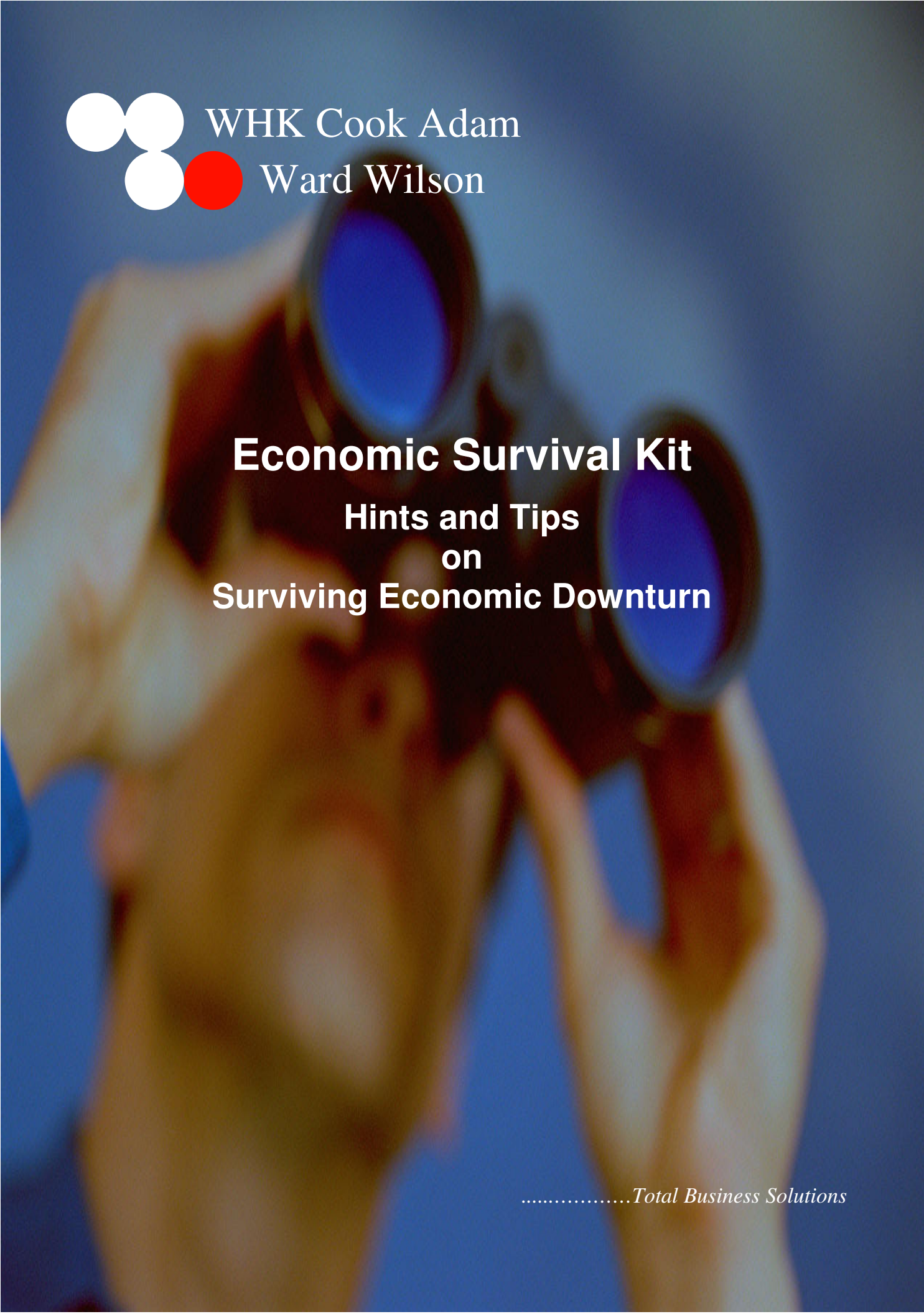




WHK Cook Adam
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Economic Survival Kit
Hints and Tips
on
Surviving Economic Downturn

.....*Total Business Solutions*

1 INTRODUCTION

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1.1 What is the Economic Survival Kit?

The Economic Survival Kit has been prepared to assist your business survive an economic downturn. A downturn may be limited to your industry, or it may be a downturn being experienced by your local economy or on a national or global level.

This kit has been prepared by WHK Cook Adam Ward Wilson and whilst aimed at small to medium businesses, the principles and strategies are applicable to any sized business.

1.2 What can happen to your Business during an economic downturn?

An economic downturn can have many impacts on a business. These include:

- Less business activity
- Increased competition
- Reduced turnover
- Increased risk profile
- Reduced margins
- Tighter cashflow
- Reduced profitability

When an economic downturn occurs, you need to consider:

- What has changed in the market in which you operate?
- Can your business adapt to changing market conditions?
- What strategies can you implement to not only survive, but also grow into a more robust and competitive organisation?

1.3 About the Survival Kit

The survival kit includes 3 sections to assist you:

- Section 1: Know Your Business
- Section 2: Adopt Business Strategies to Manage your Business
- Section 3: Know Your Industry and Local Business Environment

2 KNOW YOUR BUSINESS

2.1 Executive Summary

To ensure your ongoing business success and profitability it is essential to understand your business. There are several key areas that you should have in place and have a clear strategic comprehension including:

- Clear Goals and Objectives of the Business
- Prepare a Business Plan
- SWOT Analysis
- Identify Critical Success Factors
- Understand Key Business and Profit Drivers
- Define Key Performance Indicators
- Undertake Business Benchmarking
- Create a Marketing Plan
- Ensure Accurate & Timely Reporting Systems
- Document Action Plans

2.2 Clear Goals and Objectives of the Business

Do you have clear goals and objectives for your business? This means identifying your vision for the business and your core values. Your goals and objectives are used to capture and ensure the support of and enthusiasm of your stakeholders - your employees, business partners, associates, family and friends.

2.3 Prepare a Business Plan

Does your organisation have some form of Business Plan? The objective of strategic business planning is to achieve greater long term performance and profitability compared to your competitors.

In every industry, there are some businesses that are more successful and more profitable than others. Why? They are successful because they identify market opportunities and develop and implement strategies and plans to make the most of those opportunities. Do you?

The function of the Business Plan is to demonstrate how you intend to drive your business towards a desired position in the market place. The Business Plan outlines how you will achieve this by outlining how your business will make optimum use of available resources, to capitalise on identified opportunities and minimise risks.

Any Business Plan, no matter how carefully constructed and no matter how thoroughly understood will be a wasted exercise unless it is put into effect and followed through.

2.4 SWOT Analysis

Have you conducted a SWOT analysis of your business? Do you understand the key issues facing your business?

The SWOT allows you to use the analysis to develop actions to move the business forward and to get perspectives of your business from a variety of associates, such as employees, accountants, customers and people external to the business.

Strengths: What are the attributes of your business that are helpful to achieving your objectives and how can you use those strengths?

Weaknesses: What are the attributes of your business that are harmful to achieving your objectives, and how can you minimise each weakness?

Opportunities: What are the external conditions that are helpful to achieving your objectives, and how can you exploit each opportunity?

Threats: What are the external conditions that are harmful to achieving your objectives, and how can you defend against each threat?

2.5 Identify Critical Success Factors

Critical Success Factors can be identified in every business. From your analysis, you should be able to list the reasons why your business is successful. What are the Critical Success Factors which will contribute to your business success? Your critical success factors are within the control of the business and you should fully understand them to be successful.

Often these may include your ability to manage the effects of any key sensitivities. Examples of key success factors include:

- Shared purpose
- Working knowledge
- Cost effectiveness
- Structure
- Reposition scope of business
- Niche market development
- New market innovation
- New product innovation

Have you identified the critical success factors for **YOUR** business?

2.6 Undertake Key Business and Profit Drivers

Can you identify the five critical factors that drive increases in your business profit?

One of the toughest challenges you face is learning how to manage your financial performance. Successful businesses achieve consistent profitability because they know the factors that drive their profitability and work relentlessly on the key drivers of their business, including:

- Increasing your price
- Increasing your number of customers
- Increasing your average dollar sale
- Increasing your frequency of customer visits
- Decreasing your costs – fixed and variable

The reality is that a combination of all these strategies will be required for your business. Do you understand the critical issues that drive profit in your business?

2.7 Define Key Performance Indicators

What are your Key Performance Indicators (KPI's) of your business?

KPI's are used to track your business' performance against budgeted targets over a certain period of time. A successful business will have KPI's in place and review them regularly - do you?

2.8 Undertake Business Benchmarking

Do you benchmark your business? There are a range of processes and outcomes that can be benchmarked. These include both financial and non financial factors. The KPI's can be benchmarked against internal targets, competitors, industry data or best practice.

Benchmarking allows you to understand how your business is performing relative to other businesses. It will allow you to identify areas of improvement, which in turn will bring financial success to your business. Have you set the bar for your business?

2.9 Marketing Plan

Do you have a Marketing Plan? If you want your business to be competitive you need a Strategic Marketing Plan. A Marketing Plan is a written plan of your market strategies including:

- Situation Analysis and Competitor Analysis
- Brand & Brand Position
- Target Market Definition
- Marketing Mix (Product, Place, Promotion, Price)

Your Marketing Plan should be included as part of your Business Plan and reviewed regularly. How often do you review your marketing strategies?

2.10 Ensure Accurate & Timely Reporting Systems

How accurate and timely are your reporting systems? Successful business operators generally have reporting systems that deliver accurate and timely information, whether it be financial or non financial. Accurate and timely information allows you to not only know what is happening in your business, but allows you to make good decisions....on time.

- Do you produce regular reports detailing your critical success factors in KPI format?
- Do you have monthly financial reports including profit and loss and balance sheet?
- Do you regularly measure your reports against budgets and targets?

2.11 Document Action Plans

You should have an action agenda of the key issues of the Business Plan to ensure a check list for implementation and ensure that overall effectiveness is achieved for your business.

The action plan schedule should detail:

- Action description
- Action start date
- Who is responsible for each action
- Action completion date

Do you refer to your action plan regularly?

3 ADOPT BUSINESS STRATEGIES TO MANAGE YOUR BUSINESS

3.1 Executive Summary

These hints and tips (strategies) can assist your business survive an economic downturn. They include:

- Proactive Business Management
- Accurate Controls & Business KPI's
- Financial Management
- Cashflow & Profit Projections
- Accounts Receivable (Sundry Trade Debtors)
- Review All Costs
- Debt Consolidation/Reduction
- Product, Sales & Distribution Strategies
- Marketing Strategies
- Personal Lifestyle Cost
- Profitable Habits
- Structure Your Affairs
- Insurance
- Asset Protection

3.2 Proactive Business Management

Be proactive. Be positive. Have a strong plan and drive your business. Manage your business. Strategies include:

- Plan to succeed
- Make sure you have a Business Plan and a clear direction and strategy for your business
- Make clear decisions and make them quickly and communicate with stakeholders
- Review every aspect of the business' performance....honestly
- Focus on only what drives value

3.3 Accurate Controls & Business KPI's

Create performance measures that are aligned with the vision and strategies of your business. These performance measures can be used to:

- Focus on the management of all critical activities
- Facilitate open and honest communication with all stakeholders, in particular with staff
- Provide cohesive direction for individuals across different areas of the organisation

Develop a list of key performance indicators (KPI's) which should exhibit the following characteristics:

- Quantifiable
- Accountability is able to be assigned
- High business impact
- Comparable to predefined budget, forecasts and targets
- Can be tracked over time

3.4 Financial Management

Your ability to understand and manage the financial outcomes of the business will have a direct and significant impact on the success of the business, and is especially vital in a period of economic downturn. What will your business' bottom line look like if your turnover or margins are reduced?

You should know the following information:

- Break even points
- Cost take out plans
- Understand your costs – fixed and variable
- Understand your pricing points
- How much pressure can the business withstand before it hurts
- What will the financial impact on cashflow and profit be

Conduct a Sensitivity Analysis for your business – “What happens if”? Plan and act now.

3.5 Cashflow and Profit Projections

You should prepare a detailed profit and cashflow projection for the next 12 months. You should also prepare broad profit and cashflow projections for the 2-4 year outlook period.

You need to assess the impact a downturn may have on your accounts receivable, inventory or accounts payable levels. You need to assess the changes in the levels of these items will have on your cash.

Your cashflow projections will indicate when cash shortages arise. You need to discuss these fund requirements with your financiers so they can also be ready to assist you if cash shortages exist.

Managing your cash in an economic downturn is one of the most significant challenges a business owner will face. You should be working closely with your advisors and have financial models to allow you to anticipate the impact of various strategies you want to implement.

3.6 Accounts Receivable (Sundry Trade Debtors)

You must strengthen your accounts receivable management:

- Make sure all your revenues are recorded accurately in your accounting system
- Ensure your invoices are dispatched to customers on a timely basis
- Confirm that customers know your terms and conditions of payment
- It is essential that you follow up outstanding debts promptly

A major occurrence in an economic downturn is a slow down in the payment cycles. You need proactive management and enhanced communication systems with customers to ensure any slow down is not reflected in increased bad debt levels.

3.7 Review All Costs

In any economic decline, a serious review of every cost in the business is critical, as well as understanding of your cost structure, including:

- Review all your costs including all direct and indirect costs
- Understand the difference between a direct cost versus an overhead cost
- Review and manage the cost of your employees and subcontractors
- Review your overheads
- Carry out a complete review of every cost
- Include cost management as part of your budgeting process
- Make sure you have a budget for every cost incurred

Be ruthless with costs.

3.8 Debt consolidation/reduction

Managing your total debt structure and increased communication with your bankers is critical to surviving economic downturns. You need to address the following:

- You should have a thorough understanding of how much debt you have
- Review your debt. Include in this review:
 - Business loans structure and timelines for repayment
 - Equipment finance structure and efficiency
 - Business cards usage and cost
 - Overdraft levels
 - Personal debt levels
- Consider how your debt has been used:
 - Business
 - Business toys
 - Investment
 - Personal toys
- Determine whether your business can afford to carry the debt levels during a downturn
- Consider what your preferred terms of repayment and impact on cashflow are:
 - Principal & Interest
 - Interest only
- Review your debt structure. Consider the following:
 - Can you use short term debt/cash for long term asset acquisition
 - Can the debt be consolidated or refinanced over a longer term
 - Can the asset be liquidated and the debt repaid
 - Talk to your accountant and bankers for guidance

3.9 Product, Sales & Distribution Strategies

In any downturn, you should review each product's sales and costs of distribution to determine the real underlying profitability. In particular you should:

- Understand how demand for your product/services changes in a downturn and develop a business strategy on how to cope with expected changes to demand
- Make sure you have detailed information on your product range and depth, including plans for new products. Consider whether you should reposition yourself to an alternative market

- Gather information that demonstrates your understanding of the market potential. Look at the following areas:
 - Industry Description and Outlook
 - Product Description
 - Target Markets
 - Competition
 - Distribution
- Be proactive in looking for alternative products and services. Seek out other opportunities. Consider your ability to reposition for other competitive advantages.
- Develop your Distribution Strategies, as distribution involves both competition and cost considerations in moving goods to end markets. The selection of a distribution strategy also has an important bearing on both product positioning and the image you are trying to create in the market place.

3.10 Marketing Strategies

Having a clearly defined Marketing and Promotional Strategy is critical for your business. Are you on top of changes in the market place?

- Obtain a thorough analysis of your existing and proposed product markets
- Determine the competitive marketing strategies to be pursued by both you and your competitors
- Understand and define the broad strategic thrust you intend to pursue
- Develop your Marketing Objectives. These will guide the major components of your marketing strategy
- Define your Product/Service Strategy. This can establish your competitive advantage based on product innovations and a customer-driven approach
- Assess your Pricing Strategies. Competing on price alone can lead to serious problems in business. Pricing policy should be closely linked to all other elements of your marketing mix
- Your Marketing Communications requires creativity and innovative thinking. It is an area where a unique competitive advantage can be developed with the right communications mix

3.11 Personal Lifestyle Cost

Consider your personal lifestyle and prioritise your requirements. Your lifestyle needs to be redirected to be conducive to saving. You should:

- Save first and spend last
- Have clearly defined personal goals
- Cut out personal costs and commitments
- Become lean and mean
- Use a personal budget and monitoring to avoid spending beyond your means.

3.12 Profitable Habits

Use the financial environment to develop attributes of successful business owners. These attributes exist with successful business people:

- “Make It Happen” Skills
- Ask “what needs to be done?”
- Persevere towards goal attainment
- Take ownership of outcomes

- Intolerant of poor performance, standards and values
- Exert a high level of effort
- Knowing your business/industry drivers
- Financial awareness & understanding

3.13 Structure your affairs

Adopt the most appropriate legal structure to enable you to legally minimise your taxation responsibilities. There have been changes to small business laws that you need to be aware of to ensure you can minimise your Income Tax.

There are several Income Tax minimisation strategies that your accountant can assist you with. These include:

- Prepayments
- Depreciation
- Small business concessions for stock valuation
- Donation & charitable contributions

Talk to your accountant about how you can minimise your tax.

3.14 Insurance

Income protection is imperative - stress equals trauma. You need to ensure your income is protected.

- Review your ongoing business expenses. Adequate insurance protection may determine whether your business continues or not
- Consider Life insurance - during periods of economic downturn it may be appropriate to fund through superannuation to avoid a drain on cashflow
- Consider Trauma - a cash cushion which may make the difference between business suicide and survival
- Review all general insurances with your broker - increasing the Excess may decrease the premiums

Manage your insurance cost against the Risk Profile you want for your business and personal requirements

3.15 Asset Protection

You need to ensure your Trading Structure and Insurances are adequate for asset protection purposes. Issues to consider are:

- Use of legal structures to protect assets in the event of litigious claims
- Ensure adequate insurance in the event of abnormal events happening to yourself, key employees or business
- You need to have a succession plan strategy
- You need to have adequate resources to cover an economic downturn

4 KNOW YOUR INDUSTRY AND YOUR LOCAL BUSINESS ENVIRONMENT

4.1 Industry Organisations

There are organisations that represent almost every type of business there is, and who are there to assist you with achieving your goals and objectives.

Who is the organisation that represents your industry? Are you a member? Do they provide information that can assist and/or impact on your business/industry and do you utilise this information?

4.2 Local Chambers of Commerce

The Chamber of Commerce are established to represent the interests of the local business community by clear and independent support and advocacy.

The Chambers' vision is to be recognised, individually and collectively, as the peak business body for the your area.

4.3 Key Benefits of the Chamber

- Monthly Chamber of Commerce meetings
- Networking Functions such as “Business After Hours”
- Specialised Business Events
- Topical Workshops
- Chamber Business Awards
- Regular contact with local Council, Police and various stakeholder groups
- Lobby and prepare submissions on behalf of business members to Local and state Governments
- Facilitate consultations in conjunction with member representation to assist with local business growth
- Access to up to date business information
- Regular communication to all members of relevant topical information
- Various partnerships/sponsorship arrangements

For queries regarding the content of this Economic Survival Kit, please contact your WHK Cook Adam Ward Wilson Professional.

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