

The Ten Commandments: how to survive, thrive and avoid a nosedive!

Being a recession veteran and turnaround champ means I've learned a few lessons in my time. Asked one day how I 'did' it, my instant answer was 'Be absolutely honest with yourself'. You now have a real opportunity to develop your skills as a strategist, a manager, a financier and efficiency expert. So, what is it you need to know, learn or improve to keep the balls in the air and the plates spinning? Do whatever it takes, learn from whoever you can and always ask those you respect for their opinions.

In every recession there are amazing opportunities for success in every market, so forget about all the things over which we have no control, let's be proactive, anticipate the problems and make it work. Whilst you are learning to avoid a nosedive, keep these Ten Commandments in mind.

1. **Don't panic!**

The economy is going through a tough time, but it isn't going to collapse. More businesses survive a recession than don't, so use this time wisely to take stock and plan a course of action.

2. **Remember cash is King!**

The biggest cause of business failures, during a recession, is someone else going out of business. Keep customers close and notice any changes in their buying/paying habits. Check your terms and conditions and strengthen if necessary. Control debts and consistently monitor existing customers. Review credit control procedures, tighten them and implement stringently. Bring forward due date and chase earlier. Don't bend the rules. Check new customers' credit ratings carefully. Put them on a cash only basis for a trial period and explain it's 'company policy'.

3. **Be in control**

Prepare regular management accounts. If you can't do them, get someone in to help you – it will be worth the cost in the end to know how you are doing in real time. If you don't know how you're doing, you're probably in more trouble than you realise. Know your margins and your break even point and what it means to your business if you have to manipulate either of them. Compare actual income and expenditure with budgets and forecast and make adjustments in your business to compensate adverse situations. Do not over trade.

4. **Control costs**

You need to have a good grasp about where the money goes, so review costs. Involve your staff in the process as they will know and see things that you don't. Renegotiate costs of insurance, utilities and phones. Every penny saved counts towards another day in business. Set realistic and thoroughly thought-through targets for budgeting. Monitor progress and regularly feedback progress to the staff.

Avoid knee-jerk reactions which cut costs but ultimately cost you more. Take a holistic view of your expenses: some things might cost more but by using them you will save money, time or be more efficient.

5. **Don't get into a price war**

Cutting your selling price can be a slow and painful death. Even a small price reduction can devastate a business. **For a business making a 35% gross margin, a 10% price reduction will require a 40% increase in sales TO STAND STILL – to produce the same profit.** Compete on quality and value-added – not on price. Only the big boys can play the deep-pocket game and survive continued losses. Alternatively, you could put your prices up by 10% and suffer a 22% downturn in revenue before your gross profit would be affected! Customers' problems are your opportunity, so find them solutions.

6. **Get your pricing right**

Review your price structure carefully; take into account all your overheads. Manufacturers should completely review their cost structure before reviewing their prices – and continue doing so at regular intervals.

7. **Know where your profit comes from**

Analyse your customers – they say that 80% of your profit comes from 20% of your customers. Know who they are and treat them especially well. We also know that 80% of the hassle comes from 20% of your customers. Rid yourself of those who actually COST you money; those who buy a little and take too long to pay – put them on a cash only / credit card basis. Ensure you properly understand margin %, mark-up, income and profit. If you don't – learn – these are the vital ingredients you need to know when times are tough.

8. **Don't cut the marketing (or training) budget**

Experience demonstrates that businesses which maintain their marketing spend perform better in a recession and grow faster when the up-turn begins. Review your marketing. Test, test, test – know what produces results and what doesn't. Be creative and get your business some free PR. Create a marketing plan and set aside a budget for it. Statistics for companies who kept up training show similar results.

9. **Love your bank manager and your major suppliers**

Proactively manage relationships with your bank and suppliers. Keep them informed about how you are doing - bad news as well as good. Show them you are in command of your business and you understand the implications of what is happening to it. Gain their trust and respect. Remember: they don't want you to go out of business. It is in their interest to support you.

10. **Plan to act**

Decide what the trigger points are for your business – the hot buttons that you need to push that will make a difference. Define the actions to take and, most importantly, ACT!

By acting in the right way, keeping an open mind and learning what it takes to survive and thrive, both you and your business will emerge from this downturn in a stronger position. Good Luck!

© Copyright Dr Debby Swallow 2008

www.the-business-doctor.com