



Managing in the downturn



Helping you navigate through
the 'stormy waters' ahead

Leadership

Take charge. All the research suggests that those who take control, who believe that their destiny is firmly in their own hands, who do not sit back waiting for government help or 'things to improve' - are the ones who are most successful.

Be positive and confident. Much wailing and hand-wringing may make you feel better, but it won't inspire those around you who look to you for leadership. Expressing confidence in the future and behaving as though you really believe it, is a major contributor to success when times are tough.

Be thoughtful, but be decisive. Be neither impulsive nor procrastinating. As always, making enough of the right decisions, will determine the success or otherwise of your business. The temptation to give knee-jerk responses in a crisis is strong, but needs to be resisted. The opposite reaction - sitting on your hands hoping the problem will go away - won't help either. Identify the important decisions and make time to think them through or discuss them with others before arriving at your preferred course of action. Then implement it with conviction and determination. We like one leader's approach. 'We are going to do this. I would prefer your support but we *are* going to do it.'

"Leaders need to be optimists. Their vision is beyond the present." Rudy Giuliani

Strategy

Expect the best - plan for the worst - prepare to be surprised. In short, prepare for anything that may come your way. Scenario planning is making a comeback in the present climate. Envisaging a number of different situations and planning your response to each is a worthwhile activity. What would happen if our major customer failed? If our turnover falls to the point below breakeven - what will we do? What would be the result of the bank reducing our overdraft facility? If a competitor fails how can we take advantage? If a key supplier fails what alternatives do we have? And so on.

Review your business model. As the world changes around us, we need to respond. And the world is changing at an unprecedented rate. Marks & Spencer recently advertised - 'A meal for two for £10'. A rapid response to a changing market. The old business model - quality food at a fairly high price - is suddenly not so appropriate. What do **you** need to do? What are your customers telling you? How are their buying habits changing?

Improve planning and forecasting. In such an uncertain world you could be forgiven for saying 'Why bother?' Very few could have predicted the situation we are now in, so what is the case for planning and forecasting? We are not suggesting you can predict the future. But you can plan for a number of different outcomes. And you can search for whatever certainties there might be. What is the likelihood of all of your customers staying in business? What is the likelihood of them continuing to spend to the same pattern? How easy or difficult will it be to attract new customers in this climate? Can you introduce a new product or service and how might it be received?

*"Tactics without **strategy** is the noise before defeat."* Sun Tzu

Finance

Cash is king. Businesses fail when they run out of cash. *Profitable* businesses can fail when they run out of cash. Banks may not be so keen to provide the safety net – the overdraft. Cash is the lifeblood. Many factors affect the cash in a business. Conserving cash is a priority at most times and essential in a downturn. See our separate 'mind-map' on cash management.

Limit exposure. Check the creditworthiness of customers more critically. Customers with high levels of debt are most at risk and may not be able to borrow more. Limit the extent of credit you offer. Manage credit more rigorously – get your money in. Ensure that your bad debt insurance is sufficient.

Tight control through accurate and timely information. Keep your finger more firmly on the pulse of your business. Be aware of the cash position as often as necessary – daily if required. Monitor the key performance indicators for your business – ensure you have up-to-date, meaningful and accurate information. The basic principle is – 'no surprises.'

"Happiness is a positive cash-flow." Fred Adler

Marketing

Review your marketing mix. Is it still appropriate? The four 'p's – place, price, promotion and product need to be interwoven to give you a competitive advantage. More recently, they have been replaced by the four 'c's.

- **Place** becomes **Convenience**
- **Price** becomes **Cost to the user**
- **Promotion** becomes **Communication**
- **Product** becomes **Customer needs and wants**

How easy is it for customers to buy your product or service? Is your pricing right? How do you let potential customers know about your product or service? How well do you meet the (changing?) needs of your customers? Is there consistency in the mix?

Review your marketing approach. How do you communicate with your customers and potential customers? What is the most cost-effective approach? Tele-marketing? Website? Direct mail? What new message do you have for them? How will you help them respond to the new economic environment? How have *they* changed?

Be alert to opportunities and threats. Recessions carry potential threats, but also provide opportunities. Your 'antenna' needs to be finely tuned. Targeting a weak competitor may be necessary in the fight for survival. A failed competitor may afford opportunities to pick up business, equipment or even people with key skills. Play the 'what if' game. Ask yourself how you would respond to all the likely and unlikely threats to your business. Have at least an outline plan to deal with each possibility.

"Marketing takes a day to learn and a lifetime to master." Philip Kotler

Sales

Re-train and motivate your sales people. It's very easy for heads to drop when the going gets tough - when rejections are high - when sales are hard to come by - when everything seems to be on hold. Spend time with sales people – re-align the message to customers as necessary and make sure sales people are on that message. Incentivise them afresh – the old commission scheme may no longer work. You don't want to lose good people because they can't earn enough with you. Energise them and ensure they provide an activity report to you at least weekly. Go through the report with them and ask hard questions.

Re-focus them on your key accounts. Whilst we all want new customers it makes good sense to keep the ones you've got. We are told it costs 6 or 7 times more to acquire a new account than to keep an existing one. Your competitors will be feeling the effects of the downturn just as much as you. They will be wooing your customers as never before. And they will be offering more price reductions the more desperate they become. Your sales people (indeed all of your staff) need to be bending over backwards to give your customers the best possible level of service. And you may have to do something about your pricing.

Winning new customers? – still possible – and persistence pays. Potential customers may be looking for a new supplier in order to reduce costs. This may present an opportunity, but on the other hand it may not be the kind of business you want to attract. It is only worthwhile if the medium to longer term prospects are good. Winning new customers of the kind you want will require good salesmanship. As always analysing the needs of customers for quality, service, price, after-sales, etc and trying to match as many as possible, may be the way in.

"A man of sense is never discouraged by difficulties; he redoubles his industry and his diligence, he perseveres and infallibly prevails at last." Lord Chesterton

Buying

Buy only what is vital. Conserving cash means resisting the temptation to buy anything that is not actually needed to keep the business running. Don't make spending decisions now that will look foolhardy later if trading conditions worsen. That does not necessarily mean no spending on capital projects. If you have enough confidence in the future, you can make a really sound business case and you can afford it, it may be justified.

Buy ever keener. Whatever savings you can make on purchases usually translates to the bottom line. Examine every possibility to lower your spend. 1% saved on a spend of £250k is £2.5k. 2% is £5k and so on. You can do your own maths.

Keep faith with your key suppliers. This may appear to contradict what has just been said above. However, we all know that we buy on more than just price. You could almost certainly buy cheaper, but it may be at the expense of quality or service. You stay with key suppliers because of the 'package', not just the price. It is not good sense to push them too hard on prices or to delay payments beyond what might be reasonable. A good philosophy may be to approach the next year in a mutually supportive manner – helping each other through difficult times.

"If you buy right you can sell right." Anon

Production

Plan for less. You may be one of the lucky ones who goes through the recession unscathed. Regrettably though, most businesses will experience a reduction in demand for their product or service. Already car manufacturers are working a 3 or 4 day week or having longer holidays. Retailers have started their sales early. Respond as soon as you can see the effect. Don't leave things too long. It is a time for hard-headed decisions.

Retain core competence. Some of your people, processes and equipment are key to your future. Do whatever you must to safeguard them. First identify them carefully and then take action to secure them as best you can. You want to be in a good position to take advantage of the upturn when it comes. (Have faith – the recession will pass).

Improve productivity, but not at the expense of indiscriminate cost-cutting. As your prices and margins come under pressure, you will be looking for cost savings. Most businesses are already running lean – there is not that much fat to lose. McKinsey (the management consultants) are fond of saying that they have not met a business yet that they could not take 10-15% out of. We believe that is less true than it might have been a few years ago. Improvements to productivity should come from smarter ways of working, re-engineering, automation, etc.

"The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time." Henry Ford

Customers

Will still expect quality. Even if they are spending less, they will not want a reduction in quality. Cutting corners to save money is not a good longer-term approach. Work in harmony with customers to see where cost-savings can be made. Re-design or re-engineering may be possible. Asking your own employees for their ideas often bears fruit.

Will still expect service. As above, customer expectations on service levels will not be reduced simply because they are spending less. Cost-cutting that leads to a reduction in service level may just open the door to a competitor. Loyalty is a bit elusive at the best of times.

Nurture your best accounts. Be attentive to their needs. Get as close to them as possible. Communicate more often. Statistics show that 67% of customers leave through their perception of neglect. If Pareto is to be believed, 80% of your profit will come from 20% of your customers. It makes sense to really look after that 20% when times are tough.

"There is only one boss - the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else". Sam Walton

Inventory & Distribution

Keep inventory to a minimum. This makes good business sense anyway, unless there is a compelling reason for holding stock or for having excessive work in progress. There has never been a better time to run a lean and efficient business.

Tight control through accurate and timely information. Having good information is essential. Whether it is from sophisticated software or from simply walking the job, you need to know what is going on at every stage of the process. From goods in - to those waiting for delivery - unnecessary inventory is cash tied up.

Ensure distribution costs are in line with production decrease. Easy to say - not so easy to do. Unless you work hard at it, your distribution costs are likely to rise as a percentage of the whole. A vehicle and driver costs the same whether fully or half-loaded. Can you re-negotiate delivery schedules? Could you out-source? Can you re-negotiate your contract delivery service? Could you downsize your vehicles? Could you consolidate loads – re-routing if necessary?

People

Retain/nurture key people. Economic downturns are unsettling and even your most loyal employees may be wondering how secure their future is with you. Identify those people who are key to the future of your business and do what is necessary to 'lock them in'.

Maintain morale/communicate/train. Get your people together more often and tell them how the business is faring and what you intend to do (with their help) to beat the recession. 'Mushroom' management - keeping them in the dark and throwing fertiliser over them every now and again – is not the technique for today. Regular, honest and open (but not naïve) communication is good practice. Any offer of training can be read as an indicator of confidence in the future. If you can afford it and it is relevant – do it.

Ask them for ideas and support. Some of the most successful businesses acknowledge the part employees play in coming up with ideas for improvement. Involving them has a psychological and morale-boosting effect, too. Managed well, it can be a source of great satisfaction and lead directly to enhancement of the bottom line.

"The goal of many leaders is to get people to think more highly of the leader. The goal of a great leader is to get people to think more highly of themselves." Anon

Innovation

Necessity is the mother of invention. During the second world-war, many inventions were born out of the sheer desperation of the situation. The pressure to find solutions was enormous. Similarly the next year or two will bring new pressures and new problems. Innovative solutions will be needed. But, it is not always necessary to re-invent the wheel. A lot of the answers already exist - you just need to find them.

Use free time to try new things. Assuming you may not be as busy servicing your customers, now may be the time to try new methods or processes. Make good use of any free time – it keeps morale up, as well as contributing to the business.

Aim to improve quality and/or reduce cost. Focus your innovative efforts on issues that will enhance your competitiveness. Innovation is not limited to the product or service, but applies to all aspects of the business. Take a look at the whole process – from order in, to payment received.

“An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.” Jack Welch

Information Technology

Only if strategic and affordable. It is about balancing the longer term benefits with the short term costs. If the benefits clearly justify the cost and you can afford it, then it may be a sensible buy. Hardware or software that helps give you a competitive advantage should take precedence. Some IT can be financed through rental schemes. Careful evaluation of the benefits is essential – not all IT solutions deliver on their promises.

Or only if short payback period. If the payback period is short – less than 2 years – and you have confidence in your ability to survive the downturn, go ahead.

Use free time for implementation/training. Assuming that you are less busy, take advantage of the free time to implement and thoroughly train employees on any new systems. Hopefully you will be more efficient as a result and in a better position to take advantage of the current situation - and the upturn when it comes.

“The point of every business is to find ways to make more money without working harder - as opposed to the “donkey strategy” of achieving more by pulling a heavier load.” David Maister

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