

Market Volatility—13 Ways Businesses Can Respond for What Comes Next

By Ken Elliott, Consultant at [WSU Kansas SBDC](#) & Libby Bierman, Analyst at [Sageworks, Inc.](#), August 29, 2011

In the last month, the Dow Jones Industrial Average has dropped by more than 10 percent, and that significant change has investors and market participants on edge concerned with what stock market volatility will do next and what repercussions it will have on the economy more generally.

Most private businesses do not participate directly in the stock market, so tips around buying bonds are misplaced. But, businesses could be affected by some of the repercussions of the stock market volatility, namely conservative behaviors that lead to depressed consumer spending.

During the first part of 2011, private companies were doing well with both [revenue growth and profitability](#). Brian Hamilton, CEO of Sageworks said “But with uncertainty over the last couple of weeks, who knows what's going to happen.” So the question of the moment: *how do businesses buffer themselves in a penny-pinching economy?*

The clearest solution is to cut out some of the fat. Some suggestions...

1. Ask for better terms. Suppliers and land lords want to keep you as a customer, and when the economy is down and customer loyalty is low they may be more inclined to give a long-term customer better terms. But, you have to ask to get a better deal.
2. Ask for updated quotes on shipping/freight, insurance, phone, and internet services or consider bundling them for increased savings – don't assume your current providers are the least expensive.
3. Similarly, consider raising deductibles on insurance in your company.
4. Reduce inventory levels to free up cash and [improve liquidity](#).
5. Join a buying club or buying association, which capitalize on volume discounts—it could reduce inventory holding costs and supply expenses.
6. Switch to free checking accounts whenever possible to avoid bank fees that could add up over the course of a year or more.
7. Encourage customers to reduce their debt and pay with cash. Foregoing credit card processing charges will boost spendable income by about 3 percent - with NO increase in sales.
8. Be diligent with preventative maintenance on equipment. Change air filters and routinely service mechanical systems to avoid high replacement or repair costs.
9. Minimize business expenses that aren't directly associated to increased sales. These costs could include subscriptions, memberships, donations, and expenses for “extras” in the office such as free meals or laundry services.
10. Reduce utility usage in the company by adjusting the thermostat or setting timers for lights and equipment.
11. Install twist, fluorescent lights and energy-saving appliances, which not only reduce utilities but currently come with tax credits.
12. Change your company's payments from invoices and credit to debit, cash and C.O.D.. The increased urgency with the payments will encourage more prudent shopping and cash flow management within the business.
13. [Evaluate your supply chain](#) and look for alternative vendors in case the weakest players in the supply chain become unreliable in a tight economy.

These recommendations will not be suitable for companies of all sizes and potentially not suitable for all industries. If these do seem inappropriate, a business' objective amidst volatile markets should be to make operations as lean as possible. Higher margins will provide some cushion should demand fall.

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