

What's So Great About the Bottom?

STAY DISCIPLINED AND TAKE ADVANTAGE OF NEW OPPORTUNITIES

BY STEVE MAYER, CPA,
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Our economy experienced a series of recent events few thought possible: bank and insurance company failures, credit crises, mass layoffs, government bailouts and real estate drying up. While the freefall has slowed, we have not hit bottom, and most will agree that 2010 will arrive before the economy is truly back on the upswing. The recession has forced businesses to reevaluate their priorities. The steps your company takes during lean times should put you in a more favorable position as the economy recovers.

We have a long recovery ahead of us and to survive and thrive over the next several years, your company has to maintain the disciplines that got you through the worst of this recession – and take advantage of opportunities that present themselves.

Preserving cash

- Keep customers current on payments and monitor their credit closely.
- Keep inventory at low levels so excess cash is not tied up. Unprofitable inventory items should be sold, even at reduced prices.
- When investing cash, safety should trump return. Know the risks and whether you are willing to accept them.
- Get everyone involved in looking for ways to save money. Employees understand that this can save jobs.
- Develop revised budgets and forecasting plans using updated information that better reflects your profit expecta-



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tions and ability to generate cash.

- If there are financial variances on a weekly or monthly basis, make sure you know why.

Renegotiate

- If your cash flow is secure, consider buying real estate, or renegotiating a lease. The commercial real estate market is soft, so now is a good time to secure favorable term with a landlord.
- Do the same with suppliers. Now may be a great time to lock in better terms. Your commitment to your suppliers may get you better pricing and payment terms.

Develop a Plan B

- Develop an emergency plan in case your primary supplier goes out of business. Not having a plan could hurt your production timeline and sales.

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- Consider worst-case scenarios and build an action plan in case they occur.

Be mindful of employees

- Manage with empathy. Be mindful of keeping morale intact so everyone can share in the rewards of the turnaround in the days ahead.

- Keep alert for the possibility of employee fraud. The best employees can make bad decisions when there is motivation, need and opportunity. Do an assessment of internal controls to ensure goods and services are not being given away. Have a healthy skepticism if employees give you answers for losses that don't sound right.

Grow through acquisitions

- By keeping your company financially sound, you may be able to acquire a weaker competitor. Valuations of businesses are low. Both bankers and investors in a troubled company could become motivated sellers looking to cut their losses.

With much speculation about the economy reaching bottom, it can foster a false sense of optimism. Maintain the disciplines that have sustained you and stay focused, so you can ride out this wave, and maybe take advantage of opportunities.

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5 Accounting Issues

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is expected to be a transition from the traditional form, the Generally Accepted Accounting Principles, to a standardized international form developed by the International Accounting Standards Board. The change will create a single set of

high-quality, comprehensible, international financial reporting standards. The Security Exchange Commission is expected to soon allow publicly-held U.S. companies to file financial statements using the new standard. ❖

Source: New Jersey Society of Certified Public Accountants.

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