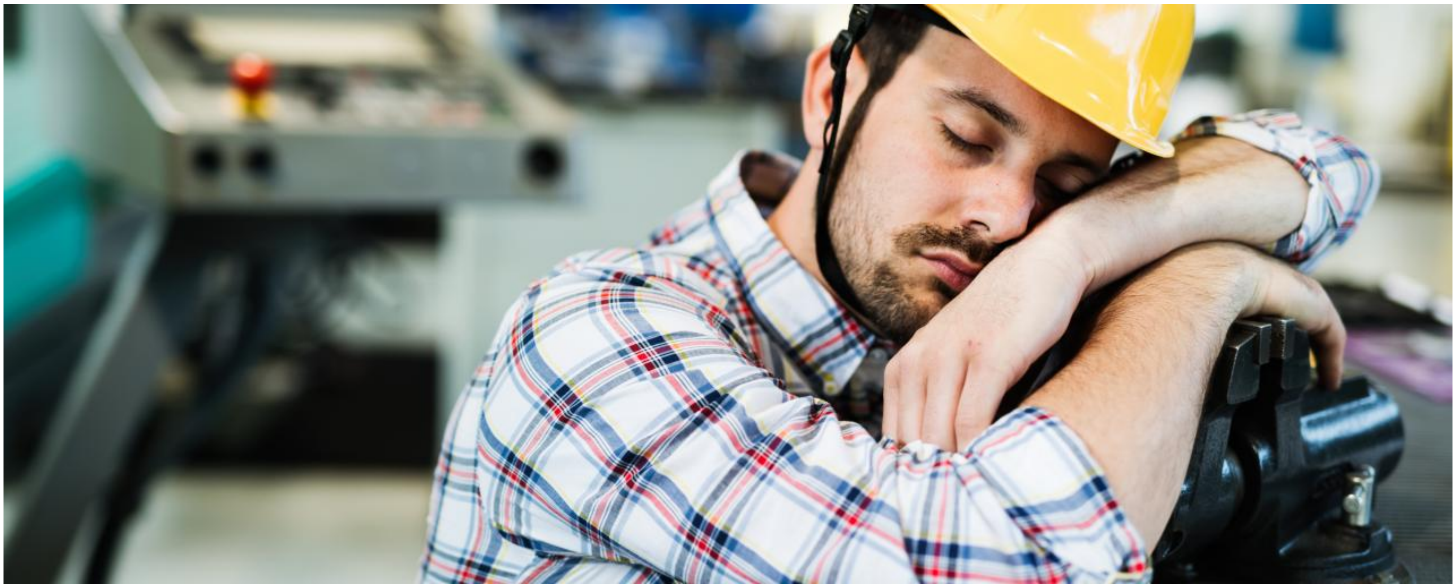

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Many economists and industry specialists believe there are signs of slowing growth of the U.S. economy and many foreign economies are facing recessionary or declining economic activity. In fact, according to the RSM US Middle Market Business Index, the middle market economy tumbled sharply in the first quarter of 2019. Moreover, the J.P. Morgan Global Manufacturing PMI™ registered 50.7 in January, down from 51.4 in December, signaling the slowest growth rate since August 2016.

Looking for Signs of a Slowdown

There is no way to know exactly when the economy will turn downward or a recession will occur. But some trends might be indicators of challenges ahead that require action, such as:

- Customers' industries are experiencing challenges, in the United States and abroad.
- Company's orders or backlog are trending downward month over month or year over year.
- Accounts receivable aging trend is negative.
- Increasing inventory quantities and decreasing inventory turnover in discrete areas of the business.
- Overall operating margins are decreasing.

Actions Manufacturers Should Consider

Too often, companies wait until results have declined for several months before taking action. When there are signs of a slowdown, the best approach is to pay attention and be proactive. Manufacturing companies should dig deeper for specific industry data, talk with customers and competitors, convene a management meeting to evaluate options and develop alternative actions the company can take.

Companies that weather slowdowns effectively typically have thoughtful plans or options that may include:

- **Improve the quality of the balance sheet.** Companies should reduce spending on discretionary goods or services, accelerate collections on accounts receivable, and tightly control investments in new equipment.
- **Reduce finished goods inventory levels.** It doesn't make sense to put hard-earned cash into slow-moving inventory. Instead, closely evaluate inventory at all levels of the production and sales cycle and ensure the fast sellers and high-profit items are in plentiful supply.
- **Reduce raw material levels.** By shortening the time from the receipt of goods through the production process, companies can free up cash and ensure the right raw materials are in inventory.
- **Evaluate flexibility in staffing.** It's difficult to find skilled workers in today's environment, but manufacturers must have a plan to address their workforce needs during a slowdown.

- **Develop an acquisition strategy.** A slowdown can create opportunities, such as buying a competitor or adding a complementary product. Market multiples have been strong for the last five years and a slowdown may lead to more attractive valuations or bargain pricing.
- **Enhance the sales strategy.** Companies cannot rely on the same sales strategies with the same customers. If signs of a slowdown are showing, it's a good time to evaluate the company's sales approach and if it is serving the changing needs of the company and its customers. A downturn might be an opportunity to grab market share.
- **Invest in new technologies that provide immediate returns.** Like other industries, manufacturing is undergoing a digital transformation. Investing in technology now can help ensure that efficiency and productivity remain high during a downturn.
- **Reduce costs.** Evaluate discretionary spending in selling, general and administrative expense areas, making cuts where appropriate, but do not eliminate marketing and other costs that support long-term customer development.
- **Evaluate production processes.** Processes such as Lean, Six Sigma and Kaizen work because they require a company to make improvements in their systems and processes, which usually leads to cost reductions. Every company is capable of finding improvements.
- **Evaluate the supply chain.** Companies should consider where they source products, both domestically and internationally, to ensure costs are appropriate and competitive or new sources can provide efficiencies and savings.
- **Save cash.** Building up a small war chest allows manufacturers to navigate a slowdown and make important investments that competitors may not or even buy competitors at attractive prices.

It may not be possible to pinpoint exactly when a slowdown will occur, but signs are hinting at slower economic growth, and quick actions are required. It's important that companies don't wait until challenges already exist to make appropriate plans.