

10 Business Strategies to Prepare for a Recession

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In an economy plagued by a pandemic, increased government spending and supply chain issues, the threat of a recession is keeping business owners awake at night. The U.S. economy shrank by 0.9% in the second quarter of 2022 which followed a drop of 1.6% in the first quarter. Two consecutive quarters of negative growth is often indicative of a recession. Despite record job growth this year, the economy has weakened. Therefore, it is important for businesses to strategize and brace for impact.

Here are 10 strategies to insulate against the impact of a recession:

- 1. Cash rules – mind your cash flow.** Key points to consider include:
 - Reviewing your business forecast and cash flow budget and make revisions as needed
 - If business volume has slowed, eliminate extra shifts to reduce labor costs
 - Prioritize expenses and obligations
 - Eliminate nonessential expenses or defer payment
 - Recalculate forecasted taxable income and adjust estimated tax payments as needed
- 2. Manage borrowing costs by consolidating or eliminating high-cost debt.** Analyze current debt to determine if refinancing high-cost debt is feasible. Given the current environment of economic challenges (for example, a business's lower free cash and reduced profit margins) and banks' tighter underwriting standards, refinancing or obtaining new capital may be a challenge. However, other options may be available. Common forms of debt include:
 - Unsecured and secured long-term debt
 - Short-term debt (e.g., lines of credit, cash advances and credit cards if the interest rate is attractive)
 - Loans from friends and family
 - Personal loans and/or an equity infusion
 - Government-backed loans (e.g., SBA loans)
 - Crowdfunding
 - Peer-to-peer (P2P) lending
 - Convertible debt
- 3. Revisit investment strategies.** Meet with your advisors to determine if your investment strategies need to be adjusted with the current economic outlook in mind.
- 4. Pursue M&A activities – if it makes sense.** Merger and acquisition activities have been heavy in the recent environment and can be a great option to add new business capabilities, skills and gain market share in opportunity areas. In our recent [article](#), it is noted that higher interest rates lead to higher discount rates and lower deal valuations – so if you're in the market to make an acquisition, the current environment may create attractive opportunities.
- 5. Automate processes where feasible.** Automation has come a long way – especially with the advancement of artificial intelligence (AI). Business automation and Robotic Process Automation (RPA) can be utilized to streamline processes which may include:
 - Onboarding processes for new employees and customers
 - Marketing processes
 - IT service support
 - Contract generation
 - Purchase orders

- Processing invoices
 - Routine and repetitive tasks and functions
6. **Focus on talent.** In times of uncertainty, employees may be an edge to make ends meet. Frequent layoffs and shifting additional responsibilities to employees without commensurate compensation can lead to plummeting employee morale and productivity. Be transparent with your employees as large layoffs may create a harmful environment.

In addition, businesses may benefit from assessing employee strengths and weaknesses to realign staff according to business needs. In addition, new leaders may be identified and can be encouraged to take on more responsibility.

For example, a CEO of a newsletter publishing company created a policy where employees were given spot and special bonuses for new business and money-saving ideas. For some of the larger ideas, the CEO paid a percentage of revenue or savings. One employee had suggested that they trim the size of a book by 0.25” or so all the way around. This met certain USPS rules so they saved an estimated 10% on shipping costs. They were able to keep the original shipping and handling cost constant – and the employee received a bonus for the idea.

7. **Continue marketing your business.** In an economic slowdown, many businesses trim their marketing and advertising budgets to conserve cash. In fact, businesses should re-evaluate their marketing strategies to strengthen any opportunities or weaknesses and make the most of their marketing budget dollars. With online pay-per-click (PPC) and other direct response advertising methods, companies continue to shift marketing dollars online where they can target a particular audience. At the same time, if direct mail via the US Postal Service has declined in your Industry, this could be a time to test a direct mail package because your mailing may stand out today.
8. **Plan for the unexpected.** Plan for as many potential scenarios as possible and ways to mitigate those scenarios if, for example, revenues fall short of plan and expenses exceed plan. For example, if sales fall XX%, we will need to cut travel or selling, general and administrative (SG&A) expenses by XX% to make up the difference. Run cash flow forecasts under several scenarios – meeting plan, missing play by 10%, 25%, 50%, etc. Look for ways to conserve and create cash.
9. **Take advantage of tax planning to minimize the effects of taxation.** Businesses may be able to benefit from a multitude of tax strategies including:
- Planning for retirement contributions
 - Compensation planning
 - Accelerated depreciation (Section 179 or bonus depreciation)
 - Special studies (e.g., Cost Segregation, Research & Development, Section 179D, etc.)
 - Employee Retention Credits (ERC), if qualifications are met – see our article [here](#).
 - Clean energy planning and credits
10. **Consult the experts.** Meet with your trusted advisors to help make and maintain your strategies for success.

Contact Us

If you would like to know more about this topic or have questions, please contact your PKF O’Connor Davies’ client engagement partner or:

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