



EDITORS' NOTE *Paul Goodman, MBA, PFCI, and Derrick Myers, CPA, CFP, PFCI, love a good financial management challenge, however big or small. Send your questions to fmeditor@safnow.org, and we'll challenge the experts to tackle them in an upcoming article.*



Recession-Proof Your Business Now

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There are things you can do now to prepare your business to weather an economic downturn.

There has been much talk this year of a recession, and based on data from clients, floral sales in the first half of 2022 were starting to slow compared to 2021, corroborating this possibility. While most florists are still showing increases in gross sales, it seems to be driven by higher pricing and not an increase in the number of units sold. In fact, many florists saw a decrease in the number of units sold from January to May of this year compared to that same time period in 2021.

If we are headed into a recession, there are some things you can do now to better prepare your business to weather a downturn.

Get Your Financial House in Order

Many of the strategies designed to survive a recession simply require good financial statements and other financial data, and some require understanding of basic finance. Make sure that you are working with professionals who can help you fill in any gaps in your knowledge base.

Maintain, Improve and Nurture Business Relationships

Now is the time to build on the relationships you have with your customers, wholesalers, importers, bankers, and financial experts. Better relationships will help your business

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in many ways. It could be as simple as a loyal customer who buys from you even in bad financial times. Or perhaps a better relationship with a wholesaler could get you first access to a hard-to-find product. It's difficult to say which relationships will benefit you, just remember you are not alone. The more resources you have at your disposal, the stronger you are.

Build a Financial Reserve

Most financial experts recommend that you maintain cash reserves of three to six months of expenses. To target a more specific number, look at your cash flow projections and budgets to forecast the actual cash you think you will need. Using your 2021 numbers, create a budget and cash flow projection for the next 12 to 15 months. Having a budget based on realistic sales growth or decline can help you forecast the cash reserves you will need. This is a perfect opportunity to lean on the relationships you have with your financial team.

Get Paid on Time

If you allow your customers to buy from you on credit, now is the time to tighten up collections. Most people are still very cash solvent, so make sure they are up to date with payments. In times of recession, use more discretion in issuing credit, and place a shorter time limit on how long customers have to make payments. If necessary, cut them off and/or turn them over to a collections agency to ensure that you get paid promptly.

Separate Business and Personal Expenditures

Many small business owners use their company bank accounts as their personal pocketbook. There are many legal reasons not to do this, but that is a discussion for another day. By separating your personal expenses from the company, it is easier to look at the business and its financial status. You need a clear picture of profitability to make the correct decisions for your business. You need to do the same to properly analyze your personal expenses and make any necessary cuts.

Control Your Costs

Controlling costs is a very important aspect of surviving a long recession. You

need to look at all of your expenses and break them down into two categories: fixed and variable. Fixed expenses are those expenses that do not change with an increase or decrease in sales. These are usually overhead items such as rent, utilities, insurance, vehicle leases, note payments, etc. Variable costs are those that can easily move up and down with sales. These are expenses such as cost of goods sold, payroll, advertising, travel, dues, etc. Once you separate them, you need to focus on those expenses you can control in the short term. Look at each expense and adjust it up or down as your sales fluctuate. This will help you keep your profit margin where it needs to be.

Keep Debt to a Minimum

Many florists came through 2021 with the strongest bank accounts I have seen in my history of working in the industry. This is the result of many things: record high profits combined with Paycheck Protection Program (PPP) and Economic Injury Disaster loans, state and local grants — and more recently, employee retention credits. Now is the time to leverage this position and set up credit lines and other loans with your banker at more favorable terms. The best time to borrow money is when your business is showing good profit and cash reserves. This may seem counterintuitive, but when you need money it will be much harder to borrow it on good terms.

Use better loans or some of your excess cash reserves — if you are fortunate enough to have them — to pay off high-interest credit cards and other debt. If you are forced to sign as a guarantor on any loans, talk to your tax advisor first. You may be better off borrowing the money personally and then lending it to your company.

Don't Stop Marketing

If sales start to drop, it is natural to want to stop spending money on marketing. However, it has been shown that businesses that are able to continue marketing through a recession come out the other end faster and stronger than companies that do not continue marketing. If your cash flow becomes too tight to continue at current marketing levels, don't stop marketing; instead, throttle it back and continue at a lower spend.

Then ramp promotion back up as soon as sales start to strengthen.

Keep Your Workforce Minimal

For the last two years most florists have not been able to hire the personnel that they need. As a result, many of these businesses have been running lean and their staff is feeling overworked. Now is not the time to staff up to levels that were needed last year. As sales begin to slow, so will the workload on your staff. Increasing staff now may cause you to be overstaffed during the time you can least afford it.

Optimize Your Inventory

Supply chains have made getting goods increasingly difficult, and it is not likely to get better in the near future. If we enter a recession, make sure that you balance "stocking up" with being frugal. Only buy what you know you will sell. Be skeptical of adding new lines and spending money you may not get back right away. Sell off older inventory items to convert them to cash and clean out your stock of items that may not move when sales start to drop.

Streamline Operations

The best time to streamline operations is always now. Take the time this summer to analyze all of your systems, operations and practices to see if they are still the best and most efficient ways to get things done. The more efficient your operation is, the easier it is to lower and control costs if needed.

Finally, react quickly! If a recession hits, sales can start to decrease quickly. If you are not cutting your expenses in response to decreasing sales numbers, you will find that your profit margin will drop just as fast, burning up your cash reserves. Making quick decisions can help you protect your profit margin and cash reserves. 🌿

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