5 Ways To Thrive Coming Out Of Recession

Many businesses over the last 5 years have seen turnover drop significantly from their previous high levels; it is common for us at Implement to come across falls of 30% from peak to trough and it is not unknown to hear about collapses even greater than this. It is difficult for any business to remain profitable with such a drop in activity without radically cutting costs and large numbers of enterprises have given up. The “high street” is decorated with Store to Let signs and the traffic on major roads is still significantly below historical levels.

Survived - But what next?

Companies that have come this far have been able to trim overheads, reduce payroll costs and stem the fatal flow of cash out of the business. Holding on and waiting for a recovery in the whole economy is starting to look like a futile strategy as many commentators predict we have reached the bottom but we won’t feel ourselves rising rapidly again for two or three years. Can all businesses in your industry survive another few years of this or will there be further casualties among companies or among directors and executives? What can be done by those proactive (or reactive?) managers who want to ensure they are among the leaders out of the recession and quickly return to giving business owners a return on their capital?

We give some pointers here to those who want to talk about success again and are willing to take bold action where others hesitate.

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1 - Increase volume of sales

It almost goes without saying that to increase the volume of sales when the market volumes are low means doing something that your customers want and value and that your competitors are not offering. If market activity is to remain low then it is the survivors who will claim an unequal share and those who get there first have a significant advantage over the laggards or “me too” followers.

There is much evidence that successful companies seek to remain active during downturns even at the expense of lower margins. An alternative strategy – to go into hibernation – to cut back capacity and retire unused assets is unlikely to be successful in the long term unless the business has other more active sectors it can fall back on.

So how should we encourage customers to give us business rather than to the market stall next to us? This depends on every individual market but some common ones are:-

- Cut prices
- Increase delivery frequency
- Improve service support
- Shorten lead times
- Give loyalty or volume bonuses
- Make striking guarantees with your product or service and honour them

2 - Increase throughput without increasing costs

If we drop selling prices and increase volume without proper preparation then we may just accelerate the failure of our business rather than talking about how we are shining in a dull environment. Many businesses having cut back on costs in response to a fall in sales are now wondering how to cope with the increase in volume when the market recovers. Perhaps they have gone through redundancies and they are coping with the level of business they have right now but don’t want to rush into hiring more people on receiving a few more orders – they now want to be more efficient!

Increasing throughput without increasing cost is important to making it difficult for competitors to follow our lead in winning more business and is vital to maintaining profitability as we gain market share and gain in fitness. Identifying the bottleneck or constraint (the single process activity that regulates all of our output) is imperative to rapid success here. We may run waste reduction programmes and we will slowly evolve towards a lean organisation perfectly suited to its environment but we know that this can take years or even decades. We need to see results in weeks or months. We need to feel the impact of improvements now. If we improve one hundred different activities by 1% the organisational improvement will not be 100% but only 1% - at a maximum. If we directed all our improvement towards the constraint we would see an improvement in the response of the organisation as a whole – either we limit our work to only one activity and still get a 1% improvement or we sing about a fantastic increase because we focussed where we knew we would get the maximum return on our improvement activity.

Identify the bottleneck, make improvements there and make improvements everywhere else secondary.

3 - Support and Manage Your Suppliers

It is sometimes difficult to worry too much about your suppliers during a recession, after all it’s a difficult market and should they not suffer along with the rest of us? Often, however, it is those businesses at the front of the supply chain that fail first and this can create problems for those further down the line. A sudden fall off in sales volume in the whole supply chain causes a contraction in prices and a loss of margin everywhere. The whiplash effect can magnify this down the supply chain as companies close to the final consumer start to run down stocks to match reduced demand. Later they make efficiency improvements in the way they carry stocks and then purchases from suppliers can be drastically reduced or even cut off altogether for a while. This sudden fall off in income is sometimes sufficient to cause a breach in banking covenants or even completely running out of cash.

Whilst our initial response to this may be unsympathetic it soon becomes apparent how dependant we are upon our suppliers. Having to find new suppliers and educate and show them how we work is distracting and the impact on our business when product quality or service quality falls can be very costly. So what are the things we should talk about with our suppliers and how should we look at our relationship with them?

- Consider the total cost of supply. Quite often we buy only on price and ignore valuable factors such as reliability or lead times. The price may be good but how will our own costs be affected if our supplier fails to deliver on time?

- Help your suppliers succeed. If our own business is to thrive then we need vigorous and prosperous suppliers. This does not mean overpaying; if we can point to winning increased volumes of business by cooperating better, then they will be busier and can help us achieve this with a better service or a lower price. If we are winning more business our suppliers will want to do more business with us as our competitors fail.

- Pay promptly. In these difficult times cash management can be more important that simple profitability rates. Paying all your suppliers quickly and reliably speaks volumes about what it is like to do business with you. This can truly be a hidden competitive advantage and many suppliers will fall over themselves to do business with you if they can tell their accountants that you will pay on time and help keep the bank happy. Of course we still must be careful with our own working capital which brings us to…

4 - Better Management Of Working Capital

We should pay our suppliers promptly and we can also expect this of our own customers if we are a good supplier and we are to use our capital efficiently. All too often we leap to the conclusion that this is the responsibility of a credit control department (and indeed proper functioning here is very important) but there are always strong operational links to the rest of the organisation and the cause may lie here.

Why is our customer not paying? Is it because they are mean and holding on to their cash, or is it to get us to listen to them about their grievances. We see a great many examples where a customer has a problem which is not being resolved and so they refuse to pay. More often than not, to get our attention they refuse to pay the whole bill not just the one item in dispute. What at first seem to be minor operational issues can have an impact out of all proportion. Poor itemisation of invoices, not using customers order numbers and late delivery can all cause customers to refuse payments. Do you have problems like this? Are they one-off issues or is there room for improvement in the core business processes?

Many of our accounting measures of business performance fail to take account of the time value of money invested in the business. In this recession capital has become more precious since it is often not as available as we would like even though the headline rates of interest are at an all time low. If we are to increase the level of activity in our business (increasing our throughput) we need to find ways to generate capital internally in order to fund this expansion.

We often calculate the profit margin on products or services without considering the cash involved in servicing the sale of that product or service. Many products which sell in relatively low quantities, might be kept in the product catalogue because the margin as a percentage of sales price is high but we pay no attention to how they tie up our key resources (the business constraint) or how much stock is required to provide a good service. When we add another option to our services or add another colour to the range we offer, how often do we pause to consider the cash impact on the business? Maintaining a high cash velocity through the business is more important in many industries these days than is investment in capital equipment and yet it is often ignored until checking the balance sheet at month end. Sometimes staff could not authorise an investment in new assets of more than a few thousand pounds but can authorise increasing stock investment, by hundreds of thousands of pounds, with just a few taps at a keyboard. KPI's must be changed to reflect all these new realities.

This brings us to the final thing that any business can do to improve performance in this recession.

5 - Talk with Implement Consulting

Many of the things we have talked about here might seem over simplistic. They may look like things that are obvious but not easy to achieve. We always remind ourselves at Implement that keeping things simple is important and we take our name from our approach to improving our clients businesses – we do more than diagnose faults in process design, we implement solutions. We can help reveal the real issues, attach a financial value to the improvements possible and rebuild processes to achieve the benefits quickly.

We like to follow these tenets of sound business performance ourselves so you will find that we always talk about the business case when you engage Implement, we are passionate about providing a financial return on an investment with us and we help to manage your confidence in our success by guaranteeing the outcome.

If you want to talk to Implement or you would like to meet so that we can look at ways in which we might help, then you can call 020 7183 4345 and ask for Alex Wager or drop us an email and we can set up a meeting to come and see you.