The Elephant in the Room

What leadership are you modelling in your business to manage through the current fall in demand and economic uncertainty? After long periods of growth, the ***elephant is in the room*** when otherwise obvious facts such as a drop in demand and or diminishing revenue are ignored.

Wiser heads have seen economic cycles come and go. While there are some unique aspects of what is colloquially termed the 'global financial crisis', there is some consistency in the management approach required to get through the worst of it.

Thankfully, the required approach is quite different to the views of Andrew Mellon, the US Treasury Secretary at the time of the Great Depression, who said

"Liquidate labour, liquidate stocks, liquidate the farmers, liquidate real estate…. It will purge the rottenness out of the system… values will be adjusted, and enterprising people will pick up the wrecks from less competent people."

Take these simple steps to invest in 2009 being a happier new year.

1. **Manage debtors to your commercial terms.** Why allow others to constrain your capacity by reducing your cashflow and increasing your need for external finance? You provided the service and incurred the expenses in meeting your client's needs. Get the money you are owed in your bank. Do not risk inherited cash flow problems through no fault of your own.

2. **Reserve your ownership of goods until you receive payment.** Review and, if necessary, amend your supply agreement to retain ownership until you receive payment. As credit worsens, inevitably some of your clients may be 'liquidated'and it might be ones you least expect. A Romalpa clause, retaining your ownership of goods, gives you strength in negotiating with receivers should the need arise.

3. **Reduce reliance on external finance.** Cash is king. Review the folowing:
   a. **Inventory -** Inventory consumes working capital. Reduce it commensurate with any forecast reductions in sales. Embrace lean thinking and 'just in time' not 'just in case'.

   b. **Work In Progress** – Identify the opportunity to reduce the timeframe of work in progress.

   c. **Labour Structure** - Review your labour structure and the scope for more part time and casual positions. Some staff members may appreciate less hours.

   d. **Supply Contracts** - Review your supply contracts to obtain greater value including added value. Take action to overcome any problems in the supply chain given a competitive market. One of our clients just retendered work with a positive response when the initail response some months ago was unproductive. When your suppliers find ways to add value, maximise the benefit to you and for your clients.

4. **Win new contracts.** Cost management, using a revenue approach, provides ongoing benefit in all economic conditions. The current economic climate is a great time to encourage key prospects to review their supply arrangements and examine the competitive advantage of features and benefits you offer.
   Two words of caution though – **due diligence**. Beware new customers that do not pay their bills. If new clients are seeking to use you as a financier not just a supplier, you do not need their business. That is unless the finance cost is in your pricing and you can be assurred of payment.

5. **Examine opportunities to 'add value'.** Work with your key clients to review the way you service their needs. Identify the scope to get cost down and value up. Do not let history dictate the future. Use your collective expertise to identify smarter ways to service, package, transport and recycle. 'Added value' discussions remove contraints on the pathway to improved client relationships and better margin.

6. **Review the monthly ratio of revenue to expenses.** Start to examine the productivity ratio for the past twelve months. Continue each month for the next twelve months. If the ratio has dropped, your bottom line has also dropped. Immediate action is required to sustain the business. When you are earning less, it is important that the ratio of revenue to expenses does not trend downward. If it does, the need for immediate cost management is screaming at you.

7. **Engage a cost management consultant.** A client recently said "I see the merit in having a third party conduct a cost management audit" based on the result we achieved. Bring in a fresh set of eyes to capture significant cost management opportunities. We are all creatures of habit. Long periods of growth can lead to the ***elephant is in the room*** when otherwise obvious facts are left unaddressed. An effective Consultant will implement cost management initiatives with your staff for your long-term success.

8. **Look for 'wrecks'** to pick up from 'less competent people'. Having imporved your cost management, consider the benefits from strategic acquisition at a bargain basement price. For example, what are you currently outsourcing that might be better insourced if the cost of acquisition was low. What acquisitions might position you in different markets and provide scope for future leverage?

Time passes quickly. Managing the change arising from the economic downturn is an immediate priority. Take action **now** to position your business for a better financial result in 2008/09.

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