



## **CHECKLIST FOR RECESSION RISK MANAGEMENT**

### **How can you be certain that your business is safe?**

Owner managed businesses should aim not just to survive the current recession but to emerge from it stronger, ready to take advantage of the new opportunities as they arise, says Chris Beardmore, Director of accountancy firm DJH Ltd.

"Business owners should be acting now, by taking some simple steps to safeguard their future," says Chris.

To help this process, DJH has prepared a ten point Recession Risk Management Checklist.

**1) Cash is king – improve liquidity in the business.** As the economy slows down so does cash flow, which is critical to the life of any business. Build up a cushion to protect from the vulnerability caused by poor cash flow. Collect debts quickly, negotiate longer terms with your suppliers and sell off redundant assets. A tightening economy creates good purchase opportunities but you need cash reserves to snap up such bargains.

**2) Strengthen management.** Only the strongest survive. If you have any weaknesses in your management team, correct them now. Ensure family members on your team are properly trained and capable.

**3) Shift business away from vulnerable market sectors.** Look closely at the markets in which your customers operate. If your traditional customers are in declining or highly competitive market sectors, there is a risk that they will fail. Even if they survive they will put pressure on you for price reductions and slower payment terms.

**4) Increase spread of customers and suppliers.** The principle of not having all your eggs in one basket is never more important than in a downturn. With a wide customer base, losing one customer may be inconvenient, but it will not be fatal. The same is true with suppliers. The loss of a supplier on which you are over-dependent could have serious consequences.

**5) Concentrate on profit not turnover.** Profit helps generate cash while turnover can absorb cash. A smaller profitable business is more stable than a larger company operating on fine margins. Take time to review individual product lines and customer accounts so as to identify the unprofitable ones and consider price increases.

**6) Avoid stock build-ups.** When sales start to slow, do not utilise production capacity to build up stock in the hope that sales will pick up in the short term. They may not and you will be left with cash tied up in stock levels that are too high.

**7) Reduce exposure to hardcore borrowing.** Businesses that have a high level of long term debt relative to their asset value and profits are doubly exposed in an economic slowdown. Pressure on profit and cash flow threatens the ability of a highly borrowed business to meet interest and capital payments. If asset values fall, the lender may conclude that there is not enough security to cover the debt. Look to reduce the level of debt overall, or seek to restructure the borrowing to reduce the vulnerability of the business.

**8) Transfer fixed costs to variable costs.** Reduce the breakeven point of the business, so those lower sales do not damage net profits. Leasing certain properties as opposed to owning the freehold, shifting employee costs towards performance related pay and out sourcing some administrative functions should all be considered.

**9) Make sure management information is correct and act on it.** Ensure that the business's financial position is accurate and up to date. Carry out a sensitivity analysis on forecasts and budgets, review plans for capital expenditure and check the flexibility of the workforce. Only with accurate information can you run your business effectively.

**10) Think strategically not just about the short term.** It is easy to become to overburdened by the detail. No one else will think about the strategic direction of the business except for the owner. Consider the structure of the business going forward and whether you should buy or maybe sell or merge your business with a complimentary one to be stronger.



DJH are offering any business with an ST postcode a free one-hour recession proofing healthcheck. For further information please contact Chris Beardmore on 01782

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