

ROCKET
REPORT

Managing Through The Economic Crisis



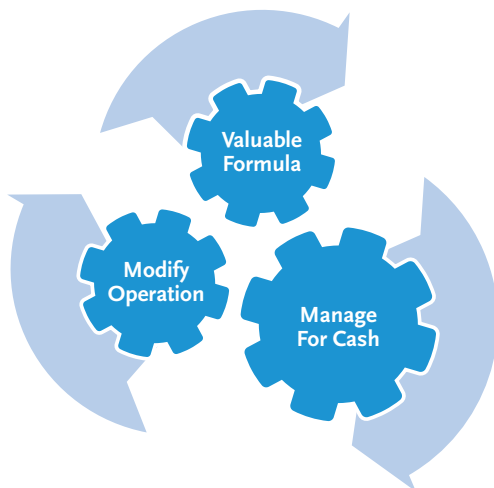
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Managing Through The Economic Crisis

Business owners and managers have probably never faced such a period of change as we are currently seeing. Change carries great risk, but where there is risk there is opportunity.

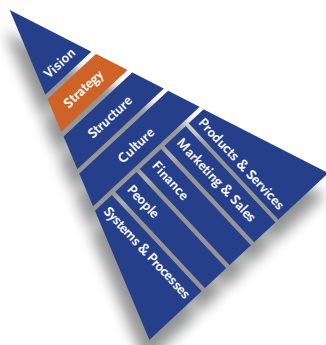
There are three principal areas that management must focus on to survive and prosper in this period of change:



- **Your Valuable Formula.** Re-asses the competitive element that generates profit and sustainable success for the business
- **Modify Operations.** Change the way the business works to adapt quickly to the changed environment
- **Managing for Cash.** Establish the absolute priority of cash over profit and investment whilst the storm is blowing.

These are inter-related and ignoring any one of them will be detrimental to the long-term success of the business.

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Valuable Formula

Why is a business successful? Let's introduce the concept of the Valuable Formula, which helps explain why any given business is successful.

The success of a business is dependent on its business model and good business models are based on a Valuable Formula. A business model is defined as the combination of the following elements:

- **WHAT** products or services you sell
- **WHO** buys them
- **WHY** they buy them
- **HOW** you make a profit out of the transaction

There are two specific aspects of the business model that you really need to understand to identify your Valuable Formula. Firstly **WHY** do customers buy from you and secondly **HOW** does your business make its money? If you clearly understand these two things you have identified your Valuable Formula.

WHY your customers come to you might be because ... you have a convenient location, there is easy parking, your after sales service is good, you recognise and greet all your customers, you have a unique understanding of their business, your product/service is the best value for money, no one else can supply it and so on. There is always at least one reason why a customer buys from you (although it is usually a combination of reasons and these vary across different market segments).

In relation to **HOW** you make a profit, what is it you do that allows you to generate a margin over your costs? Do you have lower costs than your competitors, and if so, why? Is it because you are skilled at producing your products more efficiently? Do you have a source of raw materials that others pay more for? Can you command a price premium, and if so, why? Is it because your service is so exceptional that people are willing to pay a little more, or is it because you provide 24/7 service? There are always reasons, and understanding why is a vital piece of business intelligence. The **WHO** and **WHY** add up to your Valuable Formula. To explore this further let's take the example of Friendly Computer Systems.

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CASE STUDY – Friendly Computer Systems

"We sell, install and manage small computer systems for businesses within a 30 km area that are too small to have their own in-house expertise. We make our money from on-going support contracts, using the initial competitively priced product sale primarily as a way to grow our support base."

Business Model

- **WHAT** products or services does Friendly sell? *New computers, services and support contracts*
- **WHO** buys from Friendly? *Small businesses within 30 kilometres*
- **WHY** do the customers buy from Friendly? *Because they are too small to have their own in house expertise*
- **HOW** does Friendly make a profit out of the transaction? *Friendly does not make its profit from the sale or installation of computers but from the ongoing maintenance contracts.*

The business model explains what business Friendly is in, but it does not explain why Friendly is successful or sustainable as a business. We must go to two specific aspects of the business model to better understand this. Firstly, WHY do customers buy from it and secondly, HOW does Friendly make its money. If you clearly understand these two things you have identified your Valuable Formula.

Identifying the Valuable Formula

Professor Michael Porter has laid the foundation for much of our understanding in the area of competitive strategy. He argues that a business will win in the market if it is a price leader, is differentiated in some way or focuses on a particular segment. The challenge is to know which of these is at work for you, particularly if it is differentiation (because you will need to understand exactly what makes you different).

Why do people buy from Friendly? Is it because the support contract is bundled with the sale of the new computers and people want peace of mind that the computer will work trouble free after purchase, or is it because Friendly provides a guaranteed on-site response within a certain time frame? Or perhaps the support team bring donuts every time they visit on call out, or maybe they are what their name suggests, friendly and helpful when people are frustrated with their computers. Perhaps they are the cheapest, or maybe their focus on SMEs within 30 kilometres is so focused that no-one else is interested in addressing this market.

Of course in our example we do not know, but if Friendly is to enjoy long term success it needs to understand its own Valuable Formula and, even more importantly, it needs to rigorously test and improve on it.

In a world where the financial crisis and technology are causing rapid changes your Valuable Formula can change very quickly. Consider the following classic examples: the near fatal impact of digital cameras on Kodak; the virtual demise of the beautifully bound and printed Encyclopedia Britannica as a result initially of the launch of the first online encyclopedia, Encarta, and in recent times, Wikipedia; or, the impact of direct customer access to online flight and accommodation bookings on the traditional travel agents.

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What you really need to know about your Valuable Formula is precisely how valuable it is. For some companies the Valuable Formula is protected as Intellectual Property, in the form of patents, trademarks, copyright, or through commercial security (think Coke and the formula for this beverage, Microsoft and its software code, pharmaceutical products and so on). In other instances the Valuable Formula cannot be legally protected. Irrespective of the source of your Valuable Formula, it must be protected and it must develop and change with the times.

And herein lies the rub. In good times many businesses take their Valuable Formula for granted – or even worse they don't really understand why it is they are successful. However, when the external environment is changing, the dynamics of your Valuable Formula can change and adverse outcomes can emerge. Businesses with a “weak” Valuable Formula are going to feel the pain quickly, but even those whose strong Valuable Formula is only gradually being eroded by change will, equally surely, come under pressure. Your edge in the market will slip and this will manifest itself in reduced margins, loss of market share and declining profitability.

A business needs direction, structure and processes. We've developed a strategic management framework for a business that we call the RAN ONE Rocket™ which illustrates the point. (FIG. 1.1)

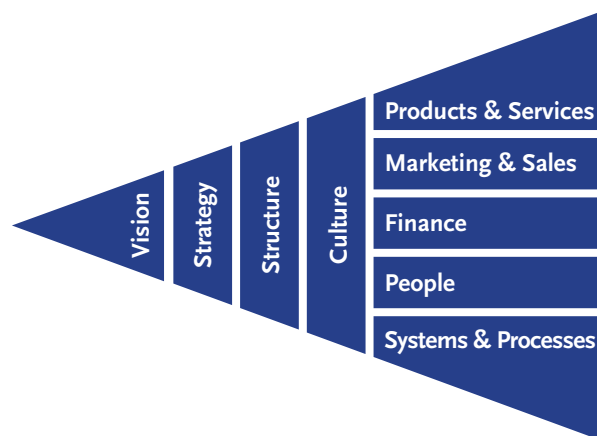


FIG. 1.1

Of course no business operates in isolation from the environment it operates in and the current crisis proves this point. The external environment, just like the internal elements of a business, can best be understood and managed when broken down into compartments. The next diagram shows the business in the context of the external environment. (FIG. 1.2)

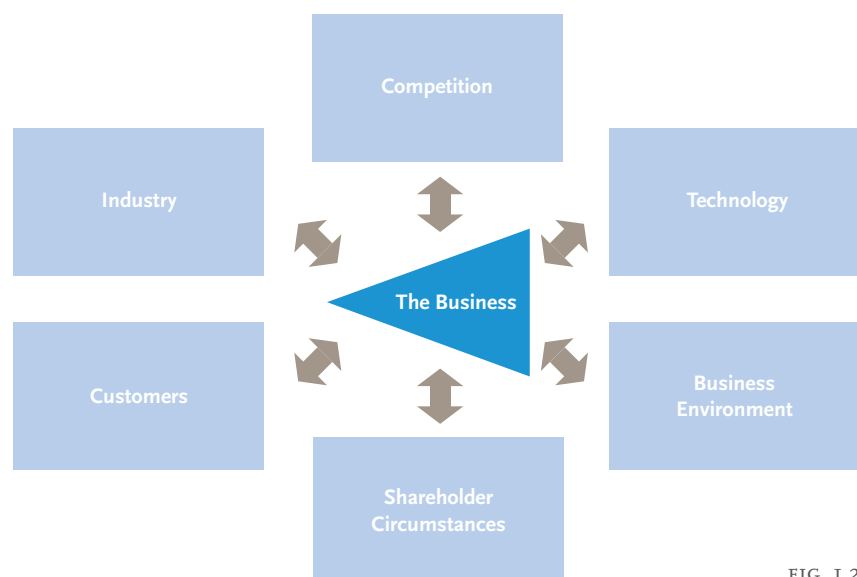


FIG. 1.2

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There are two major portents of change in the current environment. The first and most pressing is the global economic crisis which is having an immediate and material impact on business confidence. The financial crisis will impact profitability with downward pressure on prices and potentially reduce revenues but with the businesses retaining the same cost structure.

The second major driver of change is in technology and the emergence of the digital economy. This is causing a paradigm shift; the rules of business are being challenged and in some areas rewritten. The impact on the Valuable Formula cannot be underestimated. We are seeing the emergence of new dominant businesses, and the decline of many others which are still embracing their Valuable Formula based on the traditional economy.

The key point is this. You must re-examine your Valuable Formula and make sure what you are doing is relevant to the current market place, because if you are not doing the right things strategically, the right things will not happen in the rest of your business. Working harder and harder is not going to fix a broken Valuable Formula.

To review the robustness of your business, work through the changes in the various elements of the external environment and ask what impact each of these might have on the various compartments of the RAN ONE Rocket™ shown above. This exercise is sometimes called future proofing.

Business Model defines what business you are in - it is what products and services you sell, who buys them and why and how you make your money from this.

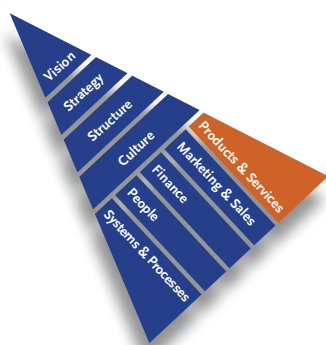
Valuable Formula is the reason your business is profitable and successful - it is a deeper understanding of WHY customers buy and HOW you make your profit.

The RAN ONE Rocket™ is the strategic management framework we use to diagnose a business by its internal components and analyse the various elements of the external environment.

Future Proofing is reviewing your Valuable Formula in terms of the major changes occurring in the external environment which comprises Customers, Competitors, Industry, Technology, Shareholder Circumstances and Business Environment.

Modify Operations

Once you are sure your Valuable Formula is valid (or future proofed), consideration needs to be given to certain operating parameters to cope with the economic crisis. The key ones are based on the operating elements of the RAN ONE Rocket™ and are highlighted below:



Products and Services

What you sell is the nuts and bolts of your business and you must keep this area running efficiently and securely. You cannot afford to under invest but similarly there are usually operational efficiencies to be found in how you manage your products and services.

i. Careful management of inventory levels will be needed as demand may decline and you could end up holding excess inventory, tying up much needed working capital

- The calculation showing how long inventory is sitting on your shelves is called inventory turnover and can be stated in two ways: the number of times you “turn over” your inventory holding each year, or the average number of days you hold inventory before selling it.
- Whilst the absolute numbers are important and can be compared to industry averages, in the current environment it is the trend that you should be watching. If inventory turnover is reducing or inventory days are increasing, this is a warning sign. It is possible for inventory turnover to fall even if the level of inventory is reducing. Watch this as it means your sales are falling at a greater rate than the reduction of inventory, and this will lead to a cash drain in the near future.

Inventory Turnover = cost of sales for the period / average of inventory at start of the period and end of the period

Inventory Days = 365 / inventory turnover

ii. A close look is also needed for R&D, Product Development and Business Development activities

The business case that the original decision was predicated on may have changed significantly, and certainly predictions of revenue may now be less certain than you first thought.

- If a project is not going to provide a short-term positive cash return, you should seriously look at deferring it. Whilst there is usually an additional cost to stopping work and restarting it again, the de-commissioning and re-commissioning costs may be acceptable in relation to the savings from deferring the development costs.
- This applies to any expansion activity that requires investment up front (and it doesn't matter whether that is capex or opex investment) with the returns to follow over time.
- Payback period is the calculation needed in these situations.

Payback Period = the amount of time it takes for the initial upfront costs to be paid back. Pay back periods usually are several years so there is the following shorter-term alternative that may be more relevant in the current crisis.

Time to Break Even = the time it takes for the project to generate enough cash to be cash positive.

iii. Become best friends with your suppliers and communicate with them regularly

These people become first port of call if things get a bit tight and they react better if they know what might be coming rather than finding out when the problem has reached a critical point. There are two useful measures that you can use to monitor how the business is travelling in this regard.

- The first is an aged list of payables – very much like you (should) have for your receivables. The key thing with this list is to talk to those suppliers who are sitting out in the 60 days or older columns. Not talking to them makes them very nervous and many a business has been taken down by suppliers who would have been far more understanding had there been regular communication. It is also important to look at this in relation to the credit terms you have with each supplier – some payables have very short terms (often tax payments) and other creditors can live with being paid on longer terms.

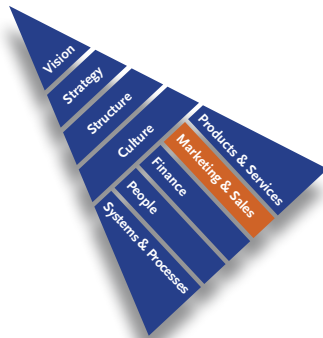
If you are having short-term cash flow problems, choosing one large creditor and negotiating a payment plan (even if this involves paying some interest) may be a better alternative than aggravating a large number of suppliers and developing a reputation that might inhibit supply of goods. A bad reputation is quickly gained but takes a long time to lose. And if things are tight, you need your good name.

- The second measure is an average number of days it takes you to pay your creditors (Payables Days). This is useful because it tells you how you are trending and if this calculation is rising then you have problems. Like all working capital calculations you work out the turnover rate for the item and then convert this to days outstanding.

Aged Payables Listing = typically payables are grouped into 30, 60, 90+ days but the key thing is that most suppliers count the days from the date of invoice, not end of the month of purchase.

Payable Turnover = total purchases for the period covering trade payables (including materials, supplies and any sub-contracted components) / average of accounts payable relating to these items at the beginning and end of the period.

Payable Days = $365/\text{payables turnover}$.



Marketing and Sales

If products and services represent the nuts and bolts of the business, marketing and sales is the engine room that provides the drive for the business. In a classic episode of the UK TV show 'Yes Minister', civil servants argued that the best run hospital in the health system was the one which had no patients. They had lost sight of what it was all about. In tough times it is very important that you do not lose sight of the importance of customers and sales.

i. Review marketing expenditure closely but avoid the temptation to just cut this back

A business spends money on marketing in a number of ways and much of it appears in your profit and loss statement in areas other than advertising. It is important to get a handle on what you are spending on marketing so review all areas and aggregate these. Take a close look at printing and stationery, IT costs (for your web site), entertainment and any other line item where a marketing cost may be allocated.

- Once you have the full cost, calculate the percentage of sales spent on marketing over the last two or three years so that you have a benchmark to monitor against. The measure for this is ROMI (Return on Marketing Investment) and it is somewhat woolly because, as we know, much of your revenue comes from non-advertising activity (such as customer loyalty, quality service, etc). A better measure is New Business Return on Marketing Investment.
- Getting a Return on Marketing Investment (irrespective of how you measure it) is a challenge and most businesses have an element of shot gun in their approach in so far as the marketing activity hits some of the intended targets, but also hits others that are not really prospects. The cost of a hit is the same irrespective of how 'hot' (or not) the prospect is. In this climate some market segments will have reduced propensity to buy your products, so carefully review to ensure that your marketing is still likely to hit the segments you want.
- Remember your Valuable Formula may have changed and, if that is the case, the "WHO" will buy your products may now be different. If the WHO has changed and you continue to target the same group it will be a waste of marketing resources.

Return on Marketing Investment = revenues/cost of all marketing. This gives a crude measure of the return on each dollar invested in marketing.

New Business Return on Marketing Investment = revenue from new customers/advertising and marketing costs spent on customer acquisition activities. The value of this measure is that if you cannot see the new business coming from current advertising and marketing costs then as a short term tactic you may suspend this spend.

ii. There are a number of activities that have little or no cost, but can add significantly to your marketing efforts.

- Start a referral programme (give anyone who sends you a customer a small gift such as a bottle of wine)
- Develop a loyalty programme (give something special to your long-standing and best customers)
- Try getting some PR in your local media

iii. Consider using online marketing as a substitute for traditional marketing

There is a major global trend to redirect marketing dollars into online channels. Online media spend is growing by around 30% pa and in many countries it is bigger than the spend on radio advertising.

- Online channels provide significant targeted marketing opportunities
- It is cheaper and very effective. Consider web sites, search engine optimisation, electronic newsletters, electronic direct mail (eDM), blogs and so on.
- Online marketing is quite measurable so you can modify your campaign according to what you see is working and what is not.
- There may be some capital cost if your site needs a freshen-up, but you can do a lot with a little in this area.

Web Analytics is a new source of information available for management. You need to measure your online activity in at least these areas:

- Sales leads generated from each online activity.
- Site visitors – who, why and when.
- Customer experience – how useful do online visitors find your site.
- Social Media – what customers are saying about you in online conversations, eg on blogs, customer feedback sites, etc.

iv. Avoid the temptation to cut prices to get the sale

- Cutting prices cuts profits and you need profits to generate cash. The only circumstance when discounting is justified is if you have a serious cash crisis and you need to liquidate inventory simply to get cash flow in.
- Look at offering payment terms (within reason), bundling other products, extending warranties and other price maintenance measures.
- It is easy to drop prices and hard to get them back up again.

- Traditional economics says a drop in prices should stimulate the volume of sales (how much depends on the elasticity of demand). However, you need to be careful that the net effect of a price reduction is not a drop in revenue which will occur if the price reduction does not stimulate a significant increase in volume. A lower sell price will also reduce gross margin, so volumes need to be significantly stimulated to generate profitable business.

In our example below (FIG. 2), by cutting the selling price from \$7 to \$6 the volume sold has increased from 150 units to 160. The revenue has fallen from \$1050 (ie 7 x 150) to \$960 (ie 6 x 160).

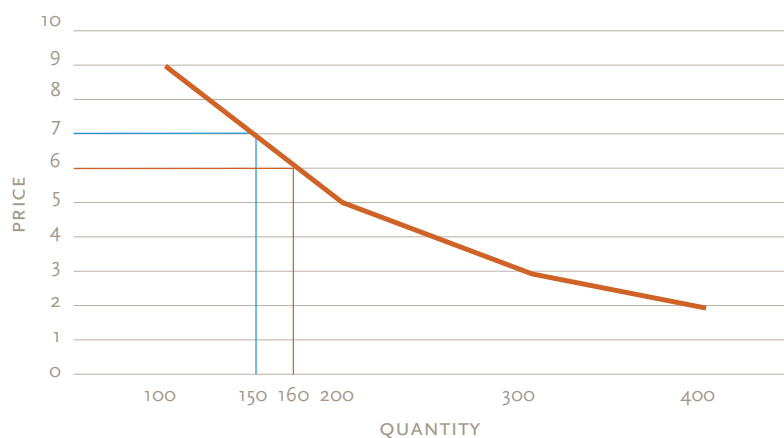
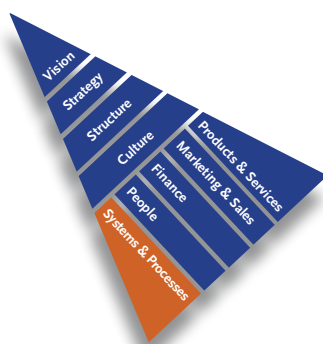


FIG. 2

If each unit costs \$4 to buy, then this business would have also lost gross profit (Gross Profit at original price was 150 units x \$3 per unit = \$450 Gross Profit and at the reduced price was 160 units at \$2 per unit = \$320 Gross Profit).

Elasticity of demand and gross profit margins need to be understood BEFORE price discount strategies are undertaken.



Systems and Processes

Your business should work like a well-oiled machine and this comes down to having the right systems and processes in place.

i. Adopt new technology platforms particularly web based tools

With the rapid adoption of new technology (particularly new web solutions) opportunities exist for cost savings across the whole business.

- The significance of web based solutions is the emergence of the Software as a Service (SaaS) model where you do not have to invest in the upfront cost but rather you pay a monthly fee for the use of the system.
- A raft of business processes can be installed in your business under the SaaS model, including CRM, project management, accounting systems and so on.
- You need to consider the short term cost of disruption as well as the longer term cost benefits.

ii. Revise IT Capex

There are many rules that businesses adopt regarding spend on IT. At the end of the day investment in IT should either increase revenues, reduce costs, increase customer service or increase productivity.

- Some businesses only invest when an item is so old that it has rusted, others have a rotation based replacement policy (eg three years for a desk top), still others have a policy about following new software releases (eg they upgrade to the latest version of Windows within 12 months of its release). In the current climate take a hard look at IT spend.
- Do not cut expenditure on core systems, redundancy or disaster recovery. Murphy's Law will get you and this will be very costly. But have a close look at trying to get another year out of existing kit. OK, you will not get the efficiency gain or even the customer service increase, but in the short term will this make that much of a difference?

iii. Look for increased internal efficiencies

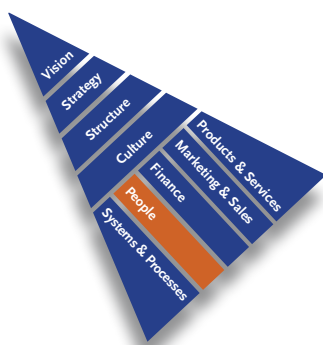
There is always a smarter way to do something.

- The challenge, normally, is in overcoming institutionalized behaviours. But necessity is the mother of invention and in a time of crisis people adopt a survival mentality, so the resistance to change is lower.
- Run an ideas board and call for innovations from across the whole team. Most improvements do not involve processes that senior management are involved in, but rather they come from rank and file workers who operate at the coal face. This is a particularly good time to listen to the rank and file.

iv. Look for systemic failures

Every business has systems but many of these have developed in an ad hoc way. As the business grows the systems just absorb a greater load until they overload. Before systems actually fail they start to leak, and this means poorer productivity, poorer returns and missed profits.

- Many businesses are not aware of systems failures because they are covered up by good business performance. As author Jim Collins argues in his book 'From Good to Great', good is the enemy of great. The fact that a system has not collapsed from overloading does not mean it is not leaking – and this is costing you.
- Also review each system's relevance to ensure that the system is actually adding value to your business.



Human Resources

Many businesses consider people their best asset and no business can get through a crisis without a committed team. Building such a team is a long-term exercise and if you haven't been a good employer don't be surprised if the team is less committed than you may want them to be. Here are a few areas to look at in managing your people.

i. Look at your human resource strategy

People costs represent a large proportion of the cost structure of most businesses.

- Consider your recruitment activities and possibly look at contract or part time solutions. This may not be the best long-term solution but it gives you flexibility, a major weapon in tough times.

ii. Consider one-off bonuses instead of pay increases

Salary increases are forever – a one-off bonus payment keeps your operational expenditure at a lower level and will keep most people happy.

- Salary increases are always a contentious issue. We are probably going to see an increase in inflation (with governments putting all this money onto the system) and there will be growing expectations of increases at least to off-set inflation. People are doing it hard, but it is more important that you protect the business so that they have jobs in the long term.

iii. Identify the 'must keep' amongst your people

Consider grading your people into A, B, C and D groups. The A people must be kept at all costs – they are critical to the current and future business and you need to make sure these people are kept happy.

- Talk to the A – there is no bigger kick in the guts for a manager than a key employee resigning because they believe they are undervalued.
- The B group are 'keep at economic costs'. In other words, they are valuable team members and you would prefer them to stay but there is a point where the cost of retention is greater than the contribution they are making.
- The C group are OK performers but if they left you would hope to replace them with a stronger person.
- And the D group are those that you should be moving on as they do not contribute what they cost you.

GET THE BALANCE RIGHT WITH A SIMPLE TEAM MEMBER GRADING SYSTEM

Grade	Ideal % of Team	Management Strategy
A – keep at all costs	30% of the team	proactively retain
B – keep at economic costs	30% of the team	be prepared to pay more
C – allow natural attrition	30% of the team	let them go
D – should go	10% of the team	actively move on

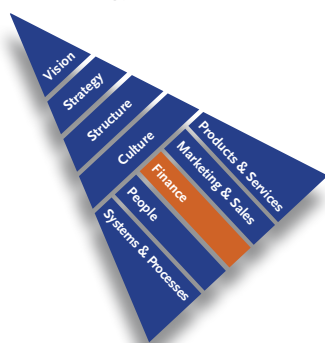
iv. Communication to the team becomes more important now than ever

Water cooler discussions will inevitably turn to the viability of the business and people who are not in the know often jump to conclusions.

- You do not have to reveal financial information (although many businesses do these days), but communicate regularly to the team. People are very understanding and if the picture is presented to them they should be more receptive to salary freezes and other efficiency measures you may introduce.

Managing for Cash

At the sharp end of things is the need to manage for cash. If you can't pay your bills, no matter how profitable you are, you will crash and burn. There are many tactics that can improve cash flow. Some of these are short term and one-off measures. However to resolve any cash crisis you must have the right Valuable Formula and you must operate the business sensibly. Think of it this way - you can only squeeze a lemon once, but if you work on growing a healthy lemon tree there will be a sustainable supply of lemon juice, hence the need for the right strategy and operations.



Getting Your Balance Sheet Right

Many businesses have a poorly structured balance sheet and pay the price for it.

i. Gearing is more important than ever

Assets are financed from either debt or equity and the right balance is needed.

- As things get tight, try and move your balance sheet to a lower gearing (more equity and less debt) as this reduces risk and also reduces the servicing costs.

- Equity is more expensive as it carries a risk and hence demands a higher return over the long term but it is more forgiving in terms of servicing in the short term.
- For many privately owned businesses there is funding from shareholders (founders) that appears as debt but is quasi equity in that it is very long term; it is not expected to be paid back and it carries no interest. For the purposes of calculating your gearing, this should be treated as equity.
- It is important to remember that equity comprises capital contributed to the business plus any retained earnings left in the business, so if you are a profitable business and you have not taken all the profits out you are building equity. If you draw more cash out than you have made in profits then you have reduced your equity. In tough economic times where losses are being made, your equity in the business will be reducing and as a consequence your gearing is increasing, and this can lead to trouble.

ii. A debt free balance sheet is sometimes described as lazy

The return to shareholders (Return on Equity) can be increased with the judicious use of debt. It is a question of getting the right balance.

- The example below shows how ROE can be increased from 25% to 40% with the proper use of debt.

	DEBT	EQUITY	PROFIT	ROE
Financial Structure No 1	0	1M	250K	25%
Financial Structure No 2	500K	500K	200K (interest costing 50K)	40%

- A good calculation to look at is your interest cover which is the number of times your profit covers your interest expense. Higher levels of debt can be tolerated when the business is profitable and has high interest coverage. Certainty of earnings becomes very important and this takes us back to your Valuable Formula and how robust this is.

$$\text{Interest Cover} = \text{Profit/Interest Expense}$$

iii. Asset funding

A big use of debt is asset funding and doing this the wrong way can lead to problems.

- Assets should be funded within the lifespan of the asset, in particular those with short life spans. There is nothing worse than still paying off a loan relating to an asset that has worn out. It is important to match the asset life to the funding cycle.
- Conversely, paying off assets quickly may draw too much from free cash flow and restrict other business development activities. Many businesses pay for assets, such as computers, out of cash flow and over time that can be a lot of working capital.
- Trade debt is good for funding working capital but should not be used for capex.



Gearing is debt/equity and a balance sheet that is highly geared or highly leveraged has used a lot more debt than equity to purchase assets. $\text{Assets} - \text{Liabilities} = \text{Equity}$ or restated $\text{Equity} + \text{Liabilities} = \text{Assets}$. This means the funding of assets has come from either debt or equity and the proportion of each used is called gearing or leverage.

Sales Lead to Cash Cycle

Sales lead to cash cycle is defined as the time it takes from marketing a product to banking the cash from the sale of that product. Put simply, it's the number of days from initial investment (marketing) to payment in full. This is often quite a long time. There are many steps in this process and responsibility passes through several sets of hands. It is quite natural that there is slippage, down time, duplication and things missed. All of these things create opportunities to make efficiency improvements.

i. What is your current investment?

The following diagram (FIG. 3) is a simple calculator of just how much investment you have in this cycle. It can be completed by estimating the number of days each process takes, or, you could estimate the costs incurred at each stage and see the actual monetary investment.

We think of our investment in working capital as receivables days and if this is running at 60 days most managers are beginning to panic. If you take a more comprehensive look you will find that from when you start designing a marketing campaign till you collect the cash, 270 days might be more common.

If management thinks having 20% of annual revenue tied up in receivables is bad, when you look at the actual money invested over 270 days, even the hardest manager will get a shock. Just take this thought a little further. How many marketing activities successfully generate leads which are then allowed to cool before sales actually gets to them? How often is a sales order taken and the business fails to fulfil the order quickly? There is usually low hanging fruit for business improvement in the sales lead to cash cycle.

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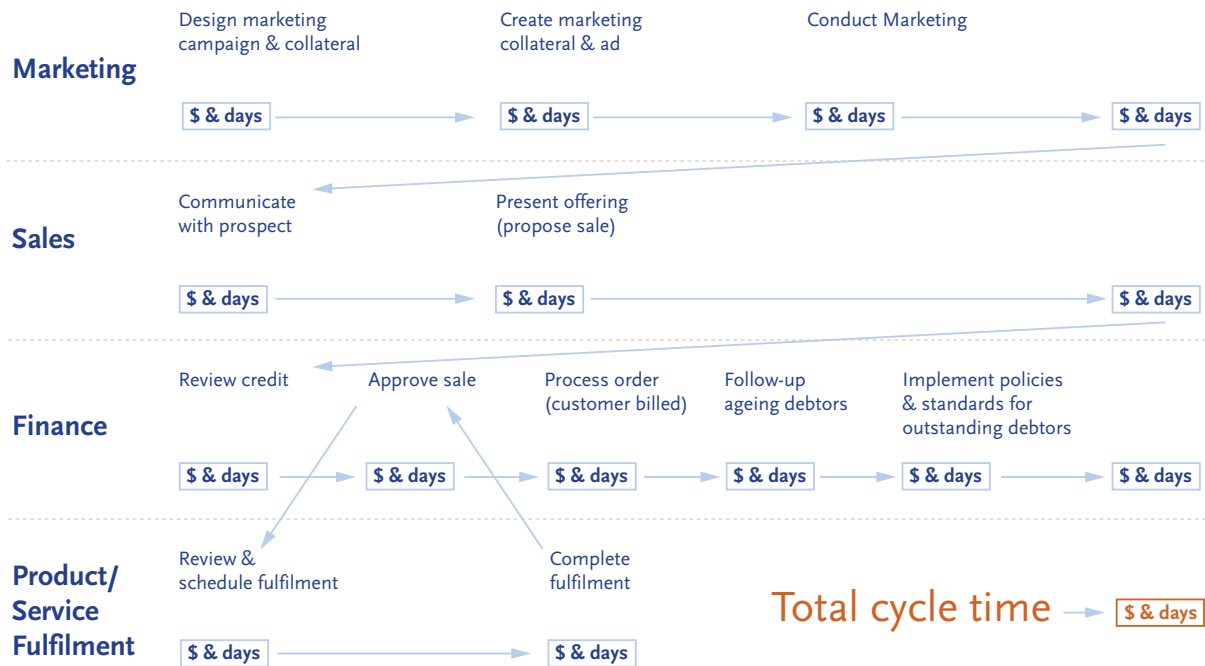


FIG. 3

ii. Improving the sales lead to cash cycle

There are a number of phases you go through in this cycle and this section of the report looks at the ways you can accelerate the progression through the cycle.

- In the following diagram (FIG. 4) the helpful hints sit under each major phase in the cycle.

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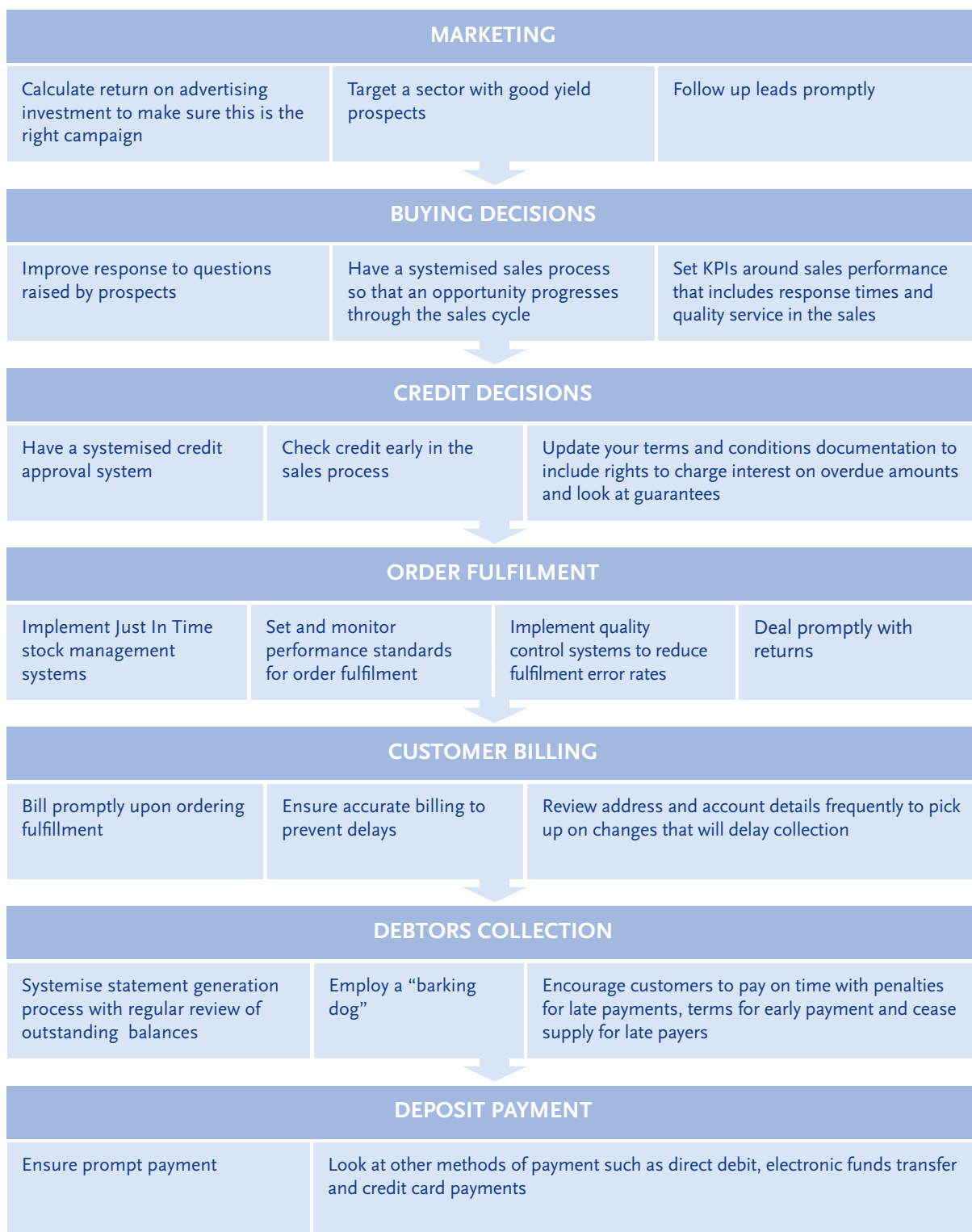


FIG. 4

Supply Chain Management

The other side of the business relates to your purchases, inventory management and work flow. This is Supply Chain Management and typically there are operational efficiencies to be had but usually not as many as on the credit side. Most managers are pretty good at counting the pennies and this side of the business is watched carefully. However there are improvements possible from the use of technology and management information that can help substantially.

i. Improving your relationship and terms of trade with suppliers

We mentioned earlier that trade suppliers are an important source of finance. Even more importantly, they supply you with the goods and services you need to supply your customers. And you, along with many other businesses, sit in an industry supplier chain. The efficiency of that supplier chain impacts all your viability and competitiveness. It is said now with globalisation that real competition exists not between individual businesses but between competing supplier chains.

Take grocery shopping – as consumers we tend to think that the competition for our grocery spend is between two or three supermarket chains. But when you think about it what each supermarket has to offer is very much dependent on all the businesses in the supply chain each has built to support them at the final retail sale. This comprises distribution, warehousing, processing, growing, cold storage, marketing, packaging and so on. The ability of one supermarket to provide a superior offering to customers is very dependent on how efficiently their supplier chain works.

This is not to say there is not competitive pressure within a supply chain. Of course there is, but the nature of the relationships is changing. Technology is allowing the creation of an integrated supply chain where demand can be converted to orders through the whole chain.

- Relationship building with suppliers is becoming as important to a business as relationship management with customers. Suppliers are considered strategic partners and the more you can help them with certainty over how much business you do with them the more efficient and successful your supply chain becomes. This creation of value must be shared, and this is the opportunity for you to improve your terms and conditions with suppliers.
- When talking to suppliers about how much business you have for them make sure you discuss payment terms, prices (including fixed prices for a time), volume rebates, consignment stock, contribution towards your marketing for their products.
- For non strategic suppliers you may wish to review prices periodically and run a tender. This includes the providers of power, telecoms, stationery, freight, couriers, insurances, banking services and anything else you spend money on. There are usually better deals to be had by shopping around for these items.

ii. Inventory management

There are significant costs to holding inventory including financing costs, space requirements, stock obsolescence, damaged stock and pilferage. You can optimise your investment in inventory by:

- breaking your inventory into product groups and reviewing turnover by groups.
- establishing optimal reordering levels — these should be lowering because of the improved delivery times with Just in Time inventory systems.
- return slow moving items.

iii. Work flow improvements

How well you go about your normal business can have an impact on business performance. Every business provides goods or services in some form and the delivery of these involves work flows (processes). Once again advances in technologies, readily available work flow solutions (usually built specifically for an industry) and a work place culture of customer centricity can all lead to improvement in efficiencies. Key things to look for are:

- reduction of bottlenecks in work flow
- elimination of shortages of raw materials
- scheduling resources appropriately
- alignment of production capacity with sales orders
- measurement and management of productivity

Other Ways to Manage Your Cash

This document does not pretend to be exhaustive with regard to how you can better manage your cash. Rather, we have focused on areas where improvement is most likely and perhaps areas not regularly considered. Additional areas include:

- deferment of capital expenditure.
- implementation of spending policies and controls by setting authority levels and making it clear who can order items.
- adoption of a culture of cash preservation and cost control, which must start with the boss leading by example.
- budgeting and monitoring of cash forecasts regularly, particularly for the receipt of payments from receivables.

Seek Help

There is an old saying, “pride goes before a fall”. We are living in extraordinary times and both the financial crisis and technological change are creating an environment of uncertainty the like of which has not been seen before. You cannot assume you are OK, you cannot assume that what has worked for you in the past will work for you now. Stand back and get a second opinion about your business and how it is performing.

Go and see your accountant or business advisor. Sometimes it is beneficial just to share the burden and your accountant is your most trusted advisor.

Managing Through The Economic Crisis

About the Author

Jim McKerlie is the Global Chairman of RAN ONE which is a world leader in the design and development of business solutions and training for accountants, consultants and business advisors who serve the small to medium enterprise (SME) market sector. Jim has more than twenty-five years of consulting experience working with clients around the world. His client base includes numerous major international public companies, the public sector and privately owned businesses. Jim has consulted extensively in North America, Asia Pacific, Europe and Africa. He has held positions as Managing Partner with Deloitte & Touche and with KPMG Consulting for Asia. He is a noted media commentator, author and presenter on business, economic and public policy matters.