

TIPS *from* LauberCFOs

Things to Consider In a Slowing Economy

The slowing economy we read about in the paper seems to be affecting all companies differently. Some companies are having record years while others are experiencing flat or declining revenues. No matter how your business is impacted, it never hurts to review things you might do to lessen the impact.

These actions involve staffing, inventory, pricing and receivables. While you probably keep an eye on those areas all the time, factors related to a poor economy can cloud some indicators. (See or ask for our previous Tips from LauberCFOs on Key Performance Indicators.)

Above all, it's important to maintain open communications with your staff, customers and vendors, so if you need to change some terms or processes, you will more likely gain support, and so your employees remain committed to the company.

Staffing

- Re-emphasize (in clear language) what the top 2-3 objectives / goals are for this year. Mandate that all employees stop activity that does not directly support these goals. In today's environment, unfocused activities lead to expending time and \$\$\$ foolishly.
- Watch productivity during a slow-down. Employees have a knack of stretching the workload to the time available. People might look busy, but if there is less work to do, their actual productivity may have dropped. In a slow economy, productivity declines can be significant. It's important to have a measure of productivity in place so you can monitor variances. Then, based on the level of those variances, you can make decisions on options to restore and maintain the productivity standard.

- A slowdown can be a great time to evaluate and get rid of marginal employees.
- If you have to consider layoffs, do so decisively. Make cuts as deep as you need in the first pass. Nothing sends a message that you have turned the corner better than recalling laid-off workers.
- Across-the-board wage or hour cuts tend to have a lesser impact because the benefit costs continue.

Cash

- Cash management can be tricky in a slow economy, particularly if clients are stretching payments or coming up with new payment terms to well beyond 30 days, sometimes more than 90 days.
- If your top line is not growing, cash simply becomes more critical to your business and needs to be watched more closely.
- Don't just monitor cash flow and feel confident that things are OK if your cash position is good. If revenue is down, a company's cash position tends to improve as you collect old receivables and have lower current costs. This can lead to a false sense of security. Cash needs to be preserved to support activities when business growth resumes.

Finances

- Re-visit the annual budget! Start with, for example, Jan - May actual results and then "tweak" the June - Dec monthly budget to create a new annual target - this new plan can be called the Forecast. This is a good way to ensure that variable costs are being controlled in line with changes in revenue.
- Resist price cuts and be judicious with discounts during a sluggish economy; it could be difficult to

return to normal pricing once the economy improves. Be clear that any price breaks are temporary, and consider matching them with reduced levels of service.

- Pay more attention to receivables and make sure you're talking with people who are not paying on time. Be aware that some companies won't survive a bad economy, and that your delinquent accounts could be among that group. Similarly, be extra careful in extending credit.
- This is a good time to review expenses, cut what's no longer needed and make sure you're getting the best price for items you'll continue to purchase.
- Make sure you are paying competitive rates for credit. Reduced interest rates may provide opportunities for savings on debt costs.

Operations

- Production planning is important as sales fall off. Ensure that inventory levels and production planning go hand-in-hand. Make sure you have a wide enough planning horizon and resist the temptation to break in for a customer's rush order if it will create overtime in the short-term. On days when the plant is not busy for an entire shift, send direct labor employees home.
- As we mentioned above, key performance indicators are extremely important to monitor when the economy

is slow. One of those is inventory. If you haven't already set inventory targets, now is the time to do so.

- Consider focusing on your core market and pulling back from less profitable ventures.
- Just like with marginal employees, review your customer list and consider "firing" unprofitable customers
- Look for opportunities for new business, especially with existing clients. Companies that delay purchases in a slow economy may need service to extend the life of existing products.
- If you are considering a new location, it's a "buyer's market." There is plenty of available space and lease rates can be attractive due to reduced demand.
- Finally, keep an eye on the little things. Lights out when not needed to conserve energy, etc. Little things do add up.

The above are just some of the steps you can take to cushion the effects of the current economic conditions. (These are practices that really should be followed in any kind of economy.) If you'd like to personally discuss how your company can weather the slow economy, call us at 414-273-8060 or, outside of Milwaukee, at 800-358-8060. You can also send me an e-mail at John.Lauber@LauberCFOs.com. One of our LauberCFOs would be happy to work confidentially with you.

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