

# Six Steps to Prepare for a Recession

Salvatore Schibell | Tuesday, October 4, 2022



Economists are calling for a recession. Although most cannot agree on when it will happen or how severe it will be, they agree that a recession is a real possibility.

A recession will squeeze profit margins and force businesses to compete more aggressively for work. Contractors can do several things to ensure they sustain through the downturn. Here are six actions to take now to be more prepared for a recession.

## 1. BUILD RELATIONSHIPS WITH STAKEHOLDERS

Stakeholder engagement is critical, especially in a recession. Stakeholders are employees, customers, vendors, suppliers, professional service providers, the community and others that have an association with the company. It is essential to build and cultivate a strong relationship with these people. Keeping them happy and loyal is crucial to the future of the company. Their endorsement can help win jobs, attain materials and supplies, hire employees as well as obtain bonding and financing. Keep in close contact with sureties, bankers, financiers and investors. Make them aware of what is happening in the organization as well as current and projected financial results.

Many companies implement policies during a recession to reduce operating costs at the expense of customer satisfaction. Now is not the time to experiment with new approaches that may upset customers. Developing and maintaining customer relationships is important because they will stay loyal to a business they know, like and trust.

## **2. MANAGE CASH FLOW**

Carefully monitor cash flow. Track how much cash comes into and flows out of the company on a daily, weekly, monthly, quarterly and annual basis. Make period-over-period and year-over-year comparisons. Benchmark the results and refer to them often. Identify areas that need improvement and establish policies to ensure changes are made. Make projections based on historical results to determine future inflows and outflows of cash.

Enough money must come into the company to pay operating expenses and payroll. Encourage vendors to pay on or before schedule and negotiate terms of purchase agreements, contracts, leases and loans. Keeping operating expenses to a minimum and holding off on high expenditures can help ensure cash is on hand to meet expenses.

## **3. INVEST IN THE BUSINESS**

Although money may be tight, consider looking for opportunities to diversify and invest in new markets such as tiny home communities or manufactured homes. By being proactive, contractors can develop new or multiple income streams. Analyze job costs and margins to determine which jobs are the most profitable and why. Focus on the jobs that make money instead of unprofitable work. Companies that understand the cost of projects can provide better estimates and increase their profit margins.

## **4. HIRE THE BEST WORKERS**

One of the essential actions for contractors to do to prepare for a recession is to strengthen their team. To survive a recession, businesses must attract the best workers by offering competitive compensation packages. This can be difficult to do if labor costs are rising. Try to make the company more attractive to work for, even with a limited budget. You can do this by offering meaningful benefits that cost little to nothing out of pocket.

## **5. DEVELOP A STRATEGY TO SURVIVE A RECESSION**

Developing a strategy to survive a downturn is essential to any contractor's long-term success. It requires an aggressive growth plan and a strategy to increase market share. An economic downturn presents many challenges, including tight labor markets. Fortunately, a recession also offers many opportunities.

## **6. IMPLEMENT MANAGEMENT PROFIT-CREATING INITIATIVES**

When external stressors are in play, like high inflation, it's time to be innovative. Consider introducing open book management to the organization. This management practice can enhance the bottom line by educating workers to become more efficient by making them aware of the company's financial position, goals and strategic direction. Employees feel more responsible for their contributions to the success of the organization and work together to improve its overall well-being. The company benefits from increased comradery among employees resulting in higher employee engagement and retention rates, as well as more

efficient operating procedures. As a result, the company becomes stronger and better positioned to overcome challenges.

There are many ways to mitigate the effects of an economic downturn. It is possible to maintain or expand the business even during a recession. The key is to find the silver lining instead of focusing on adverse outcomes. Although it may be difficult, companies willing to accept a certain level of risk will sustain through the recession and beyond.



Written by Salvatore Schibell Lawson, Rescinio, Schibell & Associates, P.C.  
Contact Info: (732) 539-7328, [salschibell@lrscpa.com](mailto:salschibell@lrscpa.com)

Salvatore Schibell, CPA, CFP®, CGMA, MS Taxation, MBA, is the tax partner at Lawson, Rescinio, Schibell & Associates, P.C. One of his specialties is working with contractors to maximize profitability utilizing his certified global management, financial planning, and tax planning specialties. Sal is considered a leader in construction accounting and can be contacted at (732) 539-7328 or [salschibell@lrscpa.com](mailto:salschibell@lrscpa.com).