



## **How Might Disruptions in China Affect You & Your Business?**

William K. Thorpe, Partner, CFO Edge, LLC

Over the past few months, many Los Angeles and Southern California business owners and entrepreneurs have been warily watching developments on the other side of the world in China. In late June, China's stock market began falling as its red-hot economy started to cool down. This affected other stock market indices around the world, including here in the U.S. — where the stock market just had its worst third quarter in four years.

So what exactly is going on in China that has caused all this worldwide economic turmoil? And what impact could it have on your personal finances and investments and on your business? Let's take a closer look at each one of these questions.

### **Red-Hot Economy Cooling Down**

For the past quarter century, China has enjoyed robust economic growth that has been at or near double digits nearly every year. But this growth is finally starting to cool down — GDP fell to 7.4 percent last year, its lowest level since 1990. While most of the rest of the world would do cartwheels over this level of growth, it marks a serious slowdown for China. According to the Chinese government, China needs to maintain economic growth of at least 7 percent in order to hold employment steady — and growth fell to this level during the second quarter of this year.

The fact is that as the world's second largest economy, economic developments in China are going to have a ripple effect throughout the rest of the world. But the volatility going on in China and its impact on U.S. investors also need to be put into perspective. The Chinese stock market is known for its volatility, and before its 30 percent plunge over the summer, it had risen by 150 percent.

Here in the U.S., the stock market has seen a nice rebound from the correction we saw over the summer. In fact, the week of October 5-9 was the best week of the year for the S&P 500, and the Dow appears ready to break through the 17,000 barrier. Also, the fourth quarter has historically been strong for stocks, so we could be in for a nice rebound between now and the end of the year.

### **What About Supplier Disruptions?**

From a business perspective, you may have concerns about what's going on in China if you have suppliers who are located there and you receive raw materials or finished goods from them. If so, there is a possibility that you could experience supply disruptions (if you haven't already), which could hamper your ability to deliver products to your own customers. Or, your Chinese suppliers might request financial concessions from you as their troubles mount and/or might start stretching out their payables.

Ask yourself a few questions to determine how vulnerable your company might be to disruptions with Chinese suppliers given the volatility and uncertainty going on in China right now:

- How long have you had relationships with them and how well do you know them?
- Do you have open lines of communication with them?

- Have they been reliable in the past?
- Do you have any way of determining their financial condition?
- Do you have access to alternate suppliers (perhaps in other countries) you can switch to if push comes to shove?

Now is the time to determine your company's potential vulnerability to disruptions from Chinese suppliers — and make contingency plans in case these disruptions might negatively impact your business. Taking the time now to think about and strategically plan for these disruptions will enable you to get out ahead of potential problems early so you aren't blindsided by them later. You might even think of new solutions and alternatives that weren't apparent before — and reduce your costs and gain competitive advantage in the process.

An outsourced CFO services provider can assist with this kind of strategic planning and analysis by helping you pinpoint your current position and potential new opportunities. This provider can also help you develop alternative supplier strategies and review them with you to determine which ones might make the most sense for your particular situation.

### **Concluding Thoughts**

In recent months, U.S. business owners and entrepreneurs have been warily watching developments in China as the world's second-largest economy starts to cool down. The fact is, economic developments in China are going to have a ripple effect throughout the rest of the world, including here in the U.S., where stock markets underwent a correction over the summer. From a business perspective, meanwhile, developments in China could result in disruptions in the receipt of finished goods and raw materials. Now is the time to plan for these disruptions so you can get out ahead of potential problems early and aren't blindsided by them later. An outsourced CFO services provider can assist with this kind of strategic planning and analysis.

### **About CFO Edge**

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