7 smart financial strategies for surviving an economic crisis

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As the COVID-19 pandemic continues to worsen, finance experts say the global economy is spiraling towards a recession at best. Some also warn that a depression may be right around the corner with unemployment levels we have not seen for 90 years.

"This is 100% unprecedented," says Matt Garrett, CEO of TGG Accounting, who has spoken to more than 600 Vistage groups about finance best practices for small and midsize firms. "We're going to lose years and years of productivity. It's going to present a massive unemployment problem…and a massive problem for the business community at large."

Having led businesses through the 2008 recession, Garrett offers candid advice for CEOs trying to prepare their firms for today's tumultuous environment. "Run your business by the numbers," he says. "Get the numbers right and then make decisions based on those numbers."

From a tactical point of view, Garrett says, this means taking seven steps.

1. Assemble a disaster planning team.

Your disaster planning team should include an attorney, insurance agent, insurance expert, HR lead and accountant. Working together, the team should forecast what might happen if your business revenues decrease by 25%, 50% or 75%.

2. Use scenario planning to improve your cash flow.

This is a critical step, involving several parts:

- **Forecast your 13-week cash flow**. After you've made this forecast, review how your business is tracking each day.
- **Do collections planning**. To assess the risk level of your customers, segment them into A, AA and AAA categories based on their payment history. Determine which customers you should focus on and which customers you shouldn't, due to risk of nonpayment.
- **Review and revise payment terms for all contracts**. For example, ask for payment via Automated Clearing House (ACH) within 10 days of invoicing. Where appropriate, increase deposit terms, add personal guarantees, put in late fees and interest, and have a strong stop-work plan.
- **Develop relationships with the right people**. Get to know the accounting departments that pay you.
- **Send invoices faster**. Work with a good collections attorney to fine-tune your process. Accept alternative or digital forms of payment.
- **Revisit your supply chain**. For both upstream and downstream supply chains, make sure you're working with companies that are viable and likely to stay in business. If you're a strong company, consider renegotiating those contracts for cost savings.
- **Tighten your inventory planning**. Excess inventory is going to soak up your cash — or put you in a bad position if your sales start to fall.

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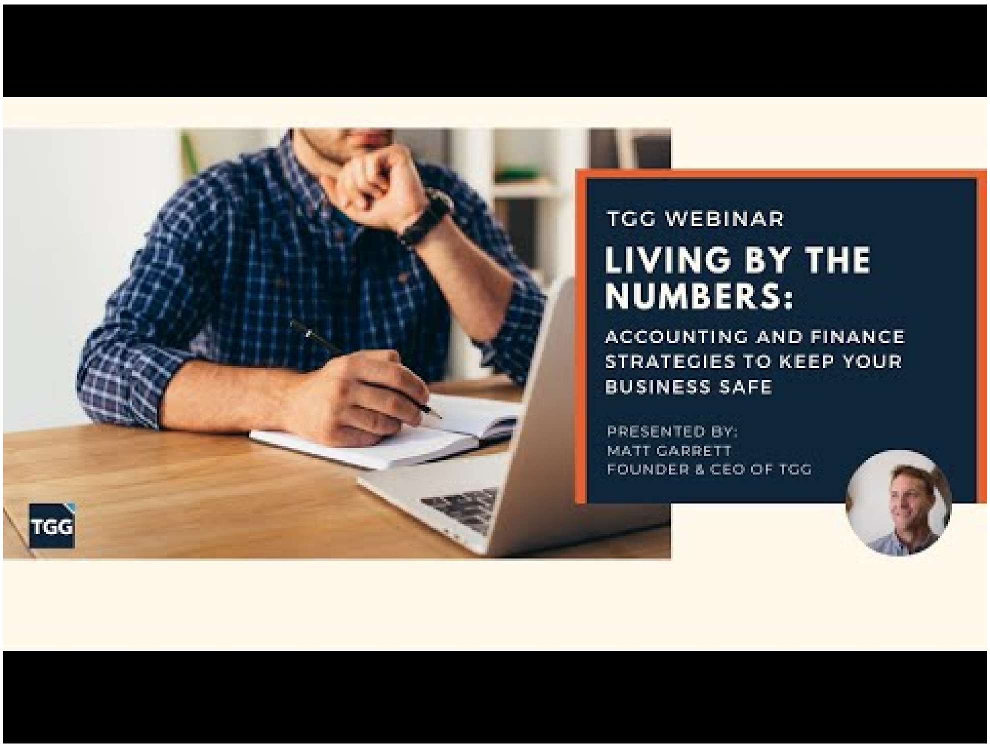

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3. Scrutinize every contract.

Team up with your attorneys and accountants to review contracts, paying special attention to force majeure clauses. Review termination rights, termination risks, renegotiation rights, personal guarantees and other contract provisions, and consider whether you need to renegotiate any of these terms.

4. Hoard cash.

Work with your accountants to decide which invoices are mandatory pay, slow pay or no pay. In addition, work with your attorneys to use stop-pay options on liabilities that don't have personal guarantees. Then, consider a strategy that large companies such as Ford and HP employ: Withdraw your entire line of credit, and put those funds in a separate bank account. "This gives you a cash parachute in case something really bad happens, which I think it's going to," says Garrett.

5. Cut costs ruthlessly.

Partner with a good tenant broker or large real estate firm to renegotiate your lease. Monitor federal guidelines for evictions and the moratorium on evictions. Ask for discounts on proactive purchasing or cash purchases for costs related to office supplies or technology contracts. Look for ways to reduce the little things that can add up to big costs, such as credit card fees, lease and loan fees, bank fees, insurance costs and payroll taxes. Work with bankers to review the latest rules for small business loans and repayment options.

6. Use your biggest expense wisely.

Most likely, people are your biggest business expense. To manage them better, start reviewing utilization on a daily basis, rather than a monthly basis, and take measures to increase your employees' accountability. At the same time, look for outsourcing alternatives in accounting, IT, HR and other areas where you might not need a full-time employee. Finally, make a conscious decision about furloughs or layoffs for employees that may become necessary if the business reaches a certain level.

7. Engage in succession planning.

During a recession or depression, turnover is inevitable, so if those events occur, it's important to develop a plan for getting new workers up and running. If your business only has one or two signers — as many do — think about planning for alternative signers or alternative points of contact.

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To be clear, these steps are not short-term fixes. They're strategies for surviving what may become a long-term struggle.

"This [crisis] is not a temporary thing," says Garrett. "We aren't going to bounce back three weeks from now."

That's not to say that businesses won't bounce back at some point. They will. "This is survivable," Garrett says.