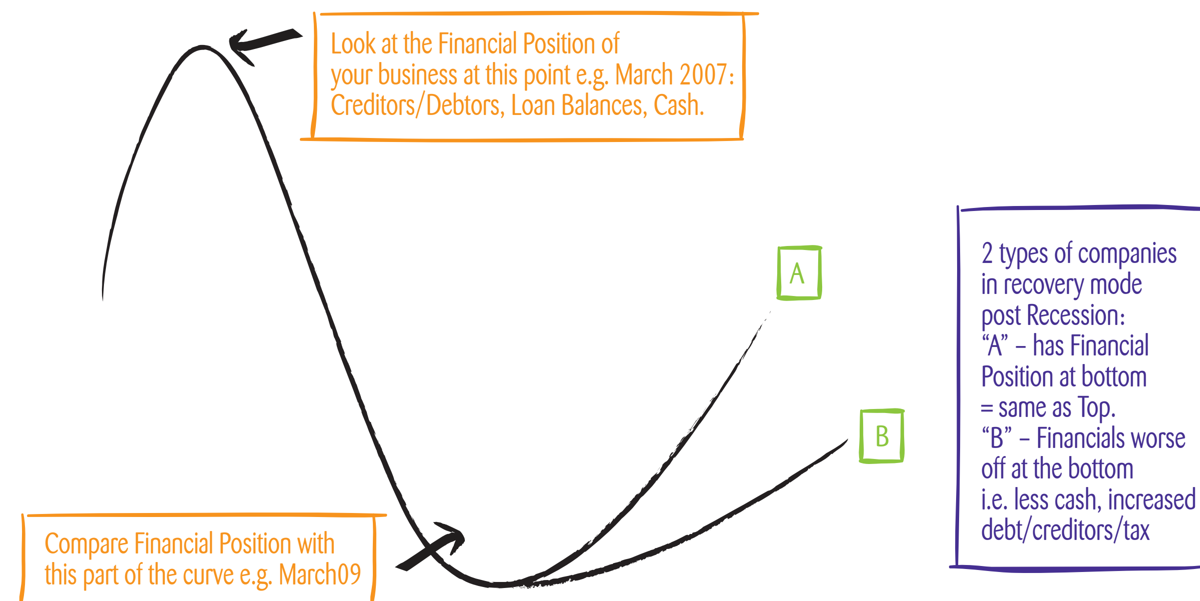
The Recovery Equation

When an economy slides deep into recession the business owner has to make changes to the business model. This often means cutting back on investments, reducing inventory, retrenchment of resources and delaying repairs and maintenance items. Revenues drop back and so the manager is forced to unwind the cost base.

Most managers will unwind a business back to breakeven all the way through a recession; that is, if revenues drop to "X" then they reduce the cost base back to "X" and so hit breakeven. Cash flow however operates slightly differently to this, in that debtors are much slower to pay and it takes time to unwind resources. By the end of the recession there is normally a "gap" that needs to be filled in terms of cash/funding.



When the economy turns around, revenues normally jump and so new client work comes in. There are two types of businesses at this point:

1. The business that uses the increased revenues to payback creditors, over due taxes, overdrafts with banks, loans etc; and

2. The business that uses the increased funds for growth because they don't have anything overdue to payback. These businesses are 100% ready to take advantage of the next upswing and have a massive timing advantage over businesses that need to recover their debt situations first.

The second type of business does a few things differently both during the recession and during the recovery phase:

1. Unwind below breakeven – during the recession they unwind their business more aggressively. Instead of only unwinding to breakeven they will unwind further than that (usually by +10%). This provides cash through the recession that is used to fund slow creditors, tax lags and redundancy payments.

And/or

2. Capital raise – the alternative to aggressively managing the unwind process during the recession is to raise funds at the end of the recession and reposition the organisation for growth quickly. This strategy has the advantage over an aggressive unwind in that you are able to retain more resources coming out of the recession. In this way you have less rebuild costs, and can usually retain senior resources.

Either strategy leaves these organisations well placed for faster growth coming out of the recession. Those organisations that do not either unwind aggressively or capital raise find themselves behind their competitors and do not get the full run up the next bull curve.

What can you do if neither of these strategies is available to your business? The answer sits in a strategic play. Investing what resources you do have available aggressively in the right areas can also position your business for growth in the next phase. To achieve this follow these steps:

1. Complete a capability assessment of the organisation (1 day)

2. Drive through a fast/quick hit functionality/productivity project – to pick up the inefficiency left from the organisation (six days work over three months for most smaller teams/businesses)

3. Focus your growth strategy in a niche/deep/targeted play. Choose from the following:

    a. Repackaging existing product
    b. Innovation of new product
    c. Development of IP product
    d. Opening niche distributor channels
    e. Look for pricing gaps in your marketplace

The market is not ready for "service" plays at this point. When markets bounce out of deep recessions the focus is on ROI and so don't waste your time on expensive/long tailed service programmes, they won't work.

At our next client conference, "Thrive: Catch the First Wave", learn what platforms you need to put in place for your business today to be able to leverage the uplift in the market. Darren Shirlaw will spend two days looking at how and when to get into the market.

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