

The Advisor – Fall 2008

How to Survive an Economic Downturn

Given what has happened in the financial markets over the past few weeks, it is safe to say that we are heading for (if were not already in) a world-wide economic recession. Credit continues to be tight in spite of the recent efforts of the G7 to assist its financial institutions. And although its banks are in significantly better shape than their G7 counterparts, Canada is not immune to the economic meltdown as can be seen by the recent performance of its stock markets.

So what should a business owner or manager do to survive the next six months to a year while the credit crisis plays itself out? Here are a few suggestions:

Cash is King

Keeping an eye on cash flow is important during the best of times but is crucial during recessionary periods. Accounts receivable ageings will deteriorate as customers start to slow their payments. And if sales are slow, this only exacerbates the issue. Credit managers need to stay on top of customers and work with those who are experiencing cash flow difficulties. Consideration should also be given to selling redundant assets or old or slow moving inventory at discounted prices in order to convert these assets into cash and to free up warehouse space. This may allow the company to lease smaller space if its premises' lease is coming up for renewal.

Cost Containment

This is obvious but important nonetheless. Discretionary spending should be reviewed and curtailed where necessary. Cost benefit analyses on items such as travel, meals and entertainment, trade shows and advertising should be performed to ensure that the economic benefits are still prevalent given the current economic conditions. If opportunities exist to reduce fixed or overhead costs, then they should be considered as well.

Staffing

Most companies will have a small percentage of staff whose performance is considered sub-standard. Now may be an opportunity to review staff requirements with the goal of removing non-performers and replacing them with internal staff that are capable of assuming additional responsibilities. If the competition is also feeling similar effects of the current economic conditions, now could be a good time to attempt to recruit some away to augment the existing staff compliment.

Pricing

This is a strategic initiative that requires some thought and will determine how successful a company is in weathering the economic storm. The need for some market analysis is critical in ensuring the correct decisions are made. Most firms have experienced general price increases due to the recent increases in fuel. It follows then that a modest price increase of 2% to 3% will be accepted by most customers with the majority of the increase going straight to the bottom line. A more contrarian strategy however, would be to lower prices to below the competition's in order to increase market share. This should only be considered if the company business model can support the loss in margin for the foreseeable future and/or if the overall market size for its product or service is shrinking.

Buying Opportunities?

Most industries will have some firms who are experiencing financial difficulty. Those with strong balance sheets may be able to acquire competitors at a discount in order to consolidate their position in the marketplace. Before this is considered, management should ensure they have the financial wherewithal and support of their lender to initiate such a strategy.

Communicate With Your Lender

Open and honest lender communication is a key component to any recessionary strategy. Lenders don't like surprises. It is therefore imperative that managers keep them informed of the current situation in the marketplace, the trends for the next year, and what the plan is to weather the storm. As mentioned above, there may be buying opportunities that require lender support in order to take advantage of them. If management is proactive in their communications, lenders usually appreciate this and will give customers the benefit of the doubt when they can. If communication is sporadic or only when there is a crisis, lenders usually take a more clinical view due to the lack of goodwill that's been built up in the relationship. A "no news is good news" strategy is not the approach to take with a lender in times of economic uncertainty.

Aries Advisory Group has extensive experience in managing companies and in dealing with lenders in uncertain economic conditions. We can assist you in performing a review of your company, formulating a game plan for the upcoming year and communicating the plan to your lender. If you or someone you know requires some assistance in this regard, please contact us at info@ariesag.com or at (416) 467-7878 to see how we can help.