Building a More Resilient Business to Handle Economic Downturn

By James Lanning

James has more than eight years of experience working in positions ranging from financial controller to director of operations. He graduated with a BComm in 2014 and received his CPA designation in 2017 and a Certificate in Project Management in 2018. In 2021, he completed the Oxford Strategic Innovation programme. A perpetual learner, James is keen to help entrepreneurs grow their businesses by providing accurate, timely, and consistent financial information.

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It is no secret that the economic landscape before us will challenge many small businesses and organizations in our community. A closer look at your financial situation may uncover significant changes needed or new opportunities as you look at ways to sustain operations and deliver value to stakeholders. This article aims to help leaders explore steps to take prior to and during an economic downturn to build resiliency in operations while navigating a tough economic climate.

Maintain a strong relationship with your bank

Banks are in business with you, and in my experience, they want to see you succeed. Keep an open dialogue with your bank about the services they offer, the performance of your business, and any short- or mid-term plans. Timely, regular, and transparent communication can make all the difference.

It will always be easier to get financing or credit when your business is performing well. If your business is having an exceptionally good year, make sure you have a conversation with your bank to find out what may be available to your organization. Most credit facilities will only charge a small monthly fee, and you do not pay interest until you begin using the facility. This can be extremely helpful to have in place for when your business experiences tougher financial times.

Keep your financials up to date

The first thing a lender or bank will ask when you are looking for money is to see your up-to-date financials. If you are unable to provide them with recent, accurate statements, it can be extremely difficult to secure attractive financing for your organization. Despite what the financials may say about your business, they will still show that you are organized and provide credit facilities with good information.

Having up-to-date financials also shows you how your organization is performing so that you can adjust in real time, rather than waiting until it is too late. Have your financial statements prepared monthly so you can analyze them on a regular basis.

Lastly, keep your CRA filings up to date. Timely tax filing will help you avoid delays in accessing federal funding. It will also ensure you are not charged interest and penalties on late payments.

Improve your cash flow cycle

No one likes to have outstanding bills, but did you know that you don't have to pay every invoice or balance owing up front? Some suppliers will offer you payment terms for 30 days or longer. Contact your suppliers to see what terms they offer and how flexible they can be. The longer you can hold onto the cash in your organization, the more opportunity you have to reinvest this cash to generate additional revenue and cash flow. Even if there is a charge for paying over 12 months rather than paying up front, sometimes it is worth doing the math to be sure you're getting the most out of your money. Often the additional charge or interest is less than the interest rate on the credit vehicles that may otherwise be supporting the cash flow needs of your operation. Every situation is different, and it's worth a conversation with your suppliers to figure out what will work best for you.

On the flipside, think about how you can get paid faster by your customers. Ensure the payment terms on your invoices accurately represent the time frame within which you need to be paid, and consider offering small discounts for early payers or on longer contracts. Wherever you can, embrace a model that creates opportunities for up front payment from your customers. Of course, prior to making these types of changes, it is important review of your budget, financing costs and cash flow performance to understand the impact changes like these could have on your business. Additionally, evaluate your payment processing technology to ensure a convenient and easy customer experience.

If you are a business that carries inventory, it is also important to evaluate your stock regularly. For anything that is not turning over as much as you need, find ways to discount the products, offer promotions, or offload with bundles on more popular services or products. In the end, even if you end up selling the product at cost or slightly less, it is better than having it sitting in a warehouse collecting dust.

Stick to a budget

Creating and following a budget is essential to any business, no matter the economic environment. However, prior to or during an economic downturn, you may want to consider a different budgeting strategy. Consider the factors that could materially impact the revenues and expenses of your organization before reforecasting your budget. In preparation for a downturn, I would recommend taking either the zero-based or the value-based approach to budgeting. The zero-based approach means looking at each of the expense categories for your business, starting from zero, and adding only the expenses that are essential to operating, while trimming the rest. The value-based approach requires a broader reflection of what really matters to you. Value-based budgeting consists of evaluating everything contained in the budget to ensure that it is providing value to your core stakeholders: customers, employees, owner(s), and the community. If an expenditure is not providing value to either of these groups, then it probably does not need to be included in the budget.

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