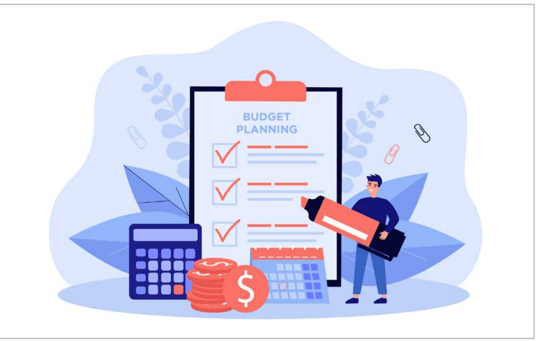
Six Ways Organizations Should Prepare for a Recession

When the economy is strong, businesses generally experience growth. However, during a recession, unemployment rises, earnings may drop, and organizations may have to downsize. While signs indicate an economic slowdown or even a recession are on the horizon, there are steps businesses can take to mitigate its impact. Companies are much stronger when the storm hits by preparing for a recession beforehand. Take the time to to evaluate your business and its strategy for how it will navigate through a downturn. This will give your business a solid foundation to sustain itself through the slowdown as well as put you in a position to prosper when the economy recovers. Here are six ways organizations can prepare for a recession.



Stick to a Budget

It's essential to plan for any possibility, including an economic downturn. The best way to do this is to strictly adhere to your organization's budget and review it for areas you could adjust for cost savings. For example, you can save money on office supplies by shopping around for the best prices. Look outside your pool of traditional vendors and try large discount suppliers like Amazon or Walmart, who often beat standard office supply prices.

It's best to stay within your budget and continually re-evaluate where your money is being spent so you can make adjustments to prevent overspending. For instance, if you find a lack of funding has led to overworking staff members, outsourcing specific tasks or making certain positions part-time instead of full-time might be considered. Even though this may be difficult, it is better than having to lay off employees or go bankrupt at the end of the year. If you previously navigated through a recession, review your past strategies for maintaining your budget. This will help you maintain optimism during a recession, but it's essential to reflect on your past experience and learn from it.

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Pay Off Any Outstanding Debt

When organizations are faced with economic downturns, they can position themselves well to weather the storm by reducing its debt. If you know a recession is likely, consider increasing your monthly payments to lower your overall monthly expenses before it occurs. This will leave you with more available cash and improve your financial flexibility during lean times.

It's also essential to review the maturity dates, and interest rates must be considered for businesses with multiple debts when deciding which to repay first. Generally, it is best first to pay off loans with the highest interest rates. In addition, a business may want to consider refinancing that debt if an asset can be used as collateral for a loan—and the loan has a lower interest rate than the outstanding debt. For example, your business has two loans: a $10,000 loan with an 8% interest rate and a $50,000 loan with a 5% interest rate. In an economic downturn (which will reduce the amount you pay in future payments), it might make sense to eliminate the smaller loan first. This will also help your cash flowby decreasing the monthly costs. Interest rates often decline during recessions, which could reduce the amount you pay in future payments.

Build An Emergency Fund

Financial experts recommend individuals keep three to six months' worth of living expenses in the bank in case of a job loss or emergency, and businesses should follow this same advice. A well-designed business emergency fund should cover the costs of at least six months' worth of expenses. To establish a fund for emergencies, businesses should maintain a reasonable buffer between monthly operating expenses and income as well as prepare for any possible crises that could arise in the next several months.

It is typically a good practice to save money when the economy is strong, and cash flows in. Suppose business slows down; for example, sales drop or cash-pinched customers need more time to pay their bills and expenses have not been cut as much as possible. In that case, you can tap your emergency fund to cover payroll and fixed expenses while cost-cutting and revenue-boosting measures are implemented.

Plan for the Long Term

During a recession, businesses sometimes operate with a short-term outlook. However, it's crucial to have a plan for the company to run smoothly while maintaining long-term goals. By planning for the long term, companies can anticipate and avoid problems before they become significant. For instance, companies could invest in research and development or purchase new equipment to give them an advantage over other businesses. Many companies use this time to build new ventures or expand their offerings—by introducing new products or services or exploring new markets. This could mean adding new employees or investing in training to prepare for a future expansion.

If your organization operates on a tight budget, it can be challenging to make long-term goals. It is essential to pay attention to new technology and equipment, which can be hard to purchase during rough economic times. However, emerging technologies are all around us—we just have to keep our eyes open for them. That way, when businesses start climbing out of their slump in the future, you'll be able to take advantage of emerging technologies and equipment so that your business is ready for anything the market throws at you.

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Build Employee Skills

Keeping employees happy and productive is essential, but you must remember that their livelihood depends entirely on the company's success. Many businesses are looking for ways to cut costs and possibly lay off workers in the current economic climate. However, they could be harming their companies' long-term performance by doing this.

To maintain high-performance standards, you must help your team continually learn and improve their skills. When you have to fire employees because of financial constraints, it is easy for people to feel like they've failed. The best way to combat this is by providing training or career advancement opportunities. If you're willing to invest in employee development, your team members will be more productive and satisfied. They also will have a more positive outlook on your organization, which can influence prospective hires and other customers who deal directly with your employees.

Plan for Different Possibilities

A recession's effect on your business will depend on how your organization has prepared for it. If you have accounted for multiple scenarios, have a broad range of responses to those scenarios, and can adapt quickly, you can keep your business afloat even if the economy is in turmoil. For example, a recession may lead to significant drops in sales, which would mean a loss of profits for you and your company. To reduce that impact, consider talking to employees about salary cuts or limiting hiring next year but let them know it's the last thing you want to do.

You might also consider closing one or two office locations to minimize overhead costs. However, these choices will depend on how much they affect the company's core operations. If your organization's sales drop significantly, these options become more appealing and are more likely to be implemented. However, you can implement less drastic alternatives if sales decline only slightly.

You can grow rapidly when things are booming, but when there's a downturn, the goal is to stay afloat. The key to surviving recessions is planning for them. Businesses that plan for tough times and take preemptive measures—such as creating an emergency fund, lowering debt, and detailing how to handle multiple recession scenarios—will be able to weather any economic downturns. They will see their plans pay off because they'll be able to ride out any storms and emerge from them stronger than ever.

About EG Workforce Solutions

We've been in this business for decades and have developed a deep network of professional connections. Whether they're companies looking for talent, job seekers looking for work, or an up-and-coming store in need of some temporary help, we know the right people to bridge the gap between the hiring and the hired.

But what's more, we get to know people. From employers hiring to candidates looking, we take the time to listen and learn. We hear your likes, talents, and needs. We gain an understanding, and with it, we're able to facilitate lasting relationships between businesses and people.