Key Metrics Businesses Need to Watch Pre-Recession

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We are in uncertain times caused by inflation, geopolitical unrest and other influences. Inflation is a significant threat to the financial stability of the economy. The Federal Reserve's monetary policy of increasing interest rates to control inflation is an important step. Still, the result will cause an economic slowdown affecting all aspects of doing business. Most economists say we should prepare for the possibility of a recession. Here are some of the key metrics business owners should watch.

GLOBAL AND REGIONAL METRICS

Global and regional metrics give a macroeconomic view of consumer and industry buying behavior.

- **Unemployment:** The U.S. Bureau of Labor Statistics releases monthly and yearly employment data. The employment figures signal if the labor markets are going up or down. A steep decline could indicate that a recession is on the horizon. Employers should keep a close eye on employment levels within their organization. A drop in output often accompanies a decline in employment.

- **Consumer confidence:** The Consumer Confidence Report gauges how people feel about the economy. When consumer confidence is high, customers spend more and feel financially stable. When it is low, consumers spend less. A decline in consumer confidence is a warning sign that customer behavior may change. This metric can indicate the estimated demand for products now and in the immediate future.

- **Consumer spending:** The U.S. Department of Commerce releases a monthly report on economic activity. This report assesses personal wealth and how much disposable personal income people have. When people have higher disposable income, they are more likely to spend.

- **Housing activity:** A key metric is housing starts which tracks the number of new residential construction projects. A decline in this metric signifies that housing demand is weakening and investors are pulling back. A drop in this metric usually signals the beginning of a recession.

INDIVIDUAL BUSINESS METRICS

A business's financial metrics can signal that the company is in trouble or provide reassurance that everything is fine.

- **Sales revenue** must be watched continuously; a decline could be caused by a change in consumer demand, poor customer service or variation in quality. One tactic is to conduct a focus group and customer satisfaction survey to determine what is causing the problem and how to fix it.

- **Cost of goods sold** (COGS) shows how efficiently a company operates. An increase in this metric can indicate that the company is paying too much for raw materials, has inefficient production and fulfillment practices or has labor problems. Companies can renegotiate prices and payment terms with suppliers, find new sources of materials, buy in bulk, use less expensive goods and improve operating procedures and processes. Keep in mind that quality should never be compromised to reduce costs.

- **Cash flow** is critical to the success of any business. Renegotiating customer payment terms, enforcing late payment fees, offering early payment discounts and changing invoice cycles to encourage customers to pay faster are all measures that can help with cash flow.

- **Net profit margin** discloses how much actual profit is made from sales by removing expenses. To improve profits, companies need to elevate their brand, increase the perceived value of their merchandise, increase average order size, streamline operations, reduce operating expenses and optimize vendor relationships.

Most key metrics point towards a recession. How companies react and scale their business will either help them survive or die. Companies need to have a strategic plan in place to combat the recession. This plan should address all business disciplines — operations, marketing, human resources, information technology and finance. Management should watch key performance indicators that can make or break the company, benchmark these metrics against business and industry data, and implement procedures and safeguards to minimize the effect.

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