

Prepare Your Business For Times of Uncertainty

By Michael Kaplan

As the political campaigns heats up, the United States dollar continues to cool off. As the stock market continues its downward trend, it is time for businesses to realize what they should expect and plan for over the next 6 to 12 months. Due to the fact that change is going to occur in Washington and that there is no clear favorite, people and businesses are not sure what direction the country will take, making them take a more conservative stance in terms of their consumer spending. While the federal government continues to cut interest rates to encourage spending, many economists are saying the country is headed for a recession. A recession is an economy that is in reverse meaning it is shrinking instead of growing. This refers to the overall activity across all different industries and regions throughout the country. Some businesses, such as housing and construction, are already believed to be in recession, as well as some regions like the industrial Midwest, which is largely reliant on automobile and steel production. California's economy is heavily reliant on entertainment, real estate and technology. With the Writer's strike occurring in Los Angeles, it has affected many businesses that support the entertainment industry. The housing market has cooled off as well in California and will continue to do so. Companies are not spending money on new technology either as they prepare for harder times ahead. Then there are also those areas and industries that may feel little or no impact from the current economic downturn.

Few industries will not be impacted by an economic downturn, since most rely on consumer spending and consumers typically reduce spending in an economic downturn. Some industries and regions are more vulnerable to economic downturn than others. When the economy is showing signs of weakness, people tend to put off buying luxury items and longer-term impact items, such as cars and homes. They don't want to lock themselves into long-term payment agreements. However, it is not just automakers and construction companies that suffer, it is also the raw materials used, such as steel and wood.

Businesses face the greatest risk of being impacted by an economic downturn when they do not plan for it or ask the right questions. There is more to surviving downturn than being in the right business or location. Business owners need to ask themselves what products and services people will continue to need and buy even in a weakening economy. For example, health care companies generally do well, because people still get sick, maybe even more so than they do when times are good. Businesses must act quickly and be introspective when they see that demand is drying up. They must look at solutions such as cutting prices or reducing overhead and fixed costs. Those businesses with higher fixed costs may be more vulnerable than businesses that can survive for a time on less. Business owners who see an economic downturn coming will often talk to their customers about their future needs. The sooner they find out which customers and how many plan to cut back their future orders, the sooner

they can make changes to deal with the reduction in their business. It is extremely important to take a proactive approach to your business in an economic downturn.

Many businesses turn their attention to financing and lending opportunities. As interest rates continue to drop, this may be a viable option to help businesses survive for a short period of time. Talk to your banker and see if your business can qualify for larger lines of credit or cheaper rates. However, be aware lending institutions are going to be more careful approving financing based on the credit issues we are experiencing. They are going to require companies to jump through more hoops to get the dollars they need, so make sure you read the fine print. You don't want to end up getting financing that will help you survive now, but will potentially hinder your business growth going forward. Just keep in mind, the more you borrow now, the longer it will take you to get out of debt. Many businesses find themselves too heavily in debt already and will face difficulties in borrowing more money to get them through an economic downturn.

There are only a few businesses that are said to be recession proof. As people say there are only two things in life you can count on, death and taxes. Funeral homes and tax preparers can safely assume a recession will have little impact on their businesses.

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