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With the increased concern about the chance of a recession, many clients and customers I've been speaking with have begun expressing concerns about the direction of the economy. Recessions impact business owners on several levels. If you are an investor, stock and real estate market performance can struggle. If you are in retail, or a consumer facing business, consumer discretionary income and in turn, your revenue can suffer. If you are a supplier, orders will drop. If you are in a service industry, you may find demand for your help drops as businesses or consumers cut spending. Regardless of your industry or your goals, recessions are likely to impact your business.

Everyone is familiar with recessions, but very few of us know how to define them. The technical definition of a recession is "a year over year contraction of quarterly Gross Domestic Product for two consecutive quarters". However, that doesn't get most of us much closer to understanding what a recession actually is. An easy way to understand Gross Domestic Product, or GDP, is that it's the sum of all money spent by consumers, businesses and the government over that period. In other words, if we think of the amount of money available in the economy as being more or less fixed, then GDP is measuring how often that money moves. If everyone spends readily, and businesses are expanding, money moves quickly, and GDP expands. If we are all more conservative and nervous, money moves more slowly and GDP shrinks.

In 2008, money was on the verge of stopping. The banking system operates not just as the channel through which all the money flows, but by taking deposits and turning them into loans, it is actually the pump which influences how fast money moves. Since major banks had overleveraged themselves with debt and had made risky bets on real estate and mortgages, the pump started to break down and was on the verge of stopping all together if not for the jump start provided by the government in the form of a bailout. But the damage was done. Bear Stearns collapsed, and several other major financial institutions nearly followed. Consumers and businesses stopped spending and investing, and the government attempted to fill the gaps with bailouts and stimulus programs, but was limited by its own problems, facing rising debt and lower tax revenue.

When we talk about recessions now, even 11 years later, our first instinct is to recall the 2008 recession. However, 2008 was the anomaly. Most recessions are much less eventful. In fact, the average recession is about 6 months long and most often not immediately noticeable. Because GDP is ultimately a complicated calculation and revised several times for up to a year after its first reported, it's often said we don't really know we are in a recession until it's over.

When money slows down, businesses have less to spend, which means they are less likely to hire, which causes drops in consumer spending which leads to lower revenues for businesses. During these times, prepared businesses can seize opportunities and grow rapidly as the economy recovers. Unprepared or undisciplined businesses will suffer.

So how can you be prepared and take advantage of the next economic shift? Like everything it starts with good preparation.

Keep at least 6 months of business expenses in cash or other low risk assets.

While this is different for each business, 6 months is a good rule of thumb. To decide on the right amount for your business, consider how much of your revenue comes from your top customers, and whether that spend is discretionary or necessary. If losing one client will cripple your company, and using your service or product is a luxury rather than a necessity, you will definitely want higher reserves (and a more diversified business). If your business relies on many small customers who view you as a necessity and can't easily replace you for less, then a lower number is acceptable.

I've heard of owners keeping much larger numbers than that, but if a typical recession is 6 months, and if your total revenue is unlikely to fall to zero in a recession, than any more than six months is probably overkill. Any extra that should be invested either into your business or yourself.

If you have less than you need, consider making an effort to set aside a portion of your sales to building up a solid cash reserve. Hold off on the next hire, or that new piece of equipment if possible until you have a comfortable cushion.

Having cash on hand not only helps you weather the storm, but as the economy bottoms out, you will find hiring less expensive, real estate prices decline and some of your competitors may need their own bailouts. Your cash can be a tool to take advantage of the opportunity's recessions provide.

Be quick to identify substantive changes

One of the big challenges I find with most small business owners is the inability to track their business. If you aren't tracking well enough to understand whether your business is doing better or worse than the year prior, identifying a recession will be extremely challenging. If revenue is down this month, depending on your personality, you might shrug it off as a bad month, or you might decide that something is wrong and needs to change. If you aren't tracking, either of those conclusions can be right or wrong.

If you are seeing a real change, like a decline in total customers and total spent per customer over a 3-month period that can't be explained by seasonal effects, be quick to reassess. Most owners don't plan for recessions when they put together their annual business plans, so if one occurs it's time to review it.

Don't stop marketing, but be smart about where

When resources get tight, one of the first things we tend to cut is our marketing budgets, as it seems extraneous. While it might make sense to cut the more expensive or less direct types of marketing, spending money to keep the business in your customer's minds is critical. But, if you were spending huge sums of money to partner with a local sports team because you think it's cool and you like being associated with them, it might make sense to redirect that spend to more direct types of marketing.

Be creative, think of inexpensive ways to connect with your customers. Consider using more social media or attend more networking events. The key is to stay connected. As the recession ends, some of your competitors may be out of the market, so a lot of new customers may be looking for a new provider, it's important to let them know that you are still there.

Be honest with your employees and bring them into the conversation

Unfortunately, in recessions, you may have to make some staffing changes. Trying to maintain the same payroll with significantly reduced income can put your business in a bad position and could ultimately be crippling. Your employees understand this, and if you’re noticing that declines in sales are having a material impact on your results, then they are too. Opening the dialogue early allows the employees to prepare for reduced hours, pay cuts or eventual layoffs. It also allows them to be part of the solution. Employees that have the financial ability to work fewer hours or accept reduced pay may volunteer for such changes, which can reduce your stress.

Managing your business through a recession will be challenging regardless of how well prepared you are and how readily you’re able to adapt to the changing economic environment. But, if you take the time to be prepared and pay attention to the signs of economic change, you will likely find that you can not only weather the storm but emerge stronger and ready to take advantage of the eventual recovery.