

Credit Crunch Tactics

With the recent financial turmoil and the current economic downturn, no one really knows when things will start to get better. Opinions vary across the world and here in the UK, treasury officials continue to publish comparatively optimistic forecasts that get quietly downgraded in the light of subsequent economic data.

If we look at what happens to companies in a recession, they fall into roughly three groups: The bottom 10 per cent fall by the wayside. The majority 80 per cent bump along the bottom, riding out the storm, waiting for an improvement in the economy – they survive. However, for the top 10 per cent, things are quite different – they do more than survive, they actually prosper and as things pick up they are in a stronger position than before the slump.

So, we might reasonably ask ourselves, what are they doing differently and how can we apply this to our own business?

Here are five key actions that can make a difference to your business:

1) Cash Is King

It may be a cliché, but more than anything, the companies with the strongest reserves are in the best position to survive. Two companies might be in very similar trading positions, but one will fail because it does not have enough cash reserves to pay creditors and the other will survive because it uses its cash reserves to ride out the storm. Top tips for maximising your cash flow:

- Get all your invoices out on time.
- For bigger projects, insist on a deposit or stage payments and do no further work until each payment is received.
- Chase all overdue accounts – make sure accounts are regularly chased for payment. Do not adopt a heavy handed approach, better results are generally obtained by building a relationship with your customer's accounts payable department. Remember, they are feeling the pinch too, so as soon as they have cash to pay suppliers, they are likely to pay the more understanding creditors first.

2) Maximise Your Buying Power

When did you last review your commercial terms with your top ten suppliers? Could you negotiate improved terms right now? You may even be able to aggregate some of your purchases to enjoy better terms without renegotiating.

As far as possible, it is best to do this in a constructive, sustainable manner – there is no point hammering a supplier down on price if they decline to do business with you or they can't make any money and go out of business.

Remember, when things pick up, the tables will be turned and the suppliers will be dictating prices, so you need to ensure that you maintain good relations with your key suppliers at all times.

3) Look After Your Key People

There is a temptation to work staff harder with less recognition and reward during a downturn. After all, they should be thankful they still have a job. Right? Well perhaps not... the top 10 per cent of companies will still be growing, still looking for

new talent as their business expands. If you don't look after your staff properly, the better ones will soon find a new job.

With budgets tightened, you may have to reduce your workforce and have no resources to increase pay for remaining staff. But, you can still make sure that their contribution is recognised and involve them in your future plans as far as possible.

4) Find Out What's Going On Out There

Even before the age of the internet, there were plenty of chief executives who never ventured further than their own office. It's even easier now to think you know what's going on – read your favourite newsfeeds, Google some new developments and have a couple of conference calls and you are right in the picture.

Well no... probably the best thing that you can do right now is to visit some of your key customers, ask them how they are getting on and what their plans are. Then ask what you can do to help them. This may mean simpler and cheaper products, or revised pricing of value added features, or different service arrangements or different delivery schedules and locations.

It could be anything – but if you don't ask, you won't know: only you and your customers know how you can work together to add value in these difficult times.

5) Plan For The Future

With pressure on resources, you may feel you have little time to plan for the future. However, if you have some success with the actions listed above, you will find you get some breathing space. So what to do with this time?

Think about how you want your business to be in the near future –

- What would it look like?
- What products and services would it sell?
- How would you improve product development and production?
- Are there any acquisition opportunities?
- What are the staff and finance implications of these developments?
- What would be the best use of your capital investment programme?
- Is this a realistic plan of action?

Sometimes people feel they haven't got time to plan for the future, but you can be sure those top 10 per cent companies are all planning, all investing for the future.

In difficult times, those companies that continue to invest wisely are the ones that come out on top with a big advantage.

"I spent a lot of time waiting for things to get back to normal"

Finally, here's a successful businessman, talking about the recession of the early nineties. He said: "I spent a lot of time waiting for things to get back to normal and then one morning I realised that this was the new normal. Once I had made this realisation, I knew immediately what I had to do to make my business successful again."

The conclusion is that things will never be the same, so let's start planning for the "new normal" – now. Good luck.

Michael Bullard
3rd January 2009
www.accuvista.co.uk