

Top Story

Strategy in a downturn – 10 lessons from the last recession

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By James Thomson

The economy is slowing, but don't panic – you can still grow in a downturn. Here are 10 tips from companies who sailed through the last recession.

If you are getting worried about the slowing economy, don't worry – you are not alone. According to research from accounting firm PricewaterhouseCoopers, about 60% of private companies in Australia are less than 15 years old, which means they weren't even around for the last major downturn in 1991.

But don't panic. A slowing economy does not mean you have to stop growing. Greg Will, a partner in PwC's private companies practice, has researched the last recession and identified the strategies used by companies that actually grew in the last slowdown.

He says smart companies can grow market share, refine their product range in a downturn, and even take out some weakened competitors when the economy turns south. "We are talking to a lot of our companies about the opportunities in this slowdown," Will says.



ONE Scenario planning

David Knowles, head of business evolution practice at accounting firm Pitcher Partners, says it's a good idea to start with scenario planning. Test what will happen to your business if the downturn is mild, bad or severe. Ask yourself what will happen if interest rates jump another 2% or even 5%.

The managing director of 333 Performance Management, Martyn Strickland, says that if a company is sliding into trouble you need to ask yourself one big question – what is the root cause of your problems? He argues that it's unlikely to be an external factor, like higher interest rates. Instead, look for internal problems, such as poor internal systems, key staff that are not up to scratch, or a poor business plan.

He suggests four areas to look at specifically. Revenue, cost structure, the quality of your business plan and your capital structure.

If you spot potential problems – such as work drying up in a particular division or business area – then plan how you would respond to that. Will you freeze wages? Force staff to take holidays? Cut wages? Make some staff redundant?

"Forewarned is forearmed," Knowles says. "At least if you are alert to the issues you are going to be able to adapt."

TWO Flexible balance sheet

Greg Will says balance sheet flexibility – which basically means making sure you have plenty of cash – was the key factor in helping successful businesses survive the last major downturn in 1991. “In this cycle, generally businesses will extend their payment terms, so cash is going to get tight,” Will says. “A lot of businesses that held more of their assets in cash survive better in a downturn, because they can weather that storm.”

As well as making sure you are paying careful attention to cashflow – and that means chasing down those debtors – think about ways to turn your assets in cash. Will suggests businesses could look at selling plant or equipment and then leasing it back. If you own your building, think about sub-letting it to bring in cash, or think about moving to another office and leasing out the entire building.

Reducing debt will also give you more balance sheet flexibility. We are seeing a number of companies raising money at the start of the downturn to pay down debt increase the amount of cash at their disposal. Beleaguered digital media company Destra, which recently raised about \$15 million to pay off debt and increase working capital, is one such company.

THREE Flexible operations

Most businesses will have more than one source of revenue – that might mean the business has a number of different business divisions or perhaps offices in different locations. Be prepared to switch your focus and effort from one division into another, depending on where the best opportunities are.

For example, if you have a division that has anything to do with mining, it will weather the storm well. Similarly, you may consider shifting resources from the New South Wales office to offices in the boom states of Western Australia and Queensland.

Childcare company ABC Learning – which is battling a raft of problems – has shifted its focus in recent weeks from its struggling US business to its Australian business, which is performing well.

FOUR Market share

It's tempting to cut marketing spending in a downturn. Don't. If anything, you should be increasing your spend. “When we look at the last recession, the better business actually held that expenditure to win market share,” Will says. “When things turned around they were much better placed.”

If your competitors are struggling during the downturn, you can quickly take advantage of the fact and grab customers from them – but it will only happen if your brand is in good shape.

A great example of a company ramping up its marketing spend at a time when its market is struggling is online travel company Wotif. It has launched its first mainstream advertising campaign, just as the tourism market is softening. It's gutsy, but you can bet those people that do want to buy online travel will have Wotif at top of mind.

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FIVE Staffing

Hiring costs is one area you can save money in a downturn by concentrating on retaining your staff. “We're finding that in terms of a downturn, it's making it increasingly difficult to motivate employees,” Will says. He recommends improving communication with staff where possible and really selling them the benefits of working at your company. Keeping staff is always cheaper than finding new ones.

On the other hand, you must make sure your staff are downturn-ready. The managing director of business strategy and franchising consultancy DC Strategy, Adrian McFedries, argues that Australian businesses are full of people who are paid too much and aren't very good at their job. The downturn could be a chance to get rid of staff who don't have the hunger and passion to survive the lean years. “Because that's what you are going to need to get through the next period,” McFedreis says.

It's also worth remembering that it might be possible to pinch disgruntled staff from struggling competitors. Financial services companies and investment banks are currently going through a big period of poaching as the fallout from the

credit crunch wreaks havoc on the sector.

SIX Cost cutting

Cost cutting is always a good idea in a downturn, but Will says companies must be careful to only cut costs at the periphery of the business. "We say you've got to cut fat, not muscle."

Good cost cutting targets include any investments you may have made when times were good or even projects you have experimented with in recent years. Knowles nominates "luxury" type items, such as corporate entertainment, travel and conferences.

SEVEN Product range

Another area for cost cutting could be your product range. Review your entire range and think about which products actually, work, with particular attention to the margins products attract and the marketing spend each product needs. Focus particularly on successful products or services and discard less successful ones you may have preserved with during better times.

Will suggests inviting customers into your business to help with the product range review. You'll be able to better tailor your products to their needs and they'll feel like they are appreciated and listened to. "It involves them in the ownership of the business and ownership of the product," Will says.

EIGHT Customer/supplier analysis

It is also worth thinking about how the slowdown will effect key customers and suppliers.

Australia's big car makers know all about how badly a business can be disrupted when a key supplier goes under – they have been forced to stop production and send workers home several times in the last few years when parts makers have collapsed.

Will says businesses also need to look at the size, loyalty, reliability and profitability of their customers and come up with a shortlist of the best. These are the customers who should be given the most attention and care. "We need to be focusing our strategies on the right type of customers."

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NINE Mergers and acquisitions

Some of your competitors will not survive the downturn. If you feel your own business is in good shape, it might be the perfect time to acquire a struggling rival, grab their customers and build your market share on the cheap.

David Knowles says rivals run by older entrepreneurs could be particularly ready to sell up if times get tough. "You'd have to think that if business got too tough, they'd say 'why bother?'"

TEN Steering committee

Finally, you must start looking ahead right now. Will recommends forming a steering committee within your business to plan for future growth when the economy turns again. "Start now to plan for an upturn so you can hit the ground running," Will says.