Sage Accpac | White Paper

No Time to Retreat:

Seizing Opportunity in an Economic Downturn

As the economic downturn deepens, there's no shortage of advice on how to survive—where to cut costs and how to retrench the business in order to come out in one piece on the other side.

But despite the natural inclination to go quiet during the downturn, spending as little as possible, a recession may actually be a great time to use market conditions to your advantage. As the competition retreats, this might be the best time to invest in talent and R&D, increase your marketing presence, perk up your processes, and start negotiating with suppliers to greater advantage.

Tough economic times can benefit those who remain strategically focused and alert. Business owners need strategies not only for recession-proofing, but for thriving in an economic downturn. This white paper will explore how you can take advantage of current market conditions, a less crowded marketplace, and—far too often—investor-driven panic—to buck the doom-and-gloom attitude so prevalent today.

Contrary to popular myth, companies CAN grow stronger during a recession

Economically turbulent times can present a great opportunity for companies willing to be creative and resourceful. While some companies become more cautious, others get creative and seek new markets. They monitor debt, rein in cash collection, and look for strategic opportunities to acquire competitors or suppliers. They pour money into R&D and invest in talent.

Examples of recession winners aren't hard to find. In the deep recession of the early nineties, Apple opened its first store. In the midst of the 2001 recession, it launched the iPod. Once the turnaround arrived—and it always does—Apple came out of the gate light years ahead of its competitors.

The last recession also yielded the likes of Google and PayPal. When other companies were reducing staff and slashing their R&D and marketing budgets, these success stories were investing and making incredible gains.

Companies willing to make bold moves on the operating, financial, and technology fronts are more likely to survive—even thrive—in the downturn. Smart companies can ride out the economic storm through good strategy and planning, cleaning up operations, finding ways to be more efficient, and, most of all, avoiding reactive decisions in favor of data supported initiatives.

Tap these counterintuitive strategies as the crisis deepens

Focus on your customers … and on your competitor's customers

Keep your customer relationships strong. A weak economy makes everyone nervous—and that includes your customers. Dispel issues and negative perceptions by instituting an ongoing communication plan.

Now is also the time to forge connections with your competitor's customers. Not necessarily the strong ones who are being carefully nurtured, but the ones who are slipping through the cracks—smaller customers who aren't getting much one-to-one attention and can be more easily enticed to make a switch. Test a few marketing campaigns and offers. You have everything to gain.

Boost your R&D

Your competitors might be cutting their research and development budgets, and you might be inclined to do the same, but smart companies maintain and even expand their R&D budget so they can be ahead of their competitors when the downturn is over. Apple is famous for successfully expanding during recessionary times, spending on R&D when others are slashing. After the collapse of the dot-com bubble, which triggered the last major recession in 2000, market leaders Intel and Adobe increased their R&D spending by 6 percent and 9.8 percent, respectively. In the years following, both companies reported solid gains, outperforming the S&P 500.

Investing during the downturn means that your new products and services will be ready for launch as the economy begins to turn around, giving you a competitive advantage for years to come.

Attract and retain talent

During a downturn, most companies begin slashing costs, and often the first order of business is employee downsizing. Instead, carefully consider and bolster your talent needs now, so you're well positioned when the downturn ends.

As weak companies lay off employees, many talented people will suddenly find themselves looking for work. Skilled workers who remain employed may be starting to feel insecure as their firms teeter. Capitalize on the opportunity to identify and attract talented employees while the labor market undergoes a radical shift.

Make sure you also focus efforts on retaining key talent by communicating frequently and honestly with employees. Communicate your recession-proofing plan with employees so they can help you with its execution. By keeping employees involved, you can tap their creative energies and help them maintain a commitment to your company's success.

A slowdown can also be a great time to invest in training opportunities for your employees, who will be better prepared when the economy revs up again. Be creative. There are myriad ways to train employees and keep their talent and careers strong. The Internet is a great resource for finding and often delivering effective training programs.

Increase your marketing presence

Bring your marketing efforts to a halt—one of the most common reactions in an economic downturn—and suddenly you're off the radar and no longer top-of-mind. Worse, rumors start circulating that you're sinking, when all you did was skip a trade show appearance to reduce costs. Few brands can survive without advertising and product promotion. History has shown that companies who become low-key during a downturn are in a far worse position in terms of profitability, market share, and competitive presence when an upturn becomes the new reality.

Contrary to what other companies typically do, evaluate the possibility of launching new marketing campaigns. Take advantage of fewer competitors in the marketplace. It's a great opportunity to increase brand awareness and create additional demand for your products or services. In times of economic turmoil, brand loyalty can shift quickly. But don't simply continue with the same old marketing techniques. Explore different and unique opportunities to showcase your brand. Guerrilla marketing, social networking, virtual trade shows—now is the time to shift gears and take a chance on more creative ways to get your message to prospects and customers. At the same time, you should also be able to negotiate more cost-effective rates for existing—or new—advertising and marketing vehicles.

By being bold and increasing your marketing activities during the downturn, you can stand a better chance of winning market share and overtaking less aggressive competitors.

Focus on your accounts receivable

This is the time to be even more strategic about when money comes in and goes out of the company. Be very clear about the gap that might occur between paying your suppliers and having your customers pay you. This is the time to really focus on the day-by-day flow of cash.

Sharpen up your cash collection policies and procedures. Get a clear picture of your collection cycle (revenue growth versus A/R %). Find out if certain customers are taking longer to pay by comparing collection patterns–year-over-year and month-over-month. Zero in on specific customers.

Take action immediately if payment cycles are becoming protracted. Harness automated solutions, such as credit card payments and electronic fund transfers, to help customers pay faster and more consistently. Harness technology solutions to link your CRM with the accounting side, and create tighter, more automated credit policies.

Before writing off customer debts (or sending them to collections), find creative and strategic way to settle the bill—negotiate payment schedules, share talent, share customer or lead databases, or accept in-kind ownership shares from a company.

Streamline your internal processes

A key move on the operating side involves casting a keen eye on the inward processes that run your business. Pinpoint what you can do smarter, cheaper, and faster. This is the time to challenge your assumptions and get rid of methods that aren't working. At the same time, focus on the activities that really work. You'll know what these are as you dig deeply into the data and see where you're actually coming out ahead.

Align revenue and expense curves

Many companies focus on their revenue trend but ignore other important indicators, such as the expenses curve. Yet planning and budgeting for additional and increasing expenses were likely already in place before the downturn hit. Cast a keen eye on your expense line, and move quickly to align expenses with flat or declining revenues.

Empower your employees

Listen to employee suggestions in order to make small changes that will improve overall outcomes. Empower people who are in a position to know—on the production line, in the warehouse, at the reception desk.

Collapse traditional company hierarchies in favor of developing cross-functional teams focused on improving a process or solving a problem. At Sage, work has begun to form "SWAT teams"—groups of employees who work with Sage Accpac ERP software—who challenge assumptions about the business and toss out what doesn't work in favor of implementing what does. If the returns aren't materializing, something else is attempted.

The key is to foster a cultural shift within your organization to create a mindset where everybody looks for ways to improve the customer experience, cut costs where it makes sense, and spend to get the greatest returns. Just remember, if you're encouraging employees to be candid, they should have no fear of reprisal.

Reduce infrastructure costs

Infrastructure and technologies can be a great drain on resources if they're not being used effectively. Take stock of your systems. Are they giving you enough insight into your business? If you're using older systems and can't afford to upgrade, try hosted software solutions where you can pay on a monthly basis.

Use technology more efficiently in areas like customer service and marketing. Make sure your systems talk to one another and can give you the whole picture. The more you know, the better decisions you'll make. Most companies can do a better job of utilizing the technology that's already available to them. If you're not making the most of your systems, maybe you need further training or a little more customization. Use what you have … only use it more effectively.

Rekindle your banking relationships

Access to credit lines can evaporate during lean times. During a credit crunch, meet with your lenders more often and proactively increase your financial reporting to them. Use software to automate monitoring of loan covenants, so you don't put your company in jeopardy with a missed payment. This will ensure you protect your ability to access business loans and credit lines.

Win-win: Negotiate a better deal with your suppliers

Negotiating better deals and contracts is an absolute must for realigning and resizing your company to current economic conditions. Suppliers are worried about their business just as much as you are about yours. This is a time when they might be more willing to renegotiate cost structures to retain your business.

Explain that your company has reviewed its cost structures and concluded that it needs to lower supplier costs. Ask your supplier for lower material prices, longer payment cycles, and a reduction or elimination of finance charges. Explore the idea of buying material from them on consignment. A downturn can also be an ideal time to identify opportunities to acquire a supplier.

Will you be bold and position yourself for growth? Or will you react like the “sky is falling”?

History shows that downturns always end. Since 1854, the U.S. has experienced 32 cycles of expansions and contractions, with contractions occurring for an average of 17 months and expansions 38 months. In the U.S., only four periods since 1980 can be considered recessions: the better part of 1980, July 1981 to November 1982, the early nineties, and post 9/11. Global recessions have occurred three times since 1985. But all of these contractions eventually reversed.

Even during the deepest recession of the 20th century—the Great Depression—companies continued to operate and even thrive. Despite the severity of the situation, money didn’t go away. Consumers continued to spend—they just looked for better deals and for companies that were aggressively pursuing their business.

Smart companies will survive this current downturn—just as they did before and after the depression and every recession that followed. In times of turmoil, you can innovate and gain market share by being more focused and strategic than your competitors. Keep in mind that the following companies were all formed during a recession: Hewlett-Packard (formed during the Great Depression), General Electric, Sports Illustrated, Trader Joes, MTV, CNN, LexisNexis, Microsoft, IHOP, Hyatt, and even Burger King.

Above all, it’s important to keep your head. While others panic and retreat, you can leverage unfavourable market conditions to become a leaner, more cost-effective and efficient operation during and after the downturn. And keep in mind that continued visibility with both customers and prospects will serve you well in the long run.

Taking a reasoned, systematic approach will determine the state of your business for years to come. Tough economic times come and go. It’s what you do during a downturn that makes all the difference.

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As senior vice president and general manager for Sage Accpac and Simply Accounting, Laurie Schultz is responsible for delivering outstanding results for employees, customers, partners, and shareholders across the Sage Accpac and Simply Accounting Business Solutions. She previously served as vice president and general manager for The Sage Accountants Network and Simply Accounting.

Before joining Sage in October, 2004, Schultz was vice president for Intuit Canada's Small Business portfolio, where she was responsible for sales, marketing, and product development for QuickBooks in Canada and the UK.

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