



How to Survive and Prosper During an Economic Banana By Gary S. Eisenkraft, CPA

Back when Jimmy Carter was president, his anti-inflation czar, Alfred Kahn, was chastised for his excessive frankness when he spoke about a possible recession. Therefore, he was strictly instructed by the White House not "to utter the 'R-word'" in Congressional testimony he was about to give. When asked by Representatives whether the economy was in a recession, he replied faithfully that he could not say that, but that it was in his view in "a banana."



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No factor in the business environment correlates to business failure as much as economic recession. Fears of recession often plague the workforce, consumers and government, as well as business owners and management. There are few things in economics that are all good or all bad and this cloud's silver lining is that certain well-run firms will be able to take advantage of market conditions and capitalize on the effects of the weak business climate.

My best clients have prospered in good times and built financially sound professional practices. They have assembled the following resources:

1. Two to three months of working capital
2. Profits at or approaching 20% of net fee income
3. Appropriate cash positions and banking relationships
4. Strong relationships with vendors and contractors
5. Diversified service offerings and geographical markets

The financial media has relentlessly warned that credit has tightened and the supply of investor and lender cash is low. To alleviate this condition, the U.S. Federal Reserve Bank has lowered its interest rates so as to encourage banks to lend and customers to borrow. It should be carefully noted that at this writing the prime rate (the rate at which banks lend to their best customers) is lower than it has been in almost three years. Although bankers are skittish, financially sound firms are valuable to lenders that are trying to restructure their loan portfolios and are borrowing for less interest!

Certainly you can intuit that prices will be cut. Now is the time to aggressively renegotiate prices and terms with your suppliers. They will be much more inclined to accommodate with lower prices and better delivery schedules than in better times.

Unfortunately, lower fees may also force you to reduce staff. Start with contractors, as those firms and individuals are usually the easiest to curtail relationships with. Their ties to your firm are normally the lowest of all personnel service providers. Permanent staff cuts, if necessary, should begin with staff with the lowest firm-specific knowledge. Those are usually the employees at lower levels.

Now is the time to purchase machinery and equipment at bargain prices. As weaker firms fold, heavier equipment will be sold at greatly reduced prices to pay off underlying debt. All tangible goods from computers and chairs to commercial real estate can be obtained at better prices. Many successful companies that rely on heavy equipment, such as airlines and mining companies, have arisen on the strength of capital assets purchased from recessionary junk yards. Advertising, marketing and sales costs will be lower, too. Take advantage now!

If you have diversified your geographic presence you may be experiencing an increase in your service fees from locations such as the Middle East and Far East that equals, or even exceeds the reduction in your U.S. business. Recessions do not affect all regions equally or simultaneously. Now is the time to arbitrage your lower costs to higher fee locations. Small, concentrated firms should not despair; if you are nimble you can easier shift resources to more lucrative markets.

Seeking an acquisition target? Now may be the perfect time. Potential targets may be financially softer and, therefore, less costly. Your competition is likely to be, well...less competitive?

Government action and our own strengths can be of enormous help in easing economic cycles. However, cycles will continue to roll between prosperity and hard times, and back again. Appropriate preparedness and response gives us the ability to prosper during recessions and thrive when the tide comes rolling in again.

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