



Tips for small business owners

Navigating financial downturns

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The economy goes through booms and busts. Whether it's a slowdown in your specific industry or a broad national recession, navigating financial downturns is part of owning a small business. A 2023 Verizon State of Small Business Survey found that 9 out of 10 small to midsize business owners were concerned with the economy. While downturns are always stressful, planning ahead can help manage the impact.

Pay even more attention to cash flow

Cash is the lifeblood of a small business, especially during tough times. According to the Federal Reserve, 54% of small business owners reported struggling with uneven cash flows and paying operating expenses in 2022.¹ During a financial downturn with fewer sales, you must be even more careful with money coming in and out of your small business.

Review your cash flow statement to get a feel for your inflows and outflows. Look for opportunities that could help improve your cash flow management, such as tightening up credit to get paid sooner from your customers. At the same time, ask your vendors for more time to pay your bills. You may want to review your cash flow statement more frequently, such as weekly or even daily. That way, you can identify issues on the horizon and adjust your spending as soon as possible.

Proactively manage costs

In a financial downturn, think carefully about what costs you can afford. As you can imagine, it would be a good time to be conservative with spending. For example, you might consider implementing a hiring freeze or pausing investment in new equipment. Consider other ways to cut costs, too. You could hold less inventory on hand by switching to a just-in-time ordering system. This can help you reduce carrying costs and hold onto cash for longer.

Reach out to your long-term vendors and ask if they could offer a discount or better payment terms during this difficult stretch. You might consider ways of doing more with less, for example, using an AI chatbot to handle customer service on your website versus a full-time employee answering questions by email or live chat.

Secure financing as soon as possible

Credit tightens during downturns, and lenders may be more risk-averse. If you think you may benefit from a small business loan, a line of credit, equipment financing, or another type of loan, consider applying sooner rather than later. The process may take longer and you may need to apply with multiple lenders. You may also want to research borrowing money through relevant credit unions, the U.S. Small Business Administration (SBA), or online, smaller lenders. In the meantime, continue working on your business plan and protect your credit score by making all loan and credit card payments on time. That way, your financial creditworthiness is in good shape when and if you need it.

Rethink your marketing approach

If you're tight on cash during a downturn, it might seem like you have no choice but to cut your marketing budget but you still need to promote your business and bring in new customers or clients. Consider how you might reach your target market by advertising in lower-cost channels. For instance, perhaps you could cut back on physical ads or direct mail and replace them with lower-cost digital solutions like email outreach or social media.

See if you can interest existing customers in value-added products or services. Perhaps offer an ongoing subscription for your products or services at a lower price. A referral discount might lead to new customers too. Customers might be eager for discounts during a downturn too.

Consider opportunities for revenue diversification

Revenue diversification means expanding your product or service line to other areas to manage risk. If you and your staff have trouble filling the calendar with your current business model, is there a way to shift to other areas? For example, if you run a construction company specializing in new construction, could you also expand into home maintenance or renovation? Would you be willing to rent out your unused equipment or work as a consultant for another company's construction projects? You add new sources of revenue to get through the slow stretch and beyond.

Small business partnerships could also make sense. For example, a bookstore might team up with a local bakery where they offer each other's products and host joint events. This is a creative way that local business owners might help each other weather financial downturns.

Keep up with contingency planning

In a financial downturn, you might have less margin for error. Consider what could go wrong with your business, ranging from a key employee suddenly quitting, a significant client not paying their invoice, a major weather event or a cybersecurity breach. Plan out how you would manage each situation. While contingency planning makes sense at any time, it's even more critical while navigating financial downturns.

Remember, financial downturns do not last forever. With planning and care, a small business can emerge on the other side as an equally or more efficient and effective organization.

Learn more about how to help your business function smoothly while managing other small business challenges.

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