BKR INTERNATIONAL

Recession Realities Playbook

Rudler CERTIFIED PUBLIC ACCOUNTANTS PSC

According to polls of CEOs, CFOs and business executives, there are three key pressures that are impacting business performance as we move into Q1 2023.

- ✓ Persistent high inflation
- ✓ Scarce and expensive talent
- ✓ Global supply constraints

Source: Gartner

While we may see an easing of interest rate policy in the U.S. and globally, it will take time through 2023 for inflation to ease. Meanwhile, there is growing pessimism among business owners about declining demand for goods and services in the coming year, according to Reuters and other sources.

What can business owners do now to prepare for pricing pushbacks from customers and decreased demand? With recessionary realities looming, step up to the plate with this playbook.

1. Accelerate Deductions

Holding onto cash and accelerating deductions may be a good move before year-end if business owners anticipate less revenue in 2023. Extra cash will help them "capitalize on opportunities that arise if recessionary pressures increase," according to a market watcher in Accounting Today.

Cost segregation studies and accelerated depreciation opportunities for assets should be seriously considered as part of tax planning before year-end. Depreciation errors can be corrected through a Form 3115 rather than an amended return, making accelerated depreciation a less risky strategy for tax mitigation.

With bonus depreciation at 100% for both new and used property, anything recognized in a cost segregation study can be deducted in the current year.

2. Seek Investment Opportunities

Making M&A deals in a downturn is a viable strategy. Most often the transactions completed early in a downturn will reap a higher value than those that wait to make a move, according to M&A studies by PwC.

Successful deals in 2023 require more strategic decisions about capital acquisition and valuation. As always, the companies involved must maintain productivity while meeting employee and customer expectations. It’s a tall order, but cash for deals is still on the table from private equity as well as corporations and private cash.

Keep in mind that your weak competitors can grow even weaker in a recession, which provides opportunities to expand market share naturally or by purchasing your competitor at a greater discount.

Weaker competitors will also spend less money on development and marketing during a downturn. Well-funded companies can fill the gap left by quiet competition by developing new products and services and launching when economic conditions improve.

At the same time, consider divesting unprofitable business segments or halting production on unprofitable lines of business. It is easier to make this transition when sales are slower than when cash is flowing freely.
As real estate demand begins to cool in a downturn, you may also consider renegotiating leases or purchasing property. Real property investment can offer additional income while increasing in value over time.

3. Maximize Strategic Partnerships

When economic conditions are uncertain, reliable partners help you make the most of marketing and lead generation efforts. Cultivate referrals from existing customers and clients as well as referral sources in related businesses. Make sure to send referrals their way, too.

Associating your company with other well-established businesses increases credibility with a larger base of potential customers. Co-host live chats or invest in co-branded sponsorships to reinforce these strategic relationships. It will help you keep customer acquisition costs manageable, too.

Prices have increased in more than 92 percent of consumer spending categories, according to McKinsey & Company. With costs passed on to customers, revenues are forecasted to rise, but earnings will fall due to tighter margins. Companies cannot rely on just a few supplier relationships, and therefore reconfiguration of supply networks should continue. Broader trusted networks will stabilize pricing and help to build future supply chain resilience.

4. Conduct Resilience Training

Resilience is the ability to recover quickly from difficult experiences. Besides helping your supply chain, resilience is a powerful skill in the workplace and will help employers retain employees through significant changes. In the quest for talent and engaged talent, you need to have strong people at the helm…specifically people with mental toughness and resilience.

Invest in resilience training for managers and key employees. Resilience training comes in many forms, but the best ones start with a foundation of PERMA: positive emotion, engagement, relationships, meaning, and accomplishment—the building blocks of resilience and growth, according to positive psychology pioneer Martin E.P. Seligman.

To gain an understanding of resilience training, Positive Psychology.com offers three free resilience exercises for download.

The first training component should focus on individual strengths and then help employees work toward mental agility and optimism skills. In the final component, employees can work on coping skills and goal setting after a setback or difficulty.

With resilience training, organizations can navigate through downturns while sustaining productivity, a positive workplace culture and retaining staff. Training can begin with your managers and then extend into the entire workforce.

Continue the conversation with other BKR members and share your thoughts on the recommendations in the Recessionary Realities Playbook.