
Surviving Tough Times

Practical steps to succeed

By Richard Wheatley, FCA



As lean, hungry newcomers enter the market and compete for your customers, how do you make sure that your business survives and thrives? Richard Wheatley has some practical advice.

“We’re still open for business” is a phrase commonly heard at the moment and often delivered with a certain amount of pride and self-satisfaction. There’s a tangible sense of having survived the worst downturn in living memory and, if we can hang in there a little longer the phone will start ringing and, with any luck, the banks might even start lending again. Let the good times roll! If only life, and business, was that simple.

A glance at the statistics for the first 6 months this year should be enough to put pay to any lingering complacency. Almost 1,000 companies have been declared insolvent so far in 2010, pretty much in line with 2009 levels. However, some 6,993 companies and 15,246 business names were registered - significantly up on 2009. So whilst companies are going insolvent every day, more businesses are opening their doors for the first time with increased competition across many sectors. Leaner, hungrier companies are replacing those for whom the good times papered over the cracks of poor performance. These new businesses are targeting your customers and will fight hard for every bit of business they can get. Often, they operate with minimal overheads and offer big discounts.

Clever businesses prepared themselves strategically during the good times. They did not wait for the hard times to come before making hard decisions. They know their customers, their suppliers, their employees, their margins, and their cost base. They plan and are proactive. They know how their business is performing at all times and can react in a timely manner. If revenue is down they know whether it is due to volume or margin, what product, what region and what customer. Early diagnosis followed by corrective action ensures that business issues and the resulting impact on profitability are minimised.

Typically, successful businesses:

- ▶ understand all aspects of the business and have meaningful business performance measurement mechanisms in place;
- ▶ have a plan against which to measure actual performance (business planning); and
- ▶ are not afraid to take tough decisions when required (action).

Assuming your business has survived the last 18 months, the chances are that your customers are still coming to you because they like what you do, be it your product or service, people, marketing, location or simply because

they couldn’t be bothered to check out the competition. But tread carefully because some companies are surviving in spite of themselves, their management teams and their business processes. They may have had a winning product with very little competition and a healthy balance sheet that allowed them to compete on price alone, or their customers were doing so well themselves they never looked for price reductions or enhanced service, but times have changed and there is no longer room for such complacency in the marketplace.

So what should you do to begin controlling your own destiny? Below are three practical first steps.

STEP 1

Understand the business and what drives performance

“Reflection is looking in so you can look out with a broader, bigger, and more accurate perspective.”

(Mick Ukleja and Robert Lorber)

- ▶ Know your customers, your products, your competitors, your suppliers, your employees and your business processes. It is important to have a strong management information system where all

business information is collected and key performance indicators, financial and non-financial, are measured. This can take the form of a complex IT system or simple spreadsheets. In my experience, if something is important it needs to be measured and analysed so that if there are issues timely corrective action can be taken. Don't wait for year-end to find out how you're doing. It will simply be too late. Some simple questions will help you determine how you are doing:

- ▶ Do you measure sales and margin by region, by customer?
- ▶ Have you analysed the discounts given and the overall cost to serve some customers?
- ▶ Are the highest revenue customers the highest margin customers?
- ▶ Are there non-core activities that are not delivering?
- ▶ Can you divert the time and resources from non-profitable activities to profitable activities?
- ▶ Do you know what your customers really think of you and your business? Better to know now so you can do something about it before they're gone.
- ▶ Are your existing sales channels delivering? Could you develop new sales channels?
- ▶ Are the best employees attracted, retained and motivated? Have you considered outsourcing?

- ▶ Are you getting the best prices from your suppliers? Is duplication eliminated from all your processes?

This list is not exhaustive but gives a flavour of the self-analysis that needs to take place to truly understand your business.

STEP 2 Plan your business, don't just wait to see what happens!

"The trouble with not having a goal is that you can spend your life running up and down the field and never scoring."
(Bill Copeland)

Your business plan should be the operating tool that helps you manage your business and work towards its success. It should encompass the goals, strategies and actions necessary to ensure survival and growth, from customers and sales, to products and marketing, to organisational structure and overheads. The business plan should be renewed at least once a year and, ideally, it should be reviewed quarterly. It is better to find out now that revenue from existing sales channels will be insufficient to drive profitability rather than wait until year-end when it is too late to take any corrective action. Similarly it is better to know now that new products need to be developed so you can invest before it is too late.

Step 3 Act, embrace change and make the tough decisions

"Vision is not enough. It must be combined with venture. It is not enough to stare up the steps, we must step up the stairs."

(Vaclav Havel)

Planning without action is futile, action without planning may be fatal. Nothing stops an organization faster than people who believe that the way you worked yesterday is the best way to work tomorrow. If sales are down, understand the reason why and develop an action plan - win back business, attract new customers, increase sales from existing customers, develop new sales channels (web, outsource). If margins and costs are an issue, change suppliers, renegotiate with existing ones. Outsource some activities to allow you to focus on the business and most importantly of all, surround yourself with good people and good businesses.

Once you have followed the steps outlined above, you will have a plan and if your business is under-performing you will also understand the reasons why. Knowledge is power. All that remains is to act on it!

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