

Profiting from the downturn

A Director's guide to managing finance during the recession

Through this guide, you will find out more about:

- Methods to keep the cash flowing
- Efficiencies to be gained via devolved administrative tasks
- Pinpointing pockets of profitability
- Finding more efficient methods of buying
- Becoming more competitive through technology

As the economic crunch begins to bite there may be more competition for less business. As a result a company's finances become a critical focus for directors who are looking to boost their bottom line. Survival is clearly top of the agenda but with clever, more efficient financial management you can also thrive.

So what are the options and which are most fruitful? There are typically three ways in which a company responds to changing market conditions. The 'head in the sand' approach is to simply wait and hope that it will soon blow over, so pretty much retaining a status quo.

A more 'radical' stance on the other hand might be to take more dramatic steps, introducing a blanket cost-cutting exercise that often represents a 'knee-jerk' reaction to short-term circumstances, rather than a considered reaction to the long-term objectives of the organisation.

However, perhaps the wisest move is to formulate a plan that incorporates ways that you can save money now, keep and grow your customer base, yet remain fit and flexible enough to capitalise even further when more buoyant times return. So where do you begin?



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1. Keep the cash flowing

You need to assess the cashflow situation on a daily rather than monthly basis. A recession poses many threats to the health of an organisation but the first priority should be liquidity or cashflow. No matter how packed your order book, if just a fraction of your customers go under, they could take you with them.

Ask your finance team to provide access to regular updates on payments due and speak to your customers to assess whether there are any problems ahead of time. Speeding up the billing process can also have an enormous impact because the sooner you get those invoices out the sooner the monies come in. Consider also how you can improve debt chasing procedures. Could this be automated, so that statements or reminders are issued at pre-set intervals? Making it easier for customers to pay could also be an option, so explore supporting on-line payments, direct debit or BACS.

2. Cost-cutting drive

Reducing your variable costs will immediately add revenue to your bottom line. A downturn gives you the perfect opportunity to trim the fat and see where inefficiencies have crept in. By scrutinising your expenditure you can identify any wasteful spending that is not making a positive contribution to your bottom line. But a word of caution, try to think ahead to the future, there's no point in slashing your marketing budget if that's the only way that you can gain an edge over the competition.

Apart from cutbacks on non-essential spending, there are other ways of reducing costs by becoming more efficient. Look at how the business might streamline

time-consuming processes. Remember time is money and if you can re-deploy human resources to more profitable tasks your income will rise.

Try to automate repetitive or overly complex procedures wherever possible. For instance re-keying data from one system to another can be a real time-stealer, yet could be easily overcome by integrating different applications. Devolving administrative jobs such as processing expenses on-line can also liberate valuable staff for other more profitable projects.

3. Focus on goods or services that deliver greatest margin

The well known Pareto 80/20 principle suggests that 20% of your customer base provide 80% of your sales revenue holds true for many organisations. What it also reminds organisations of, is the importance of really understanding where the bulk of the revenue comes from and what type of business is delivering the greatest margin. Pinpointing pockets of profitability can help you to focus your efforts in these areas to win more of the same business, or even think about introducing new additional services that you could up-sell to existing customers.

4. Negotiate better terms with suppliers

Maintaining close relationships with key suppliers may help you to secure better pricing. Remember they will be keen to keep you as a customer so there will be some room for negotiation, although squeezing them too much may be counterproductive. Finding more efficient methods of buying could also make sense. E-procurement is an excellent cost-cutting tool and according to a recent report by The Aberdeen Group, using it allows you to save on average 5%.

5. Become more competitive & increase market share

Sure it's going to be tougher out there, but if you're chasing business then you just need to run faster and become more attractive than your competitors.

A holistic financial health-check can eliminate waste, decrease costs and assist you in devising a long-term strategy that will help you identify the most lucrative markets so you can prosper and grow even during a downturn. Take control of your finances and you can control your fortunes.

6. Beating the downturn - how can technology help?

- Real-time reporting can give managers better information to make more informed decisions and develop strategy that can deliver during changing market conditions

- Automated statements and reminders can improve cash-flow
- On-line expense management can save considerable man-hours
- Introducing electronic invoicing and payment can save time and improve liquidity
- Self-service accounting based on real-time browser-based portals can alert managers to keep within budgets
- Integrating your technology applications can remove time-consuming tasks as well as eliminate errors associated with re-keying data from one system to another
- 'Project accounting' software can highlight the rising 'stars'* and weed out the 'dogs'*

*Boston Consulting Group:

Definition of 'Dog' – low growth, low market share

Definition of 'Star' – high growth, high market share

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