



10 Secrets to Recession Proofing Your Business

An Executive Whitepaper

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Executive Summary

When the economy is moving forward robustly, most executives focus on growing sales. It's only natural. But inevitably when the economy slows and times get tough, that focus shifts. Most executives turn inward, looking at how their business is operating, as they face hard choices on how to preserve the company.

As businesses struggle to survive the current downturn, executives generally choose to behave in one of three ways:

“the ostrich” - preserve the status quo, and just hope for the best

“the bull in the china shop” - blindly cut expenses across the board

“the fox” - use the downturn to make your business more effective so when growth returns you'll be in an even better position to move quickly

While most companies view a recession as a sign of impending doom, leading companies view a recession as a means to get lean, mean, and position themselves to crush their competition.

Here are some “secrets” you may want to consider as you deal with our current economic climate.

Secret # 1. Monitor Spending

An average business has no clue how much it is spending until well after the money is already spent. It's shocking, but true! Until the check book is balanced for the previous month, an average business does not know how much money was spent during the month, or what it was spent on.

One of the best ways to recession proof any business is to get spending under control. And one of the best ways to get spending under control is to monitor it. The simple act of actively monitoring all spending will insure that the business is not spending frivolously on items it doesn't really need, or spending more than it has to on items that it does need. In addition, monitoring also ensures that employees are not spending money they don't have the authority to spend.

Secret # 2. Establish and Enforce Budgets

The only true way to establish and enforce spending limits is to put budgets in place. Without a budget, there's nothing to stop an employee from spending \$1,000 on a new printer when a \$500 printer would do. Without a budget, if the printer is a needed item that an employee has the authority to buy, this purchase would be automatically approved, even though it shouldn't be.

Budgeting is the most important element of sound financial planning, and a cornerstone of every successful business. A budget might not appear to be all that important, as it's just numbers on paper, but a budget defines spending limits in the context of how much money the business expects to have. This ensures that the business doesn't spend more money than it can safely afford to spend at any time. An organization that establishes, monitors, and enforces fiscally sound budgets always has enough cash on hand to cover its fixed expenses. This makes the organization fiscally sound and much more likely to weather a recession than a business without a budget. Furthermore, if money does get tight unexpectedly, a business with a history of good financial management is much more likely to get a loan (at good interest rates) than a business that does not.

Secret # 3. Curb Non-essential Spending

A recession is a great excuse to trim the fat that always creeps in during times of plenty. This will allow the business to build up the cash reserves that will enable it to withstand a recession that might cause a competitor to fail. There are three big easy ways to trim the fat: delay unnecessary purchases, reduce fringe benefits, and buy products and services that start saving the business money on day one.

Examples of common purchases that can often be delayed are computer upgrades and office furniture. Not every new employee needs a new computer. Often you will have a computer on hand she can use if you look. The other reality is that not every employee needs a new computer every year. While a software developer will often have her productivity hindered on a workstation that is over two years old, most workstations run standard office software more than adequately for four years. Sometimes a redistribution of assets on hand will negate the need for a purchase.

A business should treat its employees well, pay them fairly, and provide them with health insurance plans to make sure they stay well, but there's no need to cover their society memberships (unless membership is required by the company or their profession), subsidize their gas if they drive a Hummer, or buy them beer every Friday. If times are good, and the business has the money, it's good to splurge on them every once in a while. However, when times are tough, I'm sure that, as long as management is honest about the situation, an employee would choose job stability over a massage every Friday.

Whenever the business does buy a product or service, make sure that it's not just the lowest cost product or service that will meet the organization's needs, but a product or service that will save money every time it is used. What do we mean by this? Consider the computer screen you're likely reading this on right now. If it's an old-style CRT monitor, it's sucking up at least 80 Watts. If it's a new LCD, it's probably only sucking up 20 Watts. These days, an average desktop workstation often costs more to power over the three years it will be used than it costs to buy it. Therefore, given the option, the system with the smallest power requirements will save money every time it is used. Similarly, the business should try to use fluorescent lights and copiers that automatically go into power saving mode when not in use.

Secret # 4. Manage Inventory

A business that knows what it has in stock also knows what it doesn't need, or at least what it doesn't need right away. This is one of the best-kept secrets out there when it comes to saving money and recession proofing a business. Inventory costs money. There's overhead on the space that is needed to store it, and it uses up cash that could be used to pay salaries or buy other products and services. It also uses up cash that might otherwise be free to for short term investments which would generate interest or dividends.

Many companies have more inventory than they need because they buy in bulk. These companies buy in bulk because suppliers offer big discounts for bulk purchases. What one needs to remember is that a supplier who offers a big discount isn't doing it to help his customer, he's doing it to help himself. He knows that it costs him more to hold inventory he doesn't need than it does to sell it to someone else at a discount. There's no need to fatten a supplier's pocketbook at the expense of your business.

Secret # 5. Negotiate Supplier Concessions

A business that tracks how much it spends on a given product, or set of similar products, which can be obtained from the same supplier, can often negotiate big discounts. Furthermore, the business can usually get these discounts without making big bulk purchases all-at-once, as long as it is willing to commit to a certain volume over a given time period. Whether they'll admit it or not, many suppliers are quite happy to offer discounts across the board for a repeat business guarantee - especially if times are tough.

Secret # 6. Be Your Suppliers' Best Customer

It's much easier to get a good deal from a supplier that likes having your business as a customer than from a supplier that doesn't. They might cry "poor" every time they are called to the negotiating table and whine about how much money they're losing, but they'll never walk away from a good customer and they'll always do their best to please a good customer. Negotiating 101, right? Yes, but, Negotiating 101 doesn't teach the secret of how to be a good customer.

A good customer pays his bills on time, doesn't complain about quality when quality meets the expectations that were laid out in the contract, and makes the supplier's life easy. A business makes a supplier's life easy by providing them with templates if invoices are required in a certain format, by giving the supplier detailed delivery instructions if you items are needed at a certain time, and dedicated staff or help lines if the supplier has any questions.

Secret # 7. Train Your Staff

The first thing that nine out of ten businesses will do if they sense a recession coming is cut the training budget. This is, in fact, the last thing that a business should do. The first thing the business should do if it senses a recession coming is identify knowledge and skill sets that would make its employees more productive. Then it should give its employees the training that will impart the knowledge and skills that will make them more productive. This will allow the business to outperform its competition.

In addition, more productive employees are more profitable employees as they allow the business to do more with less. This is one of the best kept secrets to surviving a recession unscathed. Furthermore, a true market leader always does better during a recession than a follower.

Secret # 8. Streamline Processes

We all know that every minute an employee spends doing something that doesn't need to be done wastes the corporate dollar. But what we don't know is that it's not internet surfing or water-cooler chit-chat that is the problem, but the many layered and unnecessarily complex processes and sign-offs that require committee decisions and slow down even the simplest of tasks. Consider this quote from the recently unclassified 1963 OSS Simple Sabotage Field Manual for general interference with organizations and production:

"When possible, refer all matters to committees, for 'further study and consideration'. Attempt to make the committees as large as possible - never less than five."

Sometimes you need to "just do it"^(TM).

Secret # 9. Innovate

The best companies innovate new products and services during a recession. People have to buy goods and services even in tough times, so there's still a market out there. The difference is that, in a recession, people are looking for a product that is better and cheaper. The only way to come up with a product that is better and cheaper is to innovate.

Secret # 10. Implement e-Procurement

This is the biggest unkept secret of them all! Why is this the biggest secret?

If you implement e-Procurement, you get

* ***automatically monitored spending***

according to the rules defined by the business

* ***automatic budget enforcement***

subject to the limits defined by the budget

* ***automatically curbed non-essential spending***

as spending limits can be implemented to kick-in automatically when an overall level of spending is reached by category, employee or department

* ***inventory management***

one can see what's been ordered, what's been used, and what is left

* ***automatic reporting of spend by item, category, and vendor***

that can be used to negotiate concessions from suppliers

* ***supplier self service***

suppliers can submit invoices online, receive goods delivery receipts automatically, and know when a payment has been approved

* ***on-line training***

employees can not only learn how to use the system, but how to buy better and work strategically

* ***automated process streamlining***

staff can work on profitable activities instead of fiddling with paper



*** *the foundations of an innovation platform***

because it acts as a central repository of all information related to purchases, it's also a central message board and platform for the exchange of ideas

and, of course,

*** *loads of savings!***

(A recent study by the Aberdeen Group found that the simple act of introducing and using e-Procurement saves an average organization 4.8% on their purchases.)

Bonus Secret # 1. Use savings to fund growth

A true market leader expands their business during a recession. A true market leader will re-invest all of the savings generated through the application of the recession-proofing secrets to launch new products, services, and markets. They'll continue to advertise and market in cost-effective ways and continue to focus on employee training and improvement until their employees can run circles around their competition.

Bonus Secret # 2. Look for alternatives to capital spending

A recession is not the time to buy a new piece of expensive capital equipment or an expensive software license. Although it's true that the supplier might be willing to slash prices during a recession in a desperate attempt to make a sale -- any sale -- it's also true that your company might have to slash its prices to maintain, and even grow, its market share. Furthermore, a recession is also a bad time for lenders, who react by increasing interest rates. When you look at the purchase holistically, a new piece of expensive capital equipment or an expensive software license, even at a discount, is often more expensive during a recession than during a market boom.

The key to surviving a recession unscathed is to minimize expenditures. Instead of expensive purchases, look for affordable leases. Chances are there's a struggling business out there, or a group of investors who got stuck with some expensive capital assets when their business failed, with the equipment you need just sitting there unused. These businesses would jump at the opportunity to lease this equipment at attractive rates rather than lose their investment.

Instead of expensive software licenses, look for Software-as-a-Service (SaaS) offerings. SaaS providers own the licenses, have already acquired the hardware infrastructure needed to run these applications, and are able to spread these costs out over a larger user base. Chances are that if the business is looking at a \$100,000 enterprise application, there's a SaaS provider with an equivalent offering that could be accessed for as little as \$10,000 a year. If the business is looking at a \$5,000 CRM small business license, there are SaaS offerings that start for as little as \$10/month per employee. If the business only has 10 employees that need the system, that's a 76% savings!