

TONY'S VIEW COVID-19 #7 SUPPLEMENT

Input to your Strategy for Adapting to Challenges

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My Aim

To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Handling Past Recessions

On Friday I read through 89 responses to Wednesday's request for insight from those with experience, regarding how they handled recessions of earlier years. It was fascinating reading some of the life journey information and I can only hope that what I have written and reprinted below does justice to the great level of detail and insight which these many people provided.

There were some very clear themes which came through in the responses.

1. Forget profit and balance sheet and devote all attention to cash flow. Forecast it out at least six months, and assess and update that forecast weekly.
2. Go as early as possible to your bank with your forecasts, your plans, how you will assess them over time, and what you want from your bank. The bankers will be busy so the easier you can make their job of selling your request up the line the better for you.
3. Trim every expense not core to your central product offering, ranging from sponsorships to magazines, company cars, etc. Explain your situation to your landlord and suppliers and ask for discounts. 15% supplier discounts were common.
4. Make cost cuts including staff reductions as early as possible, trying to avoid having to make further rounds of cuts as the months advance. Act early, act big, act once.
5. Communicate fully and honestly with your staff, suppliers, bank, and clients. Get as many people as possible on-board with your plans.
6. Look after your mental and physical health, and seek advice from a wide range of sources – definitely not just your banker and accountant, and almost certainly not from your mates around the barbeque.
7. Trim back advertising and concentrate on marketing to targeted audiences.
8. Look for opportunities in the form of cheapened competitors, but stay focussed on your core areas of strength.
9. Stop following negative media, speculation on how bad things might get, and measurements of the depth of downturn. Pessimism leads to inaction.
10. Remember that this too will pass as all previous recessions have, and note that many people regret that once they had cash flows under control, they stayed too cautious for too long and missed some good opportunities.

I started my perusal of responses by writing up versions of what people were saying. But I quickly realised that in most instances the from-the-heart quotes were better than my summaries. Hence in this survey report I've included more respondent quotes than in the banker and real estate surveys of the previous two weeks. All the quotes, and all the emails included in the 89 count, were from people who ran businesses through downturns as far back as the 1980s.

Trimming Costs

- “My experience of the post 87 period was that every time I thought I needed to cut 2 staff members, by the time they left, it should have been 3, which started a new round of cuts; my natural inclination to minimise the number of casualties probably led to more people being made redundant rather than less.”
- 1985 - “We sent a letter or called all of our creditors and told them we can’t pay. Either come and take stock back or work with us and we will pay when we can. No supplier took stock back and all suppliers supported us. We told our landlord we can’t pay the rent and he gave us rent relief for 6 months. We sold our near new Ford Falcon car and traded down to a \$3,000 car. We stopped spending on everything but the necessities to live; food, power etc.”
- “We wrote to all suppliers and asked for a reduction in the cost of services provided, most agreed, between 10 to 20% for a specified time. Where they did not agree, we changed supplier, where we could. The ones we had no consideration from, we noted for future reference when we could change.”
- “We reduced staff levels, first off was the staff we had tolerated, but were not a good fit.”
- Cut insurance. “Contact your Adviser/Broker to see what premium support can be provided at this time i.e. Premium holidays, Waiver of premiums, Ability to catch up payments over a 12-month period into the future, or to reduce cover in line of current need. Some insurers are still providing cover during the premium abeyance and or the ability to retain current policy terms (health history) without the need to reapply for new cover in the future.”
- “Cost Controls – wage freeze, every line item was analysed and re-negotiated. Suppliers dropped costs 15%”
- “Getting rid of layers of bad management was also a common theme. Often too many managers, some without real management/people skills, simply promoted sales people or subject matter experts.”
- “Make staff cuts early rather than later, especially if they are not ‘must keep’ staff. I was always amazed at the extra capacity people could suddenly handle when their job was at risk.” And “Productivity increased – worked longer in reality with overtime just expected to keep jobs. (would say another 1 to 1.5 a day from everyone)”
- Collect as many receivables as possible and do deals if required (e.g. agree a discount, payment terms etc).
- Trim excess stock. It’s a luxury you can’t afford in weak trading conditions.
- Cut base pricing in order to attract new clients.
- Understand exactly what it is that drives your cashflow.
- Sell surplus assets.
- Act fast, preserve cash, have a robust set of cash flow forecasts and update them as circumstances change.
- Concentrate all attention on cash flow and forget both the balance sheet and profit. They can be addressed later.
- Cut out luxuries and all unnecessary expenses. Cut memberships, subscriptions, sponsorships, company cars, travel, office refurb, defer capex. Cut product development some respondents said.
- Be very careful in pulling back on advertising. That can be a false saving because customers will be looking for cheaper and alternative products more intensely than during good times. Plenty of your competitors may however pull their advertising. That means your spending gets extra bang for the buck and you will probably get a better deal on the advertising you buy.
- “Marketing, if you can, is important in a recession as your voice becomes disproportionately loud” “By all means cut any unproductive marketing but narrow your focus and pour the resources in where the likelihood of success is greatest.”
- However, a number of respondents noted that the thing they did in the past which was money wasted was increasing advertising, especially scattergun-type approaches to all and sundry. An increased emphasis on targeted advertising was needed.
- Look forward when preparing new cash flows, not back.
- Get immediate information on cash flows, not reports which take weeks to appear.
- Forget about ROI during the recession and initial recovery. Cash flow is all that matters.

- “Get rid of management overhead; focus on “revenue generating” hours”

Production

- “Switching to products or services that had stronger, faster cashflow and quickly deprioritising the ones that took too long to pay dividends.”
- “Don’t sell to slow paying or risky clients - if they were bad news in good times, they are deadly in tough times”
- “If you have a client that is late paying and there has been no prior communication the red lights are flashing. Stop trading with them and be polite and persistent in following up settlement of the account”
- Be prepared to offer discounts to stop clients from walking away.

Banking

“Never ever go to the Bank and say I’ve got a problem and I need help. The Bank wants to hear the following:

This is the problem;

This is what has caused the problem;

This is what I am doing about it;

This is what I need from the Bank; and

This is how the Bank will be paid back.

The Bank will normally support anyone who can demonstrate they are on top of the situation. The Bank having confidence in management is critical; ... The Banks will be inundated with calls for assistance. Better to go early and boldly with a well thought out plan than procrastinate and be caught up with the headless chooks... Keep the Bank firmly in the loop. They will appreciate being kept up to date as they have to report internally, and you are making their job easier. You will also continue to build Bank confidence in management, which will come in good stead if the wheels fall off as the Bank will be inclined to continue to support your business. Banks abhor a vacuum.” These insightful comments on working with your bank came from Mark Heslop of Alma Consulting.

Behaviour and State of Mind

- “Not all the decisions you make will be right, that is ok and it is ok to make mistakes. There is no blueprint for change in recessions. If you do lay staff off leave the door open for them to come back if and when economy resumes. They still have skills and you want to be able to be in position where you don’t burn bridges on the way out. Keep open communication and lead through the recession with confidence. You also have to fake it for your staff. They are looking to you for leadership.”
- Be honest, display empathy and humility, and communicate frequently with staff and key stakeholders. Don’t hide your issues and thoughts on the need to make changes from those who will be affected and who will likely have suggestions and insights to offer.
- Don’t wait and hope things will get better.
- Cut back on listening to the media. They often exaggerate fear by highlighting worst case scenarios and extremes as these get more attention than more probable possibilities.
- Take care with what you read on social media. Check your facts and make your own informed decisions.
- Be careful in paying attention to those with a vested interest in things changing in a certain way.
- Act decisively, “don’t be a deer in the headlights”
- “It’s important in severely constrained times to keep one’s eye on the long game. If your firm/company has and can hold on to a relevant and valued service or product offering, better times will come again.”
- “As a business person you need to rise above the gloom and understand that recession does not mean negative outcomes for all. In fact, some businesses are totally unaffected or even boom during recessions, New businesses arise in response to changed conditions. For the more adventurous cashed up business people opportunities to purchase impaired businesses/assets at

bargain basement prices abound. In addition to this, a range of people are generally unaffected by a recession."

- "Look after yourself - be fit focused - mentally and physically, eat well, get 8 hrs sleep essential, and ask for help!"
- "Many people make the mistake of only talking to one lawyer or accountant and doing what they say. Ask other business people or investors. Someone most likely has a better idea or perspective"

What was a waste of time?

- "Reading lots of media doomsday articles, unemployment rate projections, death tolls, how bad things are going to be. Wasted energy and I have no influence over these things anyway. Limit media exposure."
- "Listening to ill-informed people in my early days about wars, recessions, depressions, etc. Be careful who you listen to, and always look into their background to see what is in it for them (those making the statements). For example, the media want to sell papers so they expel bad news because it sells newspapers..."
- "Don't listen to BBQ advisors. Your friends and family know less about your business than you should give them credit for. Often, their advice is simply the "law of the lid" that is holding you back."
- "Carrying on as normal."
- "Being a victim - spending too much energy on understanding the why this has happened."
- "Bullying, abusing and ranting..... get some help to manage these."
- "Going to seminars or taking advice from theorists & bureaucrats who had never actually given a personal guarantee or woken in the middle of the night wondering about business survival."
- "Moving too far away from our "knitting" – we expanded scale & scope but retained our core principles,"
- "Listening to all the different scenarios that "could" happen as opposed to what was actually happening at the time."
- "Tolerating non-supportive suppliers / creditors & unresponsive clients"
- "Excessive focus on reducing overheads when energy better spent on driving better deals on above the line costs for improved GP%."
- "Doing what we did prior to the recession."
- "Looking back and worrying about decisions already having been made and done."
- "Try and restrain from blanket discounting, however discount old and slow-moving stock more heavily to attract customers in store (and hopefully results in purchases of other products). Customers will be looking for deals, so convert that old stock to cash."
- "Doing endless cuts (we did 10 different rounds) is painful for the organisation and of course the people that remain – nothing really gets done and it literally is death by 1000 cuts.... Lesson learnt was if you're going to cut, probably err on the side of going deeper then you need too – so it's done once, then look to build as the environment gets better – this really is the best way for staff morale and keeping the team motivated"
- "The worst advice came from corporate executives that didn't have their life/house/assets on the line - be mindful of who you listen too if they haven't experienced trading in these conditions."
- Complaining.
- Waiting for referrals from banks and accountants.

Planning and Communications

- Plan for the recovery. It often comes faster than expected when in the depths of the crisis and everything looks bad.
- "The first major event I experienced was the Asian crisis (late 90's). I wish I had the confidence to act sooner on some opportunities as the recovery started so I believe I missed some good ones."
- Plenty of respondents noted they wished they had aggressively grown their business during recession.

- “Every day we are touching base with some clients who are in affected areas such as tourism, retail, forestry just to preserve the relationship (and not just the business). Checking they are ok and if we can be of assistance – not with business sales but just trying to offer them some help.”
- “I’d suggest discussing with staff an extension of the current situation – try to retain as many as possible at reduced wages and reduced hours as this allows staffing knowledge and expertise to be retained, and more rapid ability to ramp up. It also motivates the retained staff to work hard for assisting with business “regrowth” to then allow increased hours.”
- Involve your family.
- Involve frontline staff who probably know better than you how customers use your products and issues they might have.
- “Get your staff on board, they are your best asset they need to know what is happening, they even may have some good ideas on how to help your business, get their buy in to the situation, your failure is theirs... The way I see it is the staff that don’t give you buy-in right now when you may need it the most are the ones that potentially are not worth investing in long term, some of these exercises will be a good indicator of who to keep!”
- Don’t ever think in terms of carrying on as normal. Even if a downturn does not turn out to be as bad as some invariably will forecast, your operating environment will nonetheless potentially change a lot so move with the times else risk being left behind when recovery arrives.
- “Don’t hold onto the past, what was normal is no longer normal.”
- Act early, make the tough calls rapidly.
- Drop your pride and seek help wherever it is available.
- “Talk to everyone, your banker, accountant, benchmark industry mates. Knowledge is power.”
- Review everything you do using techniques such as SWOT analysis, benchmarking, re-identify your strengths and key success areas, refresh your performance indicators, refresh your marketing plan in light of altered demand.
- Try and make your business as scalable as possible so costs are proportionate to output.
- Review progress on your new plan weekly.
- “Have a plan B, C, and D and be prepared to be flexible. If something is not working, then change quickly.”
- Actively look for new opportunities which build on your areas of expertise.
- “Be open minded to opportunities and if it makes sense to you, then try it. Opportunities are there, we just need to recognise them.”
- Keep an eye out for distressed businesses you may be able to buy at a substantial discount and which you can incorporate into the recovery strategy for your current business.
- Modify your product to make it better fit the new environment you are now in.
- “We sent out multi choice questionnaires to clients, 12 at a time to focus business on their wants”
- “Diversify, what you are doing now may not get you through, expand your skill set to take on non-traditional (for you) work”
- Describe your plan to your creditors and how you’ve cut expenses. Verify what is needed to get them to continue to supply you and stick by new commitments made. Without them you can’t function.
- In terms of preparing, respondents wrote in terms of having spare cash to be able to handle up to six months of expenses.
- Have a contingency plan in place for what to do when revenue falls a long way, and if possible, have an established line of credit to call on. Know what expenses you can immediately trim, what levers you can pull during a downturn.
- Avoid long leases if possible. Don’t carry surplus assets. Don’t tie money up in stock and debtors.
- In good and average times don’t live such a lavish, expensive, lifestyle that you’ll not be able to get through the next crisis when it inevitably comes along. One always does.

Supplements 1 - 6 can be found here

<http://tonyalexander.nz/publications.php>

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