The Questions Every Owner/Manager Needs to Answer to Manage Their Way through a Downturn.[1]

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Recent events have had a profound effect on all businesses in every sector. No longer do businesses operate in an environment where continuous demand and growth are taken as 'given'. Instead, businesses are faced with addressing questions such as; are we in a recession or a depression? How long will this last? How much worse are things likely to get? What do we need to do to survive? To successfully tackle the challenges posed by a downturn requires a carefully thought-out plan.

Loosely run operations, sluggish sales, and an overextended enterprise leave you vulnerable to economic shocks. Liquidity is the key to surviving and thriving in tough times, when both cash to meet current obligations and capital for investing in the future are scarce.

Each business needs to develop its own plan and this plan should have two main objectives, from which a series of action items devolves. First, stabilize your business, protecting it from downside risk and ensuring that it has the liquidity necessary to weather the crisis. Then, and only then, can you identify ways to capitalize on the downturn in the longer term.

The following questions are offered to assist you to develop your own plan. Use the headings to prompt you to develop your own plan. Answer each of the following questions and give yourself a 'score' of between 0 and 4 for each question. For example you are asked *"Have you developed and analyzed the consequences of a 'best' case scenario of the performance of the business for the next twelve months including cash forecasting?"* If you have developed and analyzed such a scenario and have taken appropriate action your score is 4 if you have not your score is 0.

It is important to remember that the answers are subjective but if this exercise is completed as objectively as possible as it will highlight areas that need immediate attention.

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[1] This Paper has been inspired by the work of David Rhodes & Daniel Stelter of the Boston Consulting Group. For further information on their work see *"Seize Advantage in a Downturn"* Harvard Business Review February 2009. Mr. Rhodes has kindly provided his permission for the publication of this Paper and has made additional material and resources available to us. We acknowledge and appreciate his generosity.

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How well are you managing and maximize your cash position?

Question	Score
Have you developed and analyzed the consequences of a 'best' case scenario of the performance of the business for the next twelve months including cash forecasting?	
Have you developed and analyzed the consequences of a 'worse' case scenario of the performance of the business for the next twelve months including cash forecasting?	
Do you have a rolling weekly or monthly cash report?	
Do you know the financial breakeven point where sales equal costs for each week or month?	

From this you should be able to establish the minimum amount of sales you need to generate in order to cover costs on a weekly or monthly basis. If you are not generating sufficient sales you will be able to establish how fast you are depleting you cash reserves.

You will need to ensure that your business is in a position where sales cover costs – you need to know the breakeven point.

How well are you managing working capital?

Question	Score
Are you monitoring your Debtors receipts?	
Are you monitoring your Creditors payments?	
Are you availing of full credit terms?	
Can you negotiate more favourable prices for earlier payments?	
Are you monitoring the amount of stock you holding?	
Have you identified 'slow-moving' stock and taken action to sell it?	

You need to examine your debtors and creditors payment policies. If you are paying your creditors before your debtors pay you, you are going to run out of cash faster then you think. Also what is the reason for holding large quantities of stock if demand is reduced?

Offering generous credit terms to customers who are slow to settle their account is a serious problem. Only offer credit to those customers who you know will settle their account and to customers whose business is valuable to you both in the short term and long term

If you have salesmen who are paid a bonus, ensure that any bonus on sales is not paid until money is received from Debtors. Remember a sale is not a sale until it is fully satisfied by both parties. Your sales people are also your debt collectors.

How well are you managing long term financial commitments?

Question	Score
Have you established stringent capital investment guidelines?	
Can you dispose of unproductive assets?	
Can you terminate or dispose of noncore businesses activities?	
Are you financing 'long term' assets by means of 'short term' finance?	

Capital investment decisions usually focus on capacity issues. Do you know the limits of your current capacity? If you are working within capacity then why do you need to make an investment decision at this time? If you have a compelling case for capital investment you need to be sure that your business is capable of servicing these commitments – in particular on the basis of a worse case scenario.

If you have unproductive assets such as machinery then now might be the time to dispose of them. The price obtained is unlikely to be ideal due to current market conditions however the additional cash may be used for more productive purposes.

Are you maximizing your sales efforts?

Question	Score
What customer retention initiatives do you rely on? How successful are these initiatives?	
Is the sales function focused on generating additional short-term revenue?	
Is marketing spending focused toward immediate revenue generation?	
Can you offer lower-price versions of existing products?	
Have you identified the 'must have' products for which customers are still willing to pay full price?	

In the course of answering these questions you will effectively be undertaking a complete review of your sales efforts. Have you identified the customers you want to continue to sell to and if so do you monitor your relationship with these customers. Can you do more for them so that you are one of their key suppliers?

You need to identify the customers who are costing you money. These are the customers who are always slow to pay, always querying the bill and are continually looking for discounts.

You may need to look at your product offering in response to shifting customer needs. Purchasing behavior changes dramatically in a recession. Consumers may opt for lower-priced alternatives to their usual purchases, trading down to buy private label products or to shop at discount retailers.

Although some consumers will continue to trade up, it is likely they'll do so in smaller numbers and in fewer categories. Consumer products companies should consider offering low-priced versions of popular products for example think of the McDonald's Euro Saver Menu.

Whatever your business, determine how the needs, preferences, and spending patterns of your customers, whether consumer or corporate, are affected by the economic climate. For example, careful segmentation may reveal products primarily purchased by people still willing to pay full price. Use this information to inform product offerings and investment choices.

How well are you managing your operational processes?

Question	Score
Have you analyzed the source of your operational advantage?	
Are you monitoring industry wide costs and trends?	
Do you need to seek out cheaper materials?	

The advantage a business creates from its operational processes is based on having developed specific objectives in all or some of the following, speed, quality, flexibility, dependability and/or cost? You need to know what it is that makes you a valued supplier. If the source of your operational advantage is a quality and dependable product/service, you may be sacrificing profit by being overly generous in reducing your price. Similarly if your advantage is purely based on cost then you will need to be taking measures to reduce your costs to a minimum.

How well are you managing your customer relationship?

Question	Score
Have you segmented your customers based on their loyalty?	
Have you analyzed your customers on the basis of long term risk?	
Are you building relationships with strategic customers for long term benefit?	

The customers who offer you repeat business and who pay you on time need to be identified and all your efforts should be focused on satisfying their needs. If the production and delivery of your products and service is prioritized on the basis of a number rather than customer importance then you need to review such practices in favour of loyal credit worthy customers.

You need to meet your customers on a regular basis. Establish their needs both immediate and long term. By understanding what are the issues facing them you will get a better insight into the issues that you will need to address.

You may be servicing the needs of customers who in the long term may be high risk. For example, the current economic crisis was caused by building too many housing units at too high a price. Over the last few years Ireland produced over 75,000 housing units per annum when the 'natural' demand would have suggested we needed to produce approximately 40,000 housing units per annum. As a consequence, it is likely that there will be significant reduction in demand for building products until the current housing stock is utilized. So if your customer base consists of a lot of companies active in the construction sector, the reduction in demand for their services will have a major 'knock-on' effect for you.

On the positive side there may be greater demand for the services of companies offering for example environmentally 'friendly' products and services. So make sure you understand the risk profile of your customers both in the short term and in the long term.

Your Score;
This is a subjective test. The maximum score one could achieve is 100.

If you have a score of less than 40 then you need to examine in detail all of the issues raised in the questions. You need to undertake a complete review all the issues facing your business.

If you have a score within the range of 40+ to 70 then it is likely you have addressed some but not all of the issues. Focus your attention on the areas where your score is low.

If you have a score of 70 + then it is likely that you have addressed the issues raised. However you cannot afford to be complacent. You will have a clear picture of the key issues that require attention. On the basis of your analysis you need to develop and implement your own Action Plan.

Implementing Your Action Plan:
Once you have developed your own plan you need to ensure it is properly implemented. Your plan will be successfully implemented if you have addressed the issues listed below:

If you have developed a sufficient understanding and appreciation of the market conditions you are facing. You need to create a transparent, consistent, and fact-based process for carrying out the necessary initiatives. You need to continually monitor the economic situation so that the basis of your understanding is accurate.

Commit to the Plan. Measure and monitor your actual performance against your projected performance on a monthly basis. Keep the necessary stakeholders of the plan informed by means of a monthly review.

Develop Individual Actions as Part of the Overall Plan. By establishing the priority and timing of initiatives, you can help ensure that the individual measures reinforce one another. Continually evaluate initiatives both individually and collectively, with the aim of suspending, accelerating, or combining existing efforts, or initiating new ones.

Pay Attention to the Human Element. To earn employees' commitment to the initiatives, you must articulate the threats facing the business, explain why change is needed and what it will entail, and clearly communicate to individuals how they will be affected.

Finally,
The purpose of the exercise is to get you to focus on the key areas that need attention so that you can successfully weather this economic storm. By undertaking these steps and developing your own plan you will reduce your risk exposure to current market conditions. You will also be putting your business on a more firm footing to exploit future opportunities.

Further Information:
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