

Beyond Recession How Prepared are You for the Upturn? by Alastair Dryburgh

I would still be very wary of economic forecasts, but it does look as if we may be at or close to the bottom of the recession. If you are still in business you must have adapted reasonably well, and it's time to start thinking about how to prepare for the upturn.

Here are three key questions.

- What have you learned?
- How sustainable is your strategy for the recession? Have you clarified, simplified and increased efficiency, actions which will stand you in good stead in the recovery? Or have you cut back, for instance by deferring investment, in ways that will leave you needing to catch up?
- How do you manage the transition back to growth? How do you relax control and increase investment in a disciplined way?

What have you learned?

Whatever else the recession did, it tested your strategy and your operations to destruction. If you have survived, then clearly you have some strengths. More importantly, though, you have learned a lot. An effort to capture this learning and build it into your strategy for recovery will pay enormous dividends. Here are some specific questions to consider.

What do customers really value? You will have had some very intense discussions with customers over pricing, that is to say over the value of your offering. You now know what really matters to them. When money is really tight, what will they pay for, and what won't they? If you have a superior product, has it been able to command a price premium? If it has, good - the market supports your claims of superiority. If it hasn't, then either it isn't as marvellous as you think, or the market doesn't need its superior quality.

Who are your best customers? Who has stayed loyal and continued giving you decent prices, and who has deserted you? Who have you



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been able to retain only by dropping prices below economic levels? Understanding why they have done what they've done will give you clues as to where your future market is. What is it that your best customers have in common? Are they mostly the same sort of size, or in a particular market? Are they the more innovative players in their markets, or the more traditional? Whatever it is, make sure you understand it and look for more customers of the same type.

What works and what doesn't? For example, you have probably taken a very hard look at your marketing efforts to identify those activities which produce a return and those which don't. If planning for the recovery involves raising marketing spend, make sure that it's focussed on the elements that work well and that you don't slip back into doing a bit of everything.

What is essential expenditure and what isn't? At first asking, any expenditure is rated essential by those spending the money. If you have cut costs, go back and do a review. If you cut in a particular area, were there consequences or not? Did reduced spending on customer service hit sales, or not? Did reductions in staff in finance slow down cash collection, or did they not? Once you have distinguished between those reductions which are causing damage and those where the company has adapted with no ill effects, you know which items of expenditure you need to increase and which you must continue to hold down.

How much more focussed are you?

Since the beginning of the recession I have been saying that you need to become clear about the strategy you are operating. Are you differentiated, offering a superior product which commands a price premium? Or are you a niche player? Or are you the lowest cost provider? Trying to mix these can doom you to failure. For example striving to be lowest provider in one part of the market while differentiated in another can lead to you being not quite cheap enough for the first and not quite good enough for the second.

If you have made the decision and committed to a strategy, congratulations. Make very sure that you stick to that decision as you grow. If you might still be "stuck in the middle", resolve it quickly.

Focus doesn't just apply to your overall strategy. Apply it to individual products or product lines. Hard times will have shone a light on the profitability of different lines, possibly pulling the less profitable ones into an actual loss. They may also have hastened

the obsolescence of some old products and added impetus to the growth of new ones. Identify those products which have a profitable future, and put those at the centre of your plans for growth.

What is the state of your key relationships?

Think about customers, but also about suppliers, staff and investors.

How do you stand with customers, at least those customers who figure in your future plans? Have you been looking after them well, or have you been cutting corners in ways that could still create problems? How will customers' priorities change? As you are rethinking your business, your customers will also be rethinking theirs. How well do you meet their changing needs?

How strong is your relationship with suppliers? If you have been finding conditions tougher than usual you will have expected them to share the pain, and they have probably complied because they had few alternatives. What happens when things improve? Is there a risk that you will achieve "least favoured customer" status? This might manifest itself in a generally uncooperative attitude to delivery times, a lukewarm commitment to resolving problems and an unwillingness to help you out of tricky situations. The alternative is worse - one day you could have a phone call along the lines of "we love doing business with you, but our finance director has just pointed out that it's costing us money. If we can't have a substantial price increase we need to drop you as a customer." I've advised hundreds of chief executives to do just that. Those who have tried it report that it works. Don't take the risk.

How are relationships with employees? Remember that the job market has been in a very poor state for the last couple of years. Unhappy people probably haven't been able to move. There are a lot of frustrated career ambitions and seething resentments bottled up. If you have been relying on the poor state of the job market to keep people where they are, be prepared for this to change suddenly. At some point you will need to raise salaries, whether selectively or generally.

What are your cash requirements?

Remember that the early stages of a recovery are a busy time for business failures, as companies with depleted cash reserves start to expand and run out of working capital. You have probably been



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holding stocks down, but will need to build them up again at some point. If you have been suppressing non-essential capital expenditure, be prepared for some of it to become essential. Things wear out and become obsolete, to the point where replacing them can no longer be deferred.

How well have you educated people?

There are two ways to maintain discipline and control in an organisation. One is by force, and the other is by education. Control by force means strict, detailed budgets, centralised authority, sign-offs required for everything. You have probably, out of necessity, moved in this direction in the last couple of years. The problem is that, as you move back towards growth, you need to relax the centralised control otherwise the organisation just won't be able to respond with the flexibility it needs. But what happens when the controls are released? If you have simply been running a police state, the result could be madness. How do you grow sensibly without stifling the organisation with centralised control? The answer is education - if people understand the organisation's overall objectives, and how what they do affects them, then you have increased the probability of them doing the right thing even when nobody is looking. The alternative might be a game of cops and robbers. How do you expect people to react?

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