

Tips for small businesses in a turbulent economy

■ Matthew Reitz [SPECIAL TO THE RBJ](#)

SOARING INFLATION and interest rate hikes have stressed an economy still recovering from the shock of the coronavirus pandemic, and many small businesses are seeking guidance as they brace for an anticipated economic downturn or recession.

Each industry and small business is unique but there are some general rules of thumb and advice that applies in good times and bad, and some tried and true ways small business owners can prepare for an impending slowdown. Local banking, insurance and legal advisors who specialize in small business shared some of the conversations they're having with clients right now and provided some broad advice for small businesses preparing for an economic slowdown.



Watson

"In tough economic times, all business owners have to take a really hard look at their bottom line and try to figure out where they can make adjustments," said Jennifer Watson, an insurance advisor in

Lawley's Rochester office. "Insurance is one of those things that they're absolutely scrutinizing."

Watson, who has been in the insurance industry for almost two decades, stressed that business owners should understand how rates are calculated to assure properly budget, and noted

agencies like Lawley can help ensure businesses are receiving the required protections at the right cost.

"Businesses are evolving and trying to figure out how they need to adapt to all these changes, so now it's even more important to have conversations with your insurance agent not just at renewal time," Watson said, adding it's important to speak to your agent after any changes to services or operations to see if there's an impact on insurance.

Businesses often have outdated plans that don't reflect changes in operations or equipment, Watson said, and in addition to realizing potential savings by dropping equipment no longer in use, accurate and up-to-date insurance plans ensure proper coverage in the event of a claim. Property and casualty policies are typically based on payroll and sales, so businesses should look to update those plans if either change.

Exploring alternative coverage options doesn't cost money, Watson said, and some options like self-insurance or captive insurance — a system in which entities pool together to self-insure — can make sense for many businesses.

"Now is the time to be looking into those things," Watson said, adding it can require extensive time and planning, but agencies like Lawley, which has a team specializing in captive insurance, can help companies through that process.

Watson said business owners should know the breakdown of their premiums and noted the biggest opportunities for savings are likely the higher cost premiums.

"Prioritize the top three coverages that are driving your total premiums and look at those," Watson said, noting agents should be able to help business owners through such a process.

Another tip Watson shared is to "take advantage of the services that your agency might offer." Many companies are not taking full advantage of their advisors, she said, and at a time when many businesses are short staffed, it's important to know if you can get help handling claims, enrolling new hires in employee benefits programs and other services.

"Those are the things that from an insurance agent standpoint we can help with, it's going to save them time and we all know time is money," Watson said.

Adam Bickel, a senior vice president at Five Star Bank who oversees the business banking group, said with the Federal Reserve's recent aggressive



Bickel

rate hike — the 75 basis-point rate hike in June was the largest in nearly 30 years and more are anticipated in the near future — and expectations of an economic downturn, the bank is

advising clients first and foremost to revisit their budget plans.

“Because (the rate increase) was so aggressive, it’s important that companies are revisiting what their budget plan was,” Bickel said.

In anticipation of an economic downturn, Bickel said businesses should consider how leveraged they are and take appropriate steps to protect cashflow, starting with disciplined expense management. Companies should also examine their liquidity position and know how much cash is on hand and how long those funds could last under various conditions, Bickel said, noting the best prepared businesses tend to do better during times of financial stress and drastic change.

Businesses should be aware of the recent rate hikes and likelihood of future increases, Bickel said, and consider the impacts on current debts and future purchases.

“Take a look at where your rates are today and try to lock in for the debts you know are not going to be paid back in less than a year,” Bickel said, noting fixed rates provide certainty and accurate budgeting, and in many cases make sense at a time when rates are expected to increase further.

Bickel said an evergreen piece of advice for any industry or business is that “the best time to borrow monies is when the company is currently doing well,” and borrowing money when things get stressed is not ideal. With a potential recession expected as soon as next year, Bickel said it’s a good time to sit down with your advisor and determine your financing options.

Five Star Bank strives to always have open dialogue with clients, Bickel said, but that communication is more critical than ever in times of uncertainty. Bickel said it’s “super import-

ant” to make time to sit down with your business banker.

“With everything going on and the quick changes, it’s easy to forget to check in with your financial advisor so they can get you up to speed with what they know, and it’s extremely beneficial for advisors to know exactly what’s happening with your specific company so that you can budget for it and prepare for it,” Bickel said.

Ken Graham, partner in the corporate practice group in Phillips Lytle’s Buffalo office, also advised small businesses to reevaluate annual budgets, particularly related to major capital expenses. Each company and situation are unique, Graham said, but it may make sense to delay certain purchases,



Graham

which could save money in the short term and lead to reduced prices in the future if a recession does occur.

“That same approach goes for hiring talent,” Graham said, noting a tight labor market has caused companies to pay a premium for talent and it could be worthwhile to delay certain hires if a recession is likely to occur. “A company may have a broader selection of talent in the wake of a recession and/or it may be possible they would not need to pay as high a premium for the talent following the recession.”

Graham strongly advises companies to deleverage before an economic downturn if possible. Higher debts require more cash for interest and principal payments, Graham said, and if less cash is coming in it could put businesses at risk of defaulting. He also said small businesses should pay attention to rising interest rates, not-

ing many companies rely on lines of credit to fund operations and if those are variable rate lines of credit it may make sense to lock in a fixed rate.

The coronavirus pandemic sparked a number of ongoing supply chain issues, and Graham said another area companies should be cautious is in contract language around delivery dates and schedules.

“With supply chains and access to labor and logistics where they are lately, I’ve had a few clients run into concerns about being able to meet their customers’ delivery deadlines,” Graham said, adding in some cases parties may be willing to renegotiate existing agreements.

Graham said force majeure provisions should also be closely scrutinized in contracts. Force majeure events are essentially unforeseeable circumstances that prevent a party from fulfilling a contract, and Graham noted prior to the coronavirus pandemic, most contracts didn’t include pandemics, epidemics or government shutdowns as force majeure events that frees a breaching party from its contractual obligations.

“Sometimes it’s boiler plate language but it’s extremely important to pay attention to those details,” Graham said.

Graham also recommended any sole proprietorship to establish a “liability shield” in the form of a limited liability company, or LLC. Upfront costs to establish such an entity are small, and the business structure protects business owners’ personal assets from potential creditors and judgements against the business.

“If you’re a sole proprietor, you’re essentially leaving all of your individual assets available to a judgment creditor — your house, your car and so on,” Graham said.