

Management initiatives in a tough market

By Laura Rogers

31 May 2019



The next 6 – 12 months are forecast to be one of the toughest periods that Australian businesses have experienced since the Global Financial Crisis!

There are signs that the local economy is declining as a result of political uncertainty, regulatory change in the Finance and Insurance area and the current Banking Royal Commission. This has

lead to a lack of consumer confidence and intense market competition. Lenders are becoming firmer on their lending criteria and we can expect much stricter governance of businesses, with finance companies demanding more financial information, more often.

In response to the many calls from clients asking “What can I do to maximise my trading results and survive in 2018/19”, this article focuses on Business Management Strategies in a Tough Market.

Whilst we will highlight management initiatives over which you have control and which are applicable to all businesses, we remind Owners to address not only the financial position of their business, but also to review the planning strategies and positioning of their business in its market.

Heed the warning signs

But for a few, most business collapses can be attributed to the failure of operators to recognise the warning signs of the onset of financial problems.

Warning signs include:

- Slowing of stock turnover (increased days supply);
- A need for further borrowings;
- A severe downturn in the market (this particularly impacts where a business has substantial ‘fixed’ expenses);
- Trading losses – either accumulating over a period, or occurring suddenly;
- Liabilities beginning to exceed assets – particularly if current liabilities exceed current assets (working capital); and
- Not being able to fulfil existing commitments to lenders, the Tax Office and creditors.

In tackling these warning signs, management’s first challenge is to take stock. Owners need to identify and manage any weaknesses in their business whilst not being blind sighted to any new opportunities that might emerge.

Taking stock of your business means:

Measure and measure again!

A simple daily operating control (DOC) or Dashboard which tracks your sales, gross margin and major expenses, together with inventory levels, debtors and cash at bank is enough to track the pulse of your business.

Tip: Create graphs showing these indicators and update them daily. It will quickly show you any adverse trends when they arise. You can’t fix a problem 2 weeks ago if you only know about it today!

Knowing and satisfying your existing customer base

Business begins and ends with the requirements and behaviours of the customer. Once your customers are dissatisfied, then the rest does not matter! Adopting superior customer retention

strategies not only allows the business to prosper from existing customer loyalty and satisfaction, but also provides the platform for a 'business referral base' from your existing happy customers.

Tip: Utilise your customer database to identify sales opportunities and implement retention and loyalty programs to see your customers return.

Take corrective action but for all the right reasons!

This is one of the most difficult parts of business decision-making in a tough market. Whilst the aim may be to boost profitability, many businesses which solely adopt 'cost cutting' strategies are left 'cash' starved and unable to invest in stock or promotion. A more proactive approach to the business recovery may be to keep striving for underlying improvements in the business, rather than just cutting costs. This type of approach will also build stronger infrastructure which facilitates longer-term success.

Tip: Consider how your business could increase gross profit by \$100 per unit.

Attitude – effective leadership and motivation of your people

One thing to always remember is that the Owner is the leader and people look to that person for leadership and motivation in difficult times. Talking up a 'doom and gloom' attitude is not the answer. You need to consider new angles, listen to others in your industry, seek expert advice but above all, always be flexible. It is important not to do what you've always done – particularly as these actions may have got you into your existing 'stressed' position.

The best run businesses adopt these sound business practices during the good times as well as bad, in order to maximise their return, and of course, to minimise risk.

What actions can you take now?

After taking stock of your business, there is now the need to address specific areas in the business cycle. The attached 'Checklist for managing businesses in times of financial difficulty' addresses the business cycles relating to:

- Cash;
- Profitability;
- Costs;
- Debtors; and
- Stock

We hope that the attached checklist can be an effective tool in managing your business in these uncertain times.

Disclaimer: This periodical is general in nature and its brevity could lead to misrepresentation.

No responsibility can be accepted for those who act without first consulting and obtaining

specific advice.

This information has been prepared by Fordham Business Advisors Pty Ltd (Fordham) ABN 77 140 981 853. Fordham's liability is limited by a scheme approved under Professional Standards Legislation. It is general information only and is not intended to provide you with advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. This information is believed to be accurate at the time of compilation and is provided in good faith. Fordham is a subsidiary of Perpetual Limited ABN 86 000 431 827.