



## **NAVIGATING THROUGH THE ECONOMIC CRISIS...FOUR CRITICAL INGREDIENTS**

By Terence J. Shepherd



To state that it has not been a terribly good year, would be a tremendous understatement. From real estate, to stock investments, to credit line decreases, to credit unavailability, both consumers and almost all sectors of business were hit and hit hard.

For business owners, this has brought about both new challenges and a totally different operating environment, the like of which, many have never experienced beforehand. As a result, businesses can not sustain themselves with a 'business as usual' mentality.

Sustainability is the key word here. Tinkering with small changes by just reducing prices and/or cutting costs here and there, that is not part of an overall strategy that is longer than just trying to survive to next week with the hope that things will get a little better, is a sure fire way to get caught in the recession's death grip.

To navigate through the crisis, there are four critical areas that need to be addressed by management. But before they do, they first need to have their own house in order by working from a position of stability and not one of panic.

### **ACCEPTANCE AND MAINTAINING CONTROL**

During uncertain times, employees are looking for a strong inspirational voice of leadership. To be able to provide this, business owners must have emotional control of their own situation.

They must not only acknowledge the difficult environment they are in, but also accept it. Acceptance is essential in getting past the why's and the time consuming look backs to what once was. Acceptance, as it is for any life threatening illness, is necessary to get one's full attention directed to working on a plan of corrective treatment. Hearing, reading and speaking about something, is totally different from accepting and doing something about it.

By tuning into the daily media blasts of dismal news, it can be very easy for business owners to get caught up in the day-to-day emotional ups and downs and conduct their business in a reactionary way. Make sure you don't get caught up on this rollercoaster. Do not just sit back, wait and accept what the market brings you. Keep control by being proactive!

In *The Seven Habits of Highly Effective Business*, Stephen Covey defines habit number one, being proactive, as follows: "It means more than merely taking initiative. It means as human beings we are responsible for our own lives. Our behavior is a function of our decisions, not our conditions."

How appropriate, as a reminder during the current crisis, on how we should be acting. Conditions are unpleasant and there are a lot of troubling things happening in the business environment that you have no control over. Don't waste time worrying about them. There is nothing you can directly do to change that. Rather, direct your time to the things you can control: the choices you have on how you are going to move forward.

To successfully steer your business through to the time when calmer waters prevail, you will need company wide alignment and a coordinated effort from everyone in your company. To do that your employees will need a clear picture of where your business stands. They too need to accept current conditions and the long road that lies ahead for them.

By working through the four key areas, you will be positioned to provide your team with a proactive plan of how your business will not only survive, but also how it may possibly grow and prosper.

## **THE FOUR ESSENTIAL INGREDIENTS TO NAVIGATE THROUGH A RECESSION**

1. **Stabilize The Business** – If you haven't already, stop or at least slow down any leaks to prevent your business from being inundated. Cut employee costs to match your current sales activity, eliminate unnecessary costs and look to reduce your remaining costs via a change of vendors or renegotiation of prices.

There is urgency here! So you should be hitting the big ticket items first. The more detailed and time consuming review of each expense account and vendor list can wait until later.

Review all of your on-going activities and revise them as necessary to contain risks and to ensure that you are managing your remaining resources wisely. You need a 'steady as you go' attitude that diligently protects your resources.

Cash is king! Track down and round up available sources of cash so you have it on hand for working capital as you put together your 'moving forward' plans. Business assets may need to be liquidated and/or your personal net worth may need to be tapped into.

2. **Revise Your Value Proposition** – How do you make money? Who buys from you? Why do they buy? Is it location, customer service, cheapest price, convenience, best value, unique offering, etc.? Pretty basic stuff, right? However, the power lies in the execution, not from its sophistication. It is surprising how many businesses take what they have for granted or are not really aware of the answers to these questions in the first place. Without fully understanding the answers to these questions, you will have a tough time putting together an effective customer service strategy that not only retains your existing customers but also attracts new ones.

Almost everyone is out shopping for greater value these days. If you don't give it to them, your customers will find someone else that will. What once attracted them to your business may no longer be pertinent during these troubled times. You need to do more, bring greater value, and be more flexible in your sales offerings. Reevaluate your customer's needs and change your value proposition accordingly.

- 3. Modify/Change Operations** – During turbulent times, businesses need to be able to adapt quickly to the changing environment. There may not be time for long thought out deliberation. Review your existing management governance structure and make any necessary streamlining changes. Additionally, changes to improve day-to-day operations can not go through a slow ramp up process. A sense of urgency needs to be instilled through-out the organization.

Take a look at the four function areas of your day-to-day operations and see what changes need to be made to operate in the current environment.

1) Products and services – With sales at all time lows, all businesses should be looking at how they manage their inventory and make whatever adjustments they can based on current activity. Additionally, if you were developing and/or rolling out any new products or services, you may want to take a second look because of the added costs to launch and market the offering. This is especially true if you were targeting new customers as this is the riskiest of all business development activities and where it is untested, you may be wasting needed resources.

2) Marketing and sales – Marketing expense is usually one of the first price cutting targets on a businesses' list. However, avoid the temptation to just slash this expense without a careful review. Some cut backs are most probably warranted, as they weren't really effective in generating sales anyway. But a well directed, targeted campaign can be highly effective in getting people through your door. During a recession, sometimes you need to spend money to help improve the bottom line. Don't make the mistake of trying to manage through the recession by just cutting expenses and then sitting back hoping customers will come through the door. It won't happen!

Avoid the temptation to cut prices to get the sale. This is tough advice to follow I know and it doesn't hold water if there is a serious cash crisis or an urgent need to liquidate inventory (i.e. retailers at Christmas). But what you are planning for is an on-going profitable business and cutting profit margins over the long-term will not allow your business to sustain itself; unless of course you have also changed your business model and lowered your operating costs accordingly. Instead, see if you can change your offering to reduce your cost structure to match the proposed price cuts. Also, look into what else you might be able to cost effectively bundle with your product or service which provides an additional benefit to your customers. Although it may lower your margins a little, it will increase the value they receive and will allow you to maintain your current pricing structure.

3) Systems and processes – This is the support structure that keeps all of the other parts of the business operating smoothly and efficiently. Review all of your customer facing activities. Brainstorm what can be done to make their experience with your company better and bring greater value. Meet with your employees and see what can be done to streamline internal procedures by updating or changing systems. Review your IT investment and look to spend money if it will increase customer service, increase productivity or reduce costs.

4) People (HR) – A business is nothing without good people. And in this time of uncertainty, good communication takes on much more significance to keep them from jumping ship and to keep them focused on the task at hand. Communicate regularly. Let them know how things are going and the plans for the future. They need to be concentrating on your customers and the

critical success factors you identify in your 'moving forward' plan. That will be tough to do if they are continually looking over their shoulder for the next bad news surprise.

With personnel cuts, the remaining team will be asked to do more. Keep careful watch on how that affects customer service. Keeping expenses low is important, but not at the expense of lost customers. Look into temporary outsourcing or part time help in lieu of hiring full-timers.

Finally, to ensure you have adequate personnel, consider making across the board salary cuts instead of layoffs or letting people go. And although living costs have increased for your employees, look into instituting salary freezes. At the same time, look into offering performance bonuses to take away some of the 'bad news' sting.

- 4. Manage For Cash** – The absolute priority is cash over profit until things have settled down and things start to turn around. What would normally be routine cash management is now an urgent need to optimize existing resources.

Make sure you get paid for your products or services rendered by reviewing and tightening up your credit policies. Get paid upfront, ask for a substantial payment that covers your costs and give terms on the balance, do not give credit to everyone, etc. It may cost you a sale, but a sale doesn't do you any good if you can't collect it.

Make sure you invoice and follow up with statements on a timely basis. I have seen a lot of small businesses that never follow up their initial invoicing with monthly statements and they just sit and wait for their money to come in. And always follow up late payments with telephone call reminders. It should go without saying that this should be done courteously and professionally. No one likes to make the calls and no one likes to receive them, but in these trying times it is absolutely necessary. If you need to, make arrangements to stop by and pick up the check.

Many businesses routinely pay for assets (computers) without any financing, but this draws away from cash flow. Instead, look to finance capital expenditures even though this may be a challenge in the present lending environment.

Implement spending policies and controls by setting authority levels. To maintain tight control, consider reducing the number of people who are authorized to place orders. Finally, maintain a culture of cost control and cash preservation.

Tough times and tough economics can be the impetus for improving your company. Is this a lot of work? It sure is. But working through a plan that will help you survive and prosper through the recession, calls for an in-depth and well thought out response. Keep in mind that there are talented consultants trained in these areas that can help you and possibly get you ramped up a lot quicker than you would otherwise do on your own, so don't struggle with it. When the economy is on the rebound and you have a much more disciplined, streamlined and efficient operation, you'll be glad you did.

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