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HELPING PEOPLE SUCCEED.



How to Recession Proof Your Business

According to the U.S. Bureau of Labor Statistics, 263,000 jobs were added in September 2022, and the unemployment rate dipped down to 3.5 percent.¹ However, according to a survey by the Wall Street Journal, economists remain divided over whether the U.S. is in a recession or on the brink of one. The survey found that 44 percent of respondents believe a downturn will occur next year, up from 28 percent in April 2022.²



When it comes to the economy, no one can predict what will happen next with absolute certainty. However, historical events have occurred that can help us make educated predictions about what might happen in the future. For instance, in December 2007, the last official economic downturn began and lasted until June 2009. Despite relatively small payrolls, businesses accounted for 62 percent of jobs lost between 2008 and 2009 due to heightened credit constraints and sensitivity to consumer demand.³

If the economy enters a recession—as determined by the National Bureau of Economic Research—you can still stay profitable. To weather the storm and protect your organization, preparing now is essential—especially if you’re already feeling the effects of the slowdown.



Identifying the Signs of a Recession



The National Bureau of Economic Research (NBER) waits until months after a downturn has started to label it a recession. In most recessions, output and employment decline simultaneously. Decreased revenue compels businesses to cut back on staff, leading to higher unemployment. Ultimately, higher unemployment leads to lower consumer spending, creating a vicious cycle. However, in 2022, the economy showed few signs of slowing down. The official unemployment rate in October 2022 sat at 3.7% – matching a 50-year low reached just before the pandemic – and job growth continues steadily.⁴ However, job quits in the United States decreased for the first time in 17 months to 4,026 in October 2022.⁵

The current economic downturn in the US is unprecedented; there has never been a recession during such a hot job market. Despite recent news of significant tech layoffs and some industry sectors slowing down, there are still twice as many job openings as people are actively looking for work. According to the U.S. Bureau of Labor Statistics, the number of job openings dipped to 10.3 million on the last business day of October 2022.⁶

While the US economy experienced slowdowns in the first and second quarters of 2022, early reports for the third quarter show that the economy is growing again. The second-quarter decrease in the gross domestic product (GDP) of 0.9% was the second straight negative quarter and brought the economy in line with a standard definition of recession.⁷ This, coupled with rising inflation rates, has created a confusing situation for business owners and policymakers alike.

How a Recession Might Impact Your Business



Predicting the future is difficult, but there are some strategies that businesses can implement to survive an economic downturn. A recession is generally characterized by decreasing GDP and decreased sales and profits. Companies will tighten up the purse strings when the economy is struggling, avoiding excess spending while trying to achieve higher levels of productivity.

During a recession, organizations that prepare for it will succeed when uncertainty clears. According to a survey conducted earlier this month by Blue Chip Economic Indicators, 88 percent of economists predict a mild downturn. However, you must monitor economic signals closely and respond cautiously until then. (8) Consider taking these four steps to recession-proof your business.



Stick to a Budget

Sticking to a budget is essential in a down economy when you need to be helps you know how much money will be available for unexpected situations. If you are preparing for a downturn in the economy and want to be prepared for the possibility of cutting costs, ensure your organization strictly follows its budget and reviews it for areas where it can make adjustments. To save money on office supplies, consider purchasing your office supplies from large discount suppliers rather than traditional vendors. This can help you save money on supplies because the prices offered by large discounters such as Amazon or Walmart are often cheaper than those offered by traditional vendors.

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 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. While this is difficult, maintaining a budget and avoiding layoffs or bankruptcy are the best ways to manage a recession.

If your business has weathered a recession, learn what worked for you and what didn't. If your organization took a hit because of something specific, search for ways to diversify your income stream so that future recessions won't hold as much power over your bottom line. Taking a look at how the recession affected your business can be a helpful way to determine where to focus your efforts now. Did it rely on one particular product or service? If so, diversify by selling other products or services to new customers—even if they're not as profitable right away—so that if one area of your business slows down, another can pick up the slack. It might also mean making sure your products or services cater to customers who will still be able to afford them during tough economic times.



Pay Off Any Outstanding Debt



Organizations facing economic downturns can position themselves well to weather the storm by reducing their 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.

Paying off outstanding debt will reduce your monthly payments and improve your cash flow by decreasing the cost of those payments. When a recession strikes, interest rates often decline, which could reduce the amount you pay in future payments if you can refinance your loan. Even if your business takes a hit during the recession, lowering your debt will make it easier for you to get back on track when things turn around.



Upskill Your Employees



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; this can be done by ensuring employees have the tools and resources to enhance their skills. There are several ways to provide training for your employees, including; on-the-job training, conferences, certification exam, online courses, and more. Providing employees with opportunities to learn something new will give them a sense of purpose, accomplishment, and recognition.

Another way you can up-skill your employees is by implementing an employee development plan that emphasizes ways to help them grow and learn new skills. This can be done in several ways, including providing mentors throughout the organization and offering courses that teach soft skills, such as time management or customer service. You can also give employees opportunities to work on different projects, which will help them grow their expertise, build their skill set and gain new perspectives on the company and its products.

Plan for Different Possibilities



When preparing for a recession, it is essential to account for multiple scenarios and have a broad range of responses to those scenarios. 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. In doing so, you avoid drastic measures such as mass layoffs or salary cuts for everyone—and save money on hiring and training new employees later.

Another step is to examine the potential of outsourcing specific tasks or streamlining operations through technology upgrades or other cost-cutting measures. For example, you could outsource certain tasks or streamline operations with technology upgrades. Regardless of your choice, it's vital that everyone feels informed about what's happening in your business, so no one feels blindsided by those decisions.

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.



Navigate the Situation



During a recession, most businesses are affected in some way. Although you can't prevent them, you can minimize their impact on your business by ensuring you have plans for financially unstable times. The goal is to stay afloat by providing your company has enough cash reserves to continue operating while sales are down. To weather a recession, businesses should plan for tough times and take preemptive measures—such as sticking to a budget, lowering debt, upskilling employees, and detailing how to handle multiple recession scenarios. These actions will allow them to ride out any storms and emerge stronger than ever.



Sources

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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.



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