

## What Lies Ahead?

How the economic downturn may affect you

The current credit squeeze, tightening cash flow and uncertainty in the market and economy makes for a turbulent time for all businesses over the next 12 – 24 months. Bank finance can no longer be relied upon to fund cash flow shortages.

### Industries Most Affected:

- Tourism
- Hospitality
- Luxury retailing
- Importers
- Recruitment services
- Financial services
- Agricultural businesses
- Building and construction industries
- Resources and mining
- Service providers to all of the above industries

### Industries Least Affected

- Corporate recovery services
- Health industry
- Legal industry
- Education industry
- Food
- Liquor
- Gaming
- Low cost entertainment

### What Should You Do?

- Focus on fundamentals – get the simple things right because regardless of your environment they are the foundations of your success.
- Get your house in order by doing the things you should have done in the good times – act decisively and quickly.
- Review your strategy and plan to adapt to a new landscape.
- Ensure strong leadership and make the hard decisions.
- Communicate – it is essential you maintain your relationships with your stakeholders such as banks, major customers and suppliers.
- Cash is king – make this your mantra.
- Order of importance – Cash, Profit, Revenue.
- Cost control – be relentless on cost control. This is the time to track everything and scrutinize your expenditure.
- Debtors – Concentrate on debtor days, you should review your debtor management policies and procedures, re-negotiate payment terms with customers so debts are collected in a timely manner.

- Cut back on discretionary spending.
- Carry out a review of all costs and look to reduce by 10% or more.
- Need to review all staff and those not adding to the output of the business need to be put off. A reduction of up to 10% or more in staff would be realistic as most businesses have excess capacity.
- Avoid having any large debts with one company.
- Don't take on new commitments – Until the future direction of the economy becomes more certain.
- Ensure you build up a cash reserve where possible.
- Establish a back up financial facility if possible.
- Carry out a financial health check – It may be possible to increase your overall cash flow position by refinancing your existing debts and facilities.
- Sell Assets – Raise cash by selling under-utilized assets or assets that may deflate in value.
- Slow paying customers – refuse to do business with slow paying customers or ask for payment upfront.
- Avoid overtrading – don't continue to accept orders and try to fulfill them if you don't have enough cash or resources to do so i.e. trade within your limits.
- Reduce Inventory – Many businesses have a lot of money tied up in stock. If you can reduce your stock levels you can free up that money for use elsewhere in your business. Identify any stock items that are slow to move, and consider having a sale on these items to raise cash quickly. Consider whether you really need to hold these items at all. It may be more efficient and profitable to get rid of these items and concentrate on your fast-moving stock.



### Summary

Most businesses will need to accept that their revenue will decrease over the next 12 months, however a well thought out plan will help manage performance expectations and drive results.

You will need to focus on people and productivity, finance, cost control and marketing.

Businesses which act now will be better placed through the crisis and will prosper when the economy picks up.

