

This article was ghost written for Jeff Berg of DJ Products.

Is There Light at the End of the Tunnel? How to Recession Proof Your Business

By Jeff Berg of DJ Products

The Dow is plunging, financial institutions are failing, credit is drying up and long-time Wall Street icons are plummeting into bankruptcy. The U.S. economy seems to be collapsing like a poorly stacked house of cards. The news is full of doom and gloom and more gloom. Is there light at the end of the tunnel?

In a word, yes. But it may be a long tunnel, manufacturing experts warn. Successfully weathering the storm will require a two-pronged attack: tighten up your business practices *and* calm worried employees.

Make Cash King

Keeping a sharp eye on cash flow will be essential in the coming months. With few exceptions, manufacturing markets are contracting. According to a recent report by the Institute for Supply Management, the Purchasing Managers Index (PMI), a composite index indicating manufacturing health, dropped an alarming 43.5% between August and September, posting its lowest numbers since 2001. Exports offered a glimmer of hope, but overall the manufacturing market is expected to show negligible growth for 2008.

Experts recommend taking the following steps:

- **Monitor cash flow.** Watch for potential cash-draining trouble spots. You may need to reign in credit terms or be more aggressive about collections. Base every decision on a "cash is king" model.
- **Control expenses.** Expenses should never exceed income. In a tight economy, there are no fixed expenses; every expense is negotiable. Review and update purchasing/service contracts regularly. Be prudent in purchasing policies. Don't stockpile supplies and decrease order quantities as demand decreases. Limit buying to what you use and what increases sales.
- **Tighten credit policies.** Over-extended credit can lead to bankruptcy. Maintain good credit policies in your borrowing and be clear about credit policies to customers before finalizing a sale. Don't continue to offer credit to slow-payers. You could be left holding the bag.
- **Be aggressive about collections.** Collection should be a daily task. Don't allow late accounts to linger. Instead of traditional 30-, 60-, 90-day payment schedules, age accounts receivables by the 15th and month end or even weekly. The sooner you start collections, the better the chance of collecting.

- **Scale back inventory.** Constantly track individual inventory items and cull out poor sellers weekly or monthly. Don't make the mistake of relying strictly on accounting summaries to track inventory. Accounting tracks dollars, lumping moving and non-moving inventory into an average. To effectively control inventory, track the physical items.
- **Evaluate capital investments.** Evaluate capital equipment and technology purchases for their ability to enhance the production of a quality product and increase competitiveness. Judge purchases against the potential to recoup their cost through savings in energy, floor space or worker health and safety.

Value Your Employees

Failing to value your employees can be as harmful to your business as poor financial practices. Customer satisfaction is the single-most important factor in driving business and repeat business to your door. When economic times get tough, competition for customers gets even tougher. Employee satisfaction goes hand-in-hand with customer satisfaction. When employee satisfaction plummets, production quality, efficiency and customer satisfaction suffer. It's a downward spiral that can kill a business in a recessive economy. The bottom line is that it's the human element that guarantees business success. When you're struggling to keep your head above water, it can be easy to forget that important lesson.

Experts recommend the following:

- **Communicate with your employees.** When the economy tightens up, employees worry about job security, providing for their family, even putting gas in their car to get to work. All that worrying takes a toll on worker productivity. To bolster employee morale, be honest about what's happening in your company. "Workers are going home and they are hearing bad news every day," says Jay Kuhn, president of business improvement company Definity Partners. "It's important they know what's going on because everything the company does is really going to be taken as a negative sign, whether it's meant to be taken that way or not." To reign in employee nervousness, employers should be prepared to answer questions and explain even minor changes like switching an insurance carrier or office supply provider. Keeping employees in the communications loop alleviates their fears and keeps office gossip in hand.
- **Keep things positive.** Worry and stress take a physical toll on workers that can increase absence rates. Keep things positive in the workplace so workers want to come to work.
- **Embrace patriotism.** Historically, Americans respond positively to hardship and sacrifice when they believe they are helping their country. Remember how people came together after 9/11? "Small and medium-sized businesses need to realize they're the backbone of our economic growth and job creation," says David Velie, managing partner of Amend Consulting/Techsolve. "Remind teams that they're the strength of the economy, not the Fortune 500s and the housing sector."

Things may be rough for all of us for a year or two; but as Kuhn points out, "The economy does come back; it always comes back."

About the Author

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