

# Advisory Alert: A few business management reminders in challenging times

Our advice to businesses is to take proactive steps to prepare for challenging periods. In the current environment, businesses need to make fundamental changes to their strategies and approaches to assess risks and opportunities. With careful planning, foresight and a touch of innovation, well-capitalized, well-positioned, and well-managed businesses should be able to turn the crisis to their advantage. Sitting still and waiting for the recession to go away could be a recipe for disaster.

## Focus on core business

This is a good time to review the business portfolio and focus on core businesses that will generate higher return. More than ever, the old adage of “focus on what you are good at, and do it very well” is valuable advice. Produce the products that the customers want, not necessarily the products that the company likes to produce.

## Strengthen liquidity

As the lifeblood of any business, cash is extremely important in a slowing economy. Manage cash intensely and strengthen the companies’ liquidity as much as possible.

Stress-test your business plan and understand the resulting impact on liquidity. Based on your financial projections, forecast your cash flow, including near to medium term receipts and payments, identify peaks in demand for

cash, manage your receivable balances and improve your cash conversion cycle.

Bargain with your suppliers for the most favorable credit terms and balance the benefit of early payment discount against your need for credit. In addition, sell-down aged inventory, reduce inventory levels, decrease investment in stock, improve stock management and employ just-in-time stock management.



## Steadily control costs

During the economic downturn, most companies try to cut costs to ease margin compression and improve on liquidity. Intelligent cost control across the board is recommended. Understand the company’s



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fixed and variable costs and do not overlook any outstanding liabilities that are not reflected on the balance sheet. Institute policies that encourage and reward cost savings and cash conservation.

Do not automatically cut marketing costs or employees as it might affect the business operations and competitive position when the market conditions pick up.

### **Focus on key customers**

In times of slowing sales, competitors will be more aggressive in their efforts to win over your best customers. It is recommended for companies to strengthen the relationship with all key customers, understand their needs, and try to improve the quality of services or help them reduce costs. Customer relationship management and customer experience enhancement initiatives are recommended to keep them loyal, but don't forget to watch the upstream of your value chain carefully to ensure that your suppliers are robust and in good shape.

### **Consider your investment plan carefully**

Don't automatically stop investing. Consider investments in core-business assets with the potential to generate higher income in the short-term. Re-focus away from longer-term innovation but encourage innovation that may achieve shorter-term revenue increases or improve cash flow. Do not cancel an investment if it is vital to keep the business operating properly. To further preserve cash, management teams may consider the use of asset financing or debt to acquire assets.

### **Get close to your Bank**

Proactively manage your relationship with your lenders. Treat them as a partner in the business, keep them informed, and help them understand your business. If your company

needs additional borrowing, have a plan in hand and give them prior notice. It is always better off if the management is the one to tell the bank about any issues, rather than have the bank discover it themselves. Stay current on your company's debts and ensure the company has the finance available to operate the business effectively.

### **Be strategic in workforce management**

Focus on productivity and manage excess resources. Look after top performing and loyal employees. If companies must retain excess workforce, try to agree to reduced or flexible hours and compensation.

Avoid excessive micro-management of people. It is tempting to start micro-managing, to be seen to be 'doing something' about the crisis. Focus on the critical issues, give clear direction and let the management and people get on with their tasks.

### **Keep an eye out for bargains**

Best buys are often made in a down market. As lending markets contract and demand weakens, a number of the companies that have liquidity problems will consider a sale transaction as a viable option due to a need to realize cash, a lack of confidence in a recovery or just to focus on their core business. These situations create buying opportunities at attractive prices.

The limited access to capital may force other potential buyers onto the sidelines. The result will be less competition for attractive acquisition targets and thus, reduced pricing multiples on acquisitions. Working with a good professional advisor can increase awareness of such opportunities, while ensuring transactions are priced and executed in an effective, cost-efficient manner.

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### **Protect personal wealth**

Business owners should think hard about financing options before they agree to become more personally exposed for the sake of business. They should ask themselves the following questions: Can the business survive a long-term recession? What will we do the next time the business needs cash?

Debt is not the only source of cash. Consider other options, such as equity financing, which may be a safer alternative. If you choose debt financing, try to avoid personal guarantees and pledges of personal assets to secure business debt.

### **Summary**

Businesses must take measures to help cope with the effects of easing demand. It is important that management truly understand the business, competitors, industry dynamics and cash flows. Understand the value drivers. Be prepared to take tough decisions. Businesses adopting a strong, strategic approach into and out of the downturn will be the stars of the future.



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