventory levels without compromising your ability to serve customers.
4. **Check with your lenders on the status of your credit lines.** Are you in compliance with their terms? Will your bank renew their commitments at similar amounts, rates and terms? If you plan to reduce operations, make sure that such changes do not lessen the bank's confidence in you.
5. **Review loan covenants.** Make sure that statistics from reduced operations will not adversely affect your covenants, which could possibly make a loan balance currently due or in default.
6. **Look into alternative types of financing.** Some to consider are loans on life insurance policies, loans from key customers who rely on your business for their materials and supplies, or from federal, state and local development agencies.
7. **Re-examine your customer credit policies.** Determine whether credit limits extended to customers should be altered in light of current economic conditions. Prepare receivable aging reports on a weekly or monthly basis and watch for patterns of slow payment. Review your largest and riskiest accounts to determine whether credit constraint or the economic slowdown will affect their ability to pay you, and take appropriate actions with each customer.
8. **Work with your vendors.** Many vendors increased prices because of surging gasoline costs in 2008, but now that gas costs have come back down, talk to your vendors about reducing their prices. If you are having problems paying vendors within their terms, talk to them about partial payments that would still allow for continued delivery of critical materials and supplies.
9. **Work with your landlord.** Consider going to your landlord for help in reducing your monthly rent. One way to do this is to negotiate a new lease with a longer term.

10. **Project your tax liability early in 2009.** By taking actions *now* to project your personal or corporate tax liability, it might be possible to defer or eliminate estimated tax payments. If you are projecting a loss for the current year you might be able to carry it back to a prior year and claim a refund. If it is your C corporation that is projecting a loss, you might be able to apply for a quick refund on estimated taxes paid during the year. If the loss can be carried back to a prior year, then you should file your return as early as possible so that a carry back can be filed and taxes paid in previous years can be reclaimed.
11. **Examine your investments.** Do not engage in panic selling. As always, make sure your portfolio is diversified and in accordance with your risk tolerance.
12. **Rethink your business strategies.** Come up with a plan *now* to respond to future declines in revenues, before they actually occur. Review your product/service lines to identify the most profitable items and determine how to leverage for future growth in profits.
13. **Consider reducing your company's obligation to its pension plan.** If the company has a 401(k) plan or profit sharing plan where the company's contribution is discretionary, consider reducing or eliminating the company's contribution. If the company's contribution is mandatory, consider amending the plan to reduce or eliminate the contribution. This step should only be taken after consultation with us or your plan administrator to avoid pitfalls that can accompany this action.
14. **Consider increasing the employee's share of medical and health costs.** Most companies have the employee pay a portion of the cost of medical and health benefits provided. Review the amount that the employee contributes and decide whether it would be appropriate to change these amounts.
15. **Consider alternative ways to reduce staff.** Before you make the difficult decision to terminate employees, consider reducing work hours, either for your entire staff or certain employees. Eventually, the economy will turn around and you will need to increase staff again. Before terminating employees, keep in mind how expensive it is to bring on new employees, especially with the high cost of recruiting fees, training costs, and low initial production.
16. **Address your employees' concerns.** Be honest in telling employees how this crisis will affect them, their jobs and their retirement or other benefit plans. Speculation and gossip are counterproductive, so it is better to address their concerns directly.

During tough times, remember that you are not alone. We are here to advise you on making sound business decisions in these turbulent times. We look forward to helping you maintain your company's success. Please contact us at 410.685.5512 if we can be of assistance.

Sincerely,

