

Survive and Thrive in a Slowing Economy

The current economic cycle is a bit like driving in fog: we can see just in front of us, and we know there is clear air just above us, but we have no sense at all of what the landscape looks like. It's not helped by the conflicting data and interpretations about where we are in the cycle. As the old saying goes: forecasting is very difficult, especially when it's about the future.

Actual or potential changes in the economy can be very stressful for business owners, especially when they see signs of decline. However, for those who can get above the fog, a downturn presents some wonderful opportunities. It sounds trite, but we really do need to be able to see the gift in adversity. It's there if we look hard enough – as John F Kennedy said, the Chinese word for crisis is made up of two characters, one representing danger, and the other opportunity. And by the way, where we see danger, our competitors might see opportunity.

We can get above the fog if we remember a few key things:

- 🔧 Any change of any kind always produces opportunities
- 🔧 People are always going to buy things, but the benefits they look for (or the reasons they buy) can change in a downturn – and that's a potential opportunity for us
- 🔧 If we're hurting, then so are our competitors
- 🔧 if we're nervous, so are our competitors – and some of them are going to make mistakes in judgment which we can capitalize on

Many business owners are going to:

- 🔧 Cut marketing: it's an immediate saving and anyway, it's always hard to prove the value of it
- 🔧 Cut training: again it's a cash saving
- 🔧 Don't recruit or replace staff who leave
- 🔧 Hang on to any business we've got, even if we have to discount. Grab any business we can, even if it's unprofitable. At least it's a contribution against overheads
- 🔧 Put in more hours. It's like taking complicated shortcuts when the motorway is blocked: it might not make much difference, but at least you feel like you're getting somewhere

Retrenching like this will reduce business owners' costs, but it will also reduce their turnover and profitability, as well as their energy and enjoyment of the business – a case of work more and earn less. What's more, this particular cycle will end at some point. Adopting the retrenchment strategy means they will have to ramp up when the cycle improves.

How can we increase our value while our competitors increase their overdraft? The first thing to do is to act prudently:

- 7 Watch debtors. Don't just look at the average age and the amount owing after 30/60/90 days. Look for patterns among specific debtors – is a particular customer consistently slow? What's your exposure to that company?
- 7 Increase liquidity by moving stock, tightening terms of trade, reviewing capital expenditure plans. Don't necessarily cancel capex, but be prepared to look for other sources of the equipment
- 7 Maintain prices. Discounting might be a useful way of getting rid of excess stock, but discounting means you have to get a lot more volume just to stand still
- 7 Cut low margin activities. Take the opportunity to prune unprofitable customers, poorly performing products and services and underperforming staff. There are many businesses which could double their profit by halving their turnover. Don't buy into the old "contribution to overheads" argument – you've got the overheads because you've got too much complexity in the business

The second thing to realize is that if you're feeling like retrenching, so are your competitors. This is what creates the best opportunity you'll ever get to grow your business. AJ Lafley, CEO of Procter & Gamble says "we have a philosophy and a strategy. When times are tough, you build share".

For example:

- 7 Invest in marketing. It's an ideal time to increase your profile while your competitors are reducing theirs. You'll stand out more than in good times when everyone's spending on marketing. Also, advertising will never be cheaper
- 7 Reposition yourself on the value chain. This could be the time when some customers in higher priced segments become more price sensitive. Offering comparable quality at a lower price than competitors in that segment is a wonderful way to move into markets and customers that were previously out of your reach

Above all else, this is the ideal time to be looking for acquisitions. You may be right to think your company is worth as much now as it was 12 months ago because of the cycle – but that's even more true of your competitors. Now's the time to approach rivals you know to be struggling, but make sure they have a capability or a segment that complements your business. We may not have contemplated this in the past because they wanted too much money or we just didn't see ourselves in the business acquisition game.

It's also a great time to be building the value of your company by increasing its capability:

- Invest in training your staff. Training usually gets a lower priority when we're busy because we can't spare people. Now's the perfect time to upskill people so they're operating at a higher level when the upswing comes
- Look to buy capital equipment from your competitors before you buy it new. Some of them may welcome the opportunity to free up some cash
- Go out and look for top quality people - if your industry is nervous, top people are probably getting anxious, and might be looking to work with someone who has vision and confidence
- Improve your systems and processes so that when the upswing comes you will be more efficient than you are now (and you will personally be able to spend more time on the business rather than in it, further increasing its value)

Tough times are a great gift for smart business owners. However the opportunity is not free. You have to invest in yourself as well as your business. Moving to the next level, especially in an uncertain economic environment, takes a lot of courage. You have to let go of the familiar certainties and move into some uncharted territory. In other words, you have to leave your comfort zone and head for higher ground.

The reality is, the higher ground is where the opportunities are. And if you try to stand where you are, you and your business could be very much at risk.

This article first appeared in Westpac's "Good Business" magazine.

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