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**ACCOUNTING & AUDIT**

# 7 Ways to Help Clients Prep for a Recession

One way to ease uncertainty is to do prep work to try and determine how a recession will impact a business's operations.

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*By Christopher Hayden, CPA, CMA, CGMA.*

Recession fears are everywhere. A recent [survey](#) from Bank of America suggests that the expectation of a recession has reached all-time highs amongst investors. Luckily for your clients, you can help them prepare now so they can weather a potential storm.

Here are a few ways to begin the recession prep process.

## 1. Start With the Client's Budgets and Plans

One way to ease uncertainty is to do prep work to try and determine how a recession will impact a business's operations. You should help your clients:

- Create budgets for the year ahead
- Review and plan for the next year or two
- Run forecasts and what-if scenarios

For example, by running what-if scenarios, you can show your clients figures of what would likely happen if sales drop 10%, 20%, or more. These scenarios can also show positive results if a recession is shorter or softer than usual.

With a full review of the business's plans and budget, the client can begin taking preventive measures to reduce expenses and set a plan to take further action as events warrant.

## 2. Help Clients "Be Realistic"

Clients can be overly positive or pessimistic. Recessions are part of the economy, and it's important to remind your client of that:

1. Sales and revenue may fall
2. Contracts may not be extended
3. Recessions will eventually end

From my experience, it's far better to plan now rather than waiting until you're in the throes of a deep recession and making decisions in crisis mode.

Losing customers or having customers cut back on their demands can be difficult for business owners to understand and come to terms with. While no one ever wants their business to stall or not perform as well, helping your clients mentally prepare now is important. Keeping a positive attitude and seeing the recession through is half the battle.

### **3. Create a Cash Reserve**

Next, if a storm is coming, one way to withstand it is to have a cash reserve. Work with clients to:

- Improve their cash inflows
- Reduce their cash outflows
- Build up cash reserves and an emergency fund

Cash reserves can help every business better overcome the ups and downs of businesses and economies. Small changes here can go a long way. For example, can you help your client improve their current process around getting paid so their customers can pay easier and quicker? Are there protocols in place to deal with aging accounts receivables? I strongly recommend you do everything possible to collect old receivables now!

If additional cash reserves are needed, consider possible avenues for capital infusions and/or obtaining additional debt.

### **4. Review and Manage Expenses**

When it comes to expenses, think critically about the business. What was once necessary may no longer be necessary. Review their expenses with a fine tooth comb. Where are they spending money that's not contributing to the business? Consider upcoming expenses as well. Does it make sense to potentially delay or forgo some of the upcoming expenses?

Additionally, it's going to be important to work on negotiating or renegotiating contracts. When possible, suppliers and vendors should be negotiated with to try and lower costs.

### **5. Review Teams**

One of the most difficult parts of running a business is reviewing teams and trying to decide which employees will stay with the company and which may be cut, if necessary. Clients should work through a list of all employees and:

- List the employees in order of who would be cut first or last if necessary
- Write why certain employees are invaluable and hard to replace
- Document why certain employees can be let go with minimal impact

Certain teams or roles may also be outsourced, allowing the client to save money while also keeping operations running cost-effectively. In-house teams may need to be reduced, but there's no harm in bringing them back in the future.

No business relishes laying off employees, but it may be the only option to keep the company afloat.

If you'd really hate to lose any employees, then consider how you can conserve cash now to cover their pay and how you could get creative – such as cutting back hours – to minimize the impact of retaining them in a down economy.

## 6. Take Out a Line of Credit

Recessions can do many things, but one thing remains constant: *money goes up or down*. During a recession, it's normal for businesses to experience a drop in sales and need funds to continue operating. Before that happens, it's crucial all businesses begin to start securing their finances.

One way to improve financial stability is to take out a line of credit or increase the amount available on it.

Right now is the opportune time to apply for a line of credit because interest rates are slated to rise *again*, according to the [Federal Reserve](#). Additionally, obtaining credit may be more difficult if the economy is in a downturn.

## 7. Streamline Operations with Technology

New technology is constantly coming to the market to help businesses and teams perform optimally. Be sure to review existing technology and, if it makes sense, implement new technology.

Further, it's important to review all employee jobs to try and find ways that technology may:

- Improve efficiency
- Streamline tasks
- Reduce errors

Consider where automation can be added into the mix as well. By mixing the right technologies and automation into a business, owners can help ensure that their employee production remains high and reduce labor costs at the same time.

Finally, both you and your clients need to stay optimistic. Modern recessions typically last **10 – 11 months**. Following recessions, there are often a lot of opportunities that will help your clients return to financial stability and business growth.

Ignoring the risk of a recession will not make the threat go away. If businesses work through the list above, they'll have an easier time dealing with times of uncertainty.

Bio:

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