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2023 CFO Recession Toolkit

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CFO Recession Toolkit

Managers are dealing with a number of economic issues, and some analysts believe that the US is headed toward a recession. Doing business during a recession is challenging, but economic downturns are a part of the business cycle. To respond to the challenge, you need to apply a number of strategies to the problem, which are explained below. Think of this discussion as a recession toolkit.

Successful companies take action to minimize the impact of a recession, and that includes a review of the routine tasks you complete each month. Some tasks, including accounts payable (AP), require a large time investment, and technology can help you complete more work in less time.

Stampli's end-to-end AP Automation platform gives you full control and visibility over all your corporate spending from cards to invoices and payments — all in one place.

Let's start by reviewing the definition of a recession, and the factors that are currently impacting the economy.

What is a Recession?

The National Bureau of Economic Research (NBER) defines when the US is in recession, and there are several facts you should know about a recession. It's important to remember that the economy is cyclical, and that recessions are a normal part of the cycle.

How gross domestic product is used

The gross domestic product (GDP) measures the value of all goods and services produced in the US. When GDP declines for two consecutive quarters, NBER often states that the economy is in a recession. GDP declined in the 1st and 2nd quarters of 2022, then increased in the 3rd and 4th quarters. NBER did not judge in US to be in a recession in 2022.

ADDITIONAL FACTORS

Managers are facing a number of headwinds that make it more difficult to grow sales and profits:

Rising inflation

Inflation has increased the cost of both materials and labor, and businesses must consider price increases to maintain profit margins. The Consumer Price Index (CPI) measures inflation, and the January 2023 CPI report found a 6.4% increase in CPI over the past 12 months.

Higher inflation also means that consumers have less disposable income, and spending may decline. When the Federal Reserve increases interest rates to combat inflation, borrowing costs increase for businesses.

Supply chain disruptions

The pandemic and other factors have made it more difficult for companies to get the raw materials and services needed for production. Suppliers are struggling to meet customer demand, and businesses are dealing with production bottlenecks.

Equity market declines

As of 3/10/23, the S&P 500, an index of 500 large company stocks, has declined 8.15% over the past year. Stock market declines make it more difficult to raise additional equity, or to launch an initial public offering of stock.

It's important to remember that recessions are not unusual, and that recessions are not permanent.

Recessions come and go

According to the NBER: "Since World War II, the U.S. has experienced 12 recessions… an average of one every six years. Since 1950, recessions have lasted between two and 18 months."

Every successful business has to manage its way through recessions, and managers should take action now to reduce the impact of a potential recession.

Steps to Take Now

To remain competitive, you need to work efficiently, and get the maximum amount of return on all spending. This requires a review of your entire business, including purchasing, operations, sales, and marketing.

REVIEWING CASH FLOW

Effective cash management allows the business to fund monthly operations, and to make long-term investment decisions. Start with your current cash flow projections, and discuss strategies to maintain cash inflows.

Improving cash collections

Businesses need a formal process for cash collections, and the policy must be consistently followed. Assume, for example, that a firm sends a customer email when an invoice is over 30 days old, and calls the customer when invoices are more than 45 days old. When the policy is applied to each invoice, cash collections may increase.

Managers may require a deposit before a product or service is delivered, or offer discounts for timely invoice payments. If the company collects payments faster, the 1% or 2% discount may make financial sense.

Evaluating cash sources and uses

Look into your options for securing more cash, before you run into a cash shortage.

- **Line of credit:** Do you have available credit that you're not currently using? Can you provide collateral so that your lender can set up a secured credit line?

- **Factoring:** In some industries, companies sell the accounts receivable balances and receive cash, less a fee.

- **Selling unneeded assets:** Review your fixed asset listing to identify any unused assets. If you have purchased another business or ended a particular product line, you may have assets that can be sold, in order to raise cash.

Once you assess your cash flow position, start to evaluate your position in the market.

UNDERSTAND THE COMPETITION AND YOUR MARKET

A recession impacts every business, including your competitors. Analyze each of your competitors, and where they stand in the market. Evaluate their strengths and weaknesses, and where you can gain a possible advantage.

If a competitor is a subsidiary of a larger company, for example, the parent company may cut the subsidiary's budget during an economic downturn. This change may provide an opportunity for you to gain market share.

Many firms pivoted to new business models during the coronavirus pandemic. If the economy slows, you may find a more effective way to solve problems for customers.

One of the biggest recession challenges is to maintain your current revenue base.

MAINTAINING COMPANY REVENUE

If you can minimize the decline in company revenue, the cash inflows can help you avoid large spending cuts. You can drive revenue in three ways:

- Maintain revenue generated by existing customers

- Sell more or different products and services to the existing customer base

- Add new customers

An experienced sales staff can help you forecast revenue, based on changing economic conditions. Are customers telling you that they're cutting back? Will next year's budget include fewer purchases from your firm?

Estimating customer demand

If a business fills an urgent customer need, sales may not decline dramatically in an economic slowdown. Other industries, such as luxury goods, may be heavily impacted. Ask your sales staff to get input from customers, and generate a revenue forecast based on the feedback.

Pricing decisions

Revenue depends on both units sold and the price per unit, and customer demand drives pricing decisions. Consider these factors:

- Increasing prices during a recession is difficult, even for products and services that are in heavy demand. Customers become more price conscious when the economy slows
- If business costs increase and prices stay the same, each sale generates a lower profit
- Maintaining good customer relationships and effective marketing may help customers see the value of your brand, so you can avoid price cuts

Once you've addressed the revenue side of the business, analyze each cost that you incur.

CONTROLLING COSTS

Start your review by evaluating the largest costs first, and take a close look at costs that are tied to fixed annual contracts. Insurance premiums, service contracts, and IT costs are often determined by an annual agreement. Find opportunities to negotiate lower annual contract costs, or spending that can be changed to monthly charges.

Stampli offers the freedom of month-to-month AP Automation, and provides industry-leading technology for businesses.

These costs are often the largest expense items for a business:

Reviewing payroll

Payroll includes salary, benefits, and payments to hourly contractors. Management may decide to keep some open positions unfilled, or freeze salaries and other compensation for a period of time.

Evaluating inventory

Retailers and wholesalers may invest large dollar amounts in inventory, and inventory converts into an expense when items are sold. Businesses may reduce the inventory units purchased, or negotiate lower prices from vendors, in order to reduce the cost of goods sold.

Assessing the cost of operations

Every business task requires a certain amount of costs, and each process a firm performs should be evaluated. Think about these routine tasks: purchasing, producing a product, delivering a service, marketing, and accounting. These factors impact the cost of a particular task:

- **Complexity:** A task that requires more steps takes longer, and the risk of error is higher. Payroll is a complex process, because each individual's tax withholding on income may be different.

- **Training:** Well-managed businesses document each routine task in a procedures manual, and train employees using the manual. Using a manual clarifies how each task is performed, and makes training easier. When you crosstrain employees, you can maintain productivity when employees are out of the office.

- **Level of automation:** Manual tasks require more time and generate more errors than automated processes. If a firm is manually calculating tax withholdings on payroll, the process is time consuming and may result in numerous errors.

Review each task that you perform, and ask your staff to update the procedures manual, if needed. Consider investing in technology to eliminate manual tasks, so you complete more work in less time. Businesses can take control over invoice processing with Stampli's smart, intuitive, and actionable AP Automation software.

Put systems in place to monitor company performance, and to assess the financial impact of a potential recession.

MONITORING RESULTS

Monitor the changes that you make, in order to assess the impact. As variables change, you can adjust your plans to minimize revenue loss and to control costs. Decide on the key metrics (KPIs) that you should monitor, and position the KPIs where they can be accessed quickly online.

Managers gain full visibility into accounts payable data with Stampli Insights. Built directly into the AP Automation platform, AP teams are provided with all the tools to understand their invoice process, the status of each invoice, and employee workloads.

COMMUNICATE WITH STAKEHOLDERS

Your stakeholders (employees, vendors, board members, etc.) need information on the steps you're taking. Think about how you can communicate effectively to each of these groups. Delivering a clear message will build confidence and increase buy-in for your plan.

Take action to address a possible recession now, so that you're ready to outperform competitors who are not proactive. Embrace automation as a tool to work more productively, and to lower costs. Don't just manage spend, control it using Stampli.