

Some basic secrets of surviving in grim times

So much for the saying 'May you live in interesting times.' Small business owners probably wish these economic times were not quite so interesting, writes **Perrie Croshaw**.

While the business environment might appear grim now, remember that times were bad during the recession of 1990-91 and yet many small businesses survived.

The real secret to survival is to focus relentlessly on business basics.

Warren Buffett, the US investor and businessman worth billions, says the current turmoil isn't swaying his philosophy on what makes a good company. "A truly great business must have an enduring 'moat' that protects excellent returns on invested capital," he said in April just before buying Wrigleys chewing gum for \$US23 billion (\$23.6 billion). These times present belt tightening for those who

have lost sight of their business basics, but for others it presents an opportunity. Let's just remind ourselves of how we can get back to business basics.

Review spending

Trim your fat: reduce fixed costs, eliminate non-essential costs; postpone non-essential purchases; consolidate offices; dismiss underperforming workers. Review profit margins. Reduce inventories.

Control cash flow This is the lifeblood of all operations. Your sales figures may be great, but it is cash flow that will determine whether you can keep your doors open.

Tighten credit controls. Are you too generous with your credit terms? Do you check your customer's credit history? Do you have a debt collection system in place? Do you send statements out immediately at month end?

Do you need an overdraft to smooth out humps? Do you need to restructure your debt to free up cash?

Monitor growth Growth can eat into your cash reserves. The faster your business grows, the more financing you will need. Be careful that your growth does not cost you too much cash but instead utilises working capital.

Advertise, advertise, advertise Even though this may seem counter-intuitive, a recession may be the time to increase your marketing. During the last recession McDonald's tripled its advertising campaign; Burger King cut back. Hard economic times weeds out your competition, leaving the field wide open for you.

Continue marketing Marketing is often the first thing to go when tough economic times put the squeeze on cash flow, but experts say those who maintain spending often emerge the strongest when things pick up.

If you can afford it, you may even want to increase your sales and marketing team.

Scrutinise your marketing budget to make sure you are not wasting money. Analyse to see where you actually get a return. Do not panic and cut budgets. Make the most of the customers you have. Look for advertising bargains. Get your message right. Tighten up your return on investment. Look for marketing partnerships. Look for recession-proof customers. Offer deals, but don't sacrifice your brand.

Diversify clients Diversify your client base to include markets that are less affected by a downturn. Spend your time on what really matters. Have you ever heard of the 80/20 rule? It is a proven fact that 80 per cent of your business comes from 20 per cent of your customers. So treat your best customers like royalty. Spend 80 per cent of your time focused on marketing and delivering your product or service.

Plan long term. The Japanese are famous for planning their strategy 15 to 20 years in advance. The time to plan for a recession is before it happens. The flip side of planning for a recession is planning for the inevitable recovery.

FAILED BUSINESSES DON'T

- ▶ Plan properly before start up
- ▶ Monitor their financial position
- ▶ Understand the relationship between price, volume and costs
- ▶ Manage cash flow properly
- ▶ Manage growth
- ▶ Borrow properly
- ▶ Plan for transition