



Renaissance Risk

Changing the odds in your favour

Cloud, or silver linings: the choice is yours

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As the credit crunch evolves into a full-scale downturn, survival until the market turns is an obvious key priority, but the hidden opportunity of any downturn is the possibility to lead the competition when the inevitable upturn happens. The danger is, however, that senior management are so focused on the stressful turmoil of declining revenue that they fail to prepare to take advantage when economic growth again becomes the business driver.

Whether or not your business is facing a downturn, managing a business in a poor economic climate is not easy. Tight cash-management is an obvious necessity. A company may sustain losses for quite a long time, but can only run out of cash once.

Recession, tightening of money-supply, nervousness in investor confidence, decline in customer-demand, inflation, shortage of key commodities, adverse currency movements, economic and political uncertainty - they have been here before, and will return in the future.

However, the greatest challenge for a well-ordered business can be none of the above features of a downturn, but the problems of surviving an upturn. Counter intuitive, but true. Many enter the positive phase of an economic cycle with weak balance sheets, demoralised staff and a lack of previous investment.

Experience from the past shows that companies who successfully manage recession, depressed demand, and even rising costs, emerge much stronger if they have prepared forward-looking strategies and plans to implement these carefully. Fortune sometimes goes to the bold, but most often to the well-prepared.

The advice from members for the Academy for Chief Executives is that in a major economic downturn, when there is a negative feedback loop, concerted action is required to mitigate the recession and stop the spiral. They go on to confirm that those companies who have the courage to weather the storm, and take the opportunity to expand, often come out stronger than ever before.

So, if you are experiencing a situation where your markets have been hit hard, and you're concerned over how to adjust to the current economic downturn, it is time to pause, reflect, and take considered action.

Consider investing some of those scarce resources in fine-tuning and integrating your key management processes to produce a positive driver of business activities.

Companies with strong business models are best positioned to survive, and may already be preparing a strategy to prosper in the future. Those with less strong processes can grasp the opportunity to improve them at a time when customer demand is reduced, and internal resource might be redirected.

It is all too easy to recommend that discretionary spending should be reined in during a business downturn. This has obvious attractions, but sends out the wrong message to stakeholders. What should be happening is a reasoned evaluation of what spending is necessary to ensure growth and profits in the future. Whilst it is easy, for example, to avoid or defer capital expenditure, often 'nearly new' equipment can be acquired at a discounted price, and with shorter lead-times, than might otherwise be available making the net present value more sensible in the short term and the return on investment look far better when the upturn arrives.

The payback time of strategic planning during these stressful times is usually short as the discipline sets a benchmark for process invigoration and therefore helps balance the need for tough short-term actions whilst developing agility and capability for the future.

The golden rules, therefore, for survival (and profiting) from the downturn are obvious, and need little explanation. They are:

- Monitor your market and business indicators like a hawk and use precious cash carefully – be clear about your business goals and values, keep your business model under constant review by all means, stay agile and keep all your relationships in good order.
- Identify and keep close to your best customers – keep with those who also share your faith: investors, suppliers and above all customers and staff, and share any short-term pain equitably.
- Don't cut off your nose – look for new opportunities. These could be in any form, from companies to acquire who were less well-prepared than you; new technologies with promise that struggled to find a market in the down-turn; new members of staff who were made redundant from other companies with skills you may greatly value; renewed business relationships cemented from past shared-support in harder times; and inevitably new markets that you may have been forced to explore in the down-turn.
- Get the right advice – there is a lot of information and help out there so make sure it's from a trusted or recommended source otherwise it might send you in the wrong direction. The best advice is always from people who have real hands-on experience of the key issues.

If there are two priorities – survive today and prepare for the future – then the executive management processes of Strategic Planning, Business Planning, and Sales and Operations Planning are at the core of Integrated Business Management and are critical to successful implementation of these priorities.

Weaknesses in any one of these processes will put either or both of these priorities at risk. Tough times present exactly the right environment to strategically define where the company is currently, what it needs to be, and how it intends to bridge the two.

Peter Drucker, many years ago, provided a lasting definition of strategic planning:

“It is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organized, systematic feedback.”

One of the key risk-taking decisions in the short term is to redesign the organisation into an enterprise that satisfies the investors. Doing this requires disciplined strategic planning, a process demanding the best available information about the marketplace today, and the best intelligence about the future marketplace, asking:

1. Where are we? (Performance analysis, assessment, and evaluation)
2. Where do we want to go? (Vision, mission, and goal setting)
3. How are we going to get there? (Strategy development and deployment)

Strategic planning helps even the best executives make the tough decisions about markets and products when the environment is at its worst.