

COUNT THE CAPITAL

There are ways to ease the burden of paying and getting paid.
Report: Kate Mills

● **Cash is once again king** As confidence has ebbed out of the financial sector, drying up credit along the way, companies will need to think of ways to maximise their cash position this year.

Cash flow or working-capital management has three main levers: receivables (debtors who owe you money), payables (the people to whom you owe money) and inventory (the amount of money tied up in sales products or parts still on the shelf).

In theory, each can be dealt with logically: a company wants to make inventory as small as possible, push out its payables as long as possible and collect what it is owed as soon as possible.

However, in practice, improving performance in any of the three requires trade-offs in other parts of the business.

Being able to keep inventory to a minimum is all about data. Essentially, the better a company knows its sales pattern, the better it can predict how much inventory it needs to meet demand. This requires a certain amount of investment in both software and time.

The managing director, Asia-Pacific, for business consultants The Hackett Group, Keith Robbins, says companies have not focused on inventory during the boom. The focus "has been on making sure you can maximise revenue in a growing market and having product out there to meet demand", he says.

His advice is for companies to reinstate a regular sales and operations meeting. "It's a simple meeting where the sales and operations teams get together to talk about the forecasts and the signals they are getting from their customer base so that the inventory is managed at the proper levels."

Simple, he says, "but you would be amazed at the number of companies that have let go of that process within their demand planning and inventory management".

The next lever that companies should look at is their payables and the terms of payments. Obviously, most companies want to push out their terms of payment as far as possible – say, from 30 to 60 days. Again, the ability to do this depends on where a company sits in the supply chain, with companies at the top having more power. Be aware that extended payment terms can upset suppliers and lead them to offer better terms to other clients, possibly competitors.

If a company is further down the supply chain, accepting pushed-out payment terms can play havoc with debt collection and cash flow. It can be difficult to resist the payment terms of a big customer, so if payment terms are changed, use it as a chance to renegotiate elsewhere, perhaps by asking the customer to buy more in return for accepting the new terms.

On the other side, a supplier could get on the front foot and offer reduced payment terms in return for the customer paying faster. This is a quick way to increase cash flow and is something that is happening more as the economy slows down, the chief financial officer at JB Hi Fi, Richard Murray, notes. "We are receiving increased offers of early-settlement discounts," he says. "People want us to pay them early so they have more cash on their balance sheet."

The final lever is debt collection, which is the most visible part of cash management. The impact of changing debt-collection practices in a company cannot be understated. Be aware that debt collection is not just about processes. It is also about culture. Typically, companies focus on sales, not on getting their invoices out on time.

The trick here is two-fold: one is to tie the sales team in to debt collection and the second is to raise the profile of the debt-collection team internally.

Tying the success of the sales team to successful debt collection gets the people in the company who have most contact with clients involved in making sure accounts are settled. A simple technique is to split sales commissions so sales people get half on completion of a successful sale and half when the bill is paid.

The other point is to make sure that the collections team has real clout. If your collections team is too junior, it will have no negotiating power internally to get the senior sales people on the phone to remind their clients about the bill.

This takes a change of mindset as, typically, collections specialists are poorly paid. The lesson is that if you want good debt collection then you have to have good debt collectors.

Points to remember

- **Managing inventory requires detailed understanding of demand patterns: make sure that beyond having the right technology to track demand, the sales and operations teams are in constant communication.**
- **If you can, push out your payables as far as possible, but remember that if you are too inflexible suppliers could go elsewhere. As a supplier facing extended payment terms, consider negotiating to get something in return.**
- **Debt collection falls to the wayside because the sales team, which has the most contact with clients, isn't involved in the process. Boost the profile of your collections team to give them more power internally.**

2

KEEP FIGHTING

Blog influence and viral marketing are smart tactics for the downturn. Report: Kath Walters

● There is never a better time to kick business rivals than when they are down, and one great tactic is to increase your company's marketing and advertising budget at a time when rivals are dashing the red pen through theirs.

Survivors of the last downturn had a common characteristic – they kept advertising and marketing through the bad times, research by accounting firm PriceWaterhouseCoopers shows. Yet media companies are predicting falls in advertising spending of between 24 per cent and 6.3 per cent across all media in 2009.

For companies planning to thrive through the slump, this is great news. Their ad dollar is more likely to be effective. "It is a less-cluttered environment for advertising," the chief executive of online marketing and search engine company Ansearch, David Burden, says.

Customers change their behaviour in a roccoon. They are less loyal and choosier. "Customers look for a bargain, they do more research and they look for better value," Burden says. The trick is to get them to switch to you, not away from you.

But don't slash your prices, the managing director of FutureBrand, branding expert Tim Riches says. "That is really dangerous."

Many Australian companies suffer from a lack of confidence about the value of their products and their brands. "They equate cheap and unadorned with good value," Riches says. "That is why Australian supermarkets are such horrible experiences."

A humble cup of coffee is great value if it is offered as 10 minutes of "me-time" in the middle of a hectic day rather than an overpriced beverage in a paper cup that takes a minute or two to knock back.

Online ads are expected to increase by 15 per cent next year. At the same time, newspaper ads may fall by 12.2 per cent and capital-city free-to-air television ads by 8 per cent.

Burden says online marketing trounces print ads because advertisers know precisely how many people click on their ad and pay only when they do so. To make customers click, companies must:

1. Continually test the search-engine words and creative ideas used in the ads.
2. Have a "customised landing page" on their website so that when customers click the ad, they reach the section with the special offer, not just the home page.

The latest trend goes beyond online ads to tap into the blogosphere's power to influence. Some marketing companies offer to map the influential bloggers relevant

to their clients' products or services. Air New Zealand recently engaged DraftFCB to promote an environmental trust it has established and wants to run on donations.

"Out of 1000 environment bloggers in New Zealand, we identified 19 of the most influential," DraftFCB's regional head of digital innovation, Stephen Johnson, says. "We invited four of them to visit a conservation project [partly] funded by the trust at Mangarara in Hawkes Bay."

Is this ethical? Some companies have come to grief when their marketing staff, posing as bloggers, are outed by real bloggers. "It all comes down to whether a business is willing to be transparent with its customers," Johnson says. "If they are, they are likely to be successful."

Californian brand aficionado Rob Reger is behind a viral-marketing success story for comic character *Emily the Strange*, a creation of San Francisco clothing company Cosmic Debris. Reger took the backroads to success with *Emily the Strange*, promoting her with stickers that ended up on bicycle helmets, lockers, wallets, cars and skateboards. It was a clever tactic that he used because it was all that he could afford at the time.

Companies facing the biggest risk in the slump are those in the middle of the market. In a recession, customers either want bargains or they want luxury. Budget products lure customers from mid-market products by suggesting they will not sacrifice much in order to pay less. The mid-market must lure buyers away from luxury by reassuring them their self-image will not suffer. "If I make clothes, my customers are paying for their self-image," Riches says. "It is about how they feel about themselves when their friends see them wearing my garment."

Don't cook your media-relations staff or consultant, media-relations consultant Marjorie Johnston says. Justifying her self-interest, she says: "Media relations is one of the least expensive ways to be noticed."

She advises two main approaches for getting editorial media coverage during the downturn:

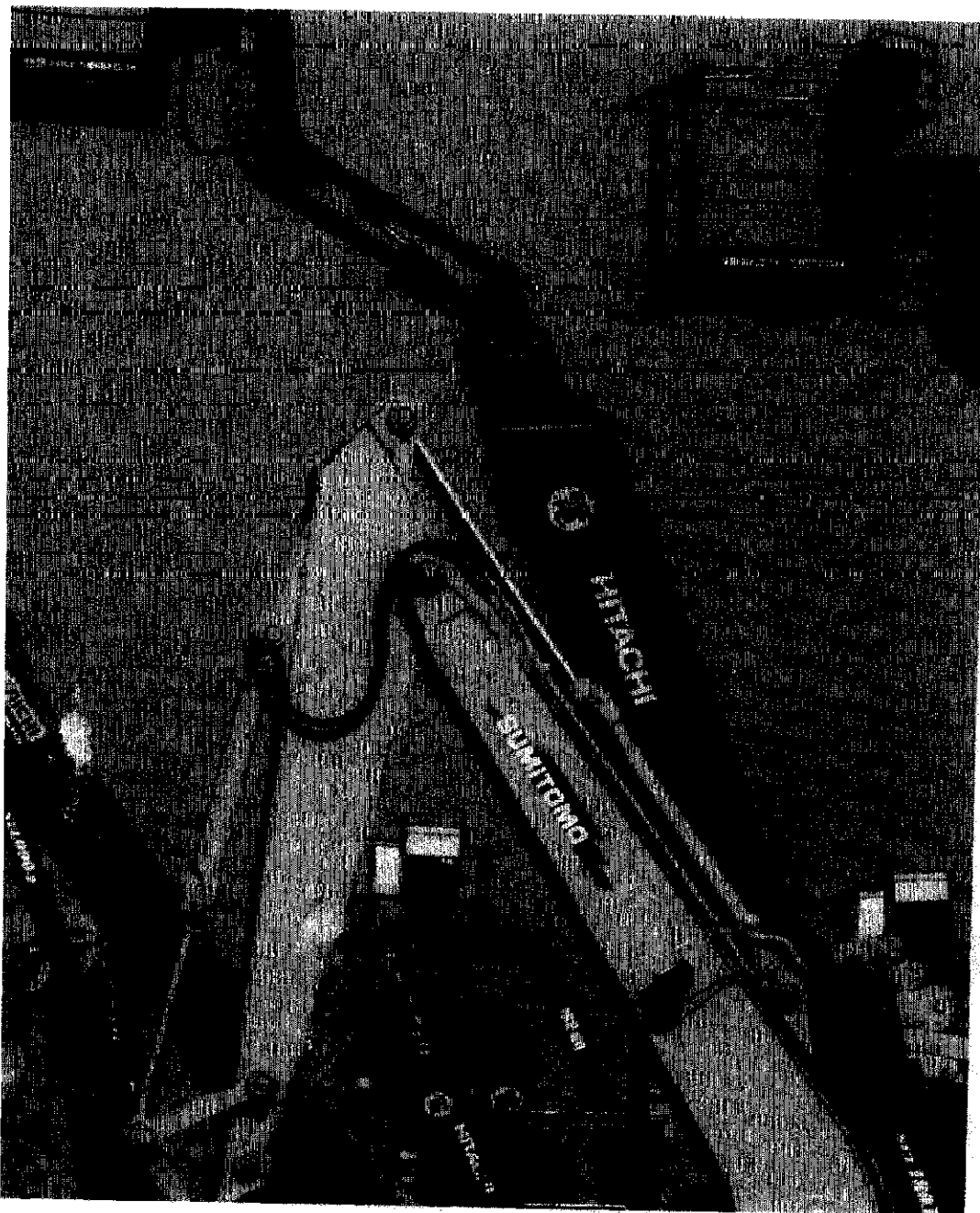
1. Be positive. The media is full of doom and gloom. Communicating something positive that informs the market can be noticed, especially if it is sector or industry specific.
2. Provide detail. The media is full of general information about the global financial crisis. Businesses should provide detail about an aspect of their sector or a commercial opportunity. Providing numbers and comparisons help.

3

BE PATIENT

The economic crisis will pass. The trick is to be ready for the turnaround.

Report: Jeffrey Hutto



If luck happens when preparation meets opportunity, Brisbane engineering consultancy Cardno has it in spades.

Cardno, which advises on infrastructure and international development programs, closed on September 15 – two days before investment bank Lehman Brother's filed for bankruptcy protection – to pay \$US40.4 million (60.6 million) for transport engineering company TBE in the United States, boosting sales by 15 per cent from its government maintenance and planning contracts.

Two weeks later, the Australian dollar fell almost 20 per cent against its US counterpart. Thanks to TBE's municipal, state and federal clients in the US as well as its 450 staff, Cardno may be able to tap the billions of dollars that President Barack Obama's administration

will lavish on new bridges and roads to pump prime the world's biggest economy.

What is the moral of the story? Never stop the search for expansion opportunities – even in a downturn. And if you find them, look them over carefully, picking the best time to make a move, Cardno's managing director, Andrew Buckley, says. "Sometimes the hardest thing to do is wait. We adopted a cautious and measured approach."

For many businesses, setting the ground work and waiting is all they can do until equity markets settle.

Between then and now, property investor Trinity Group, which has \$1.5 billion of real estate assets under management, is searching for bargain parcels of land that it can later subdivide for homes as well as buildings with

steady tenants until buyers feel confident enough to part with their money again.

The cheap dollar, which has fallen by as much as 38 per cent from its highs, and low interest rates relative to rental income will eventually bring investors out of the woodwork, Trinity's chief executive, Ben McCarthy, says.

"Our currency is seen as cheap and there is a growing spread between property yields and interest rates," McCarthy says. "There is a reasonable chance for people to make money."

Many investors do not share his optimism. Trinity's shares fell by more than 80 per cent last year compared with a 45 per cent slump in the S&P/ASX 200 as investors rushed to bigger equities they perceive as more stable. Cardno's share price has fallen by 57 per cent.

Still, McCarthy remains confident. "The recovery will happen when it happens," he says. "We'll have ourselves ready and be able to execute as soon as there is some international investor that's ready."

Scouring the landscape for bargains is reaping rewards. Trinity's profit jumped by 43 per cent to \$34.5 million in the past financial year. Cardno's profit during the same period soared by almost half to more than \$27 million on a similar jump in sales.

Cardno worked for six months on its TBE takeover, borrowing in US dollars to make the acquisition. While this pushed up debt to about \$50 million from \$10 million as of June 30 last year, it is still 20 per cent of its \$245 million market capitalisation. The company based repayments on income from the TBE unit.

Its other takeovers last year included Perth engineering consultancy Buckland Engineers, which helped it to tap the market for testing mining and construction materials when the rush for commodities and energy resumes.

In the past five years, Cardno has expanded into consulting on international development projects, which now make up about 30 per cent of sales. Projects include a \$3.9 million deal funded by the Asian Development Bank to help oversee the construction of roads and bridges in the Solomon Islands. In January, the company finished a \$US26.5 million contract with the Red Cross and Red Crescent to help plan and supervise the construction of 600 houses in the Maldives following the 2004 tsunami.

The Maldives project includes plans for new communities including sewerage systems, telecommunications and schools.

As well as consulting on infrastructure, Cardno, whose biggest client is government development agency AusAid, advises on social needs. The company's projects include consulting on the training and development of Papua New Guinea's police and judicial system.

The work, which tends to be resilient to business cycles, may get a further boost from the election of Obama as his administration cements ties with overseas aid, Buckley says.



RETAIN TALENT

Attracting and keeping promising people is critical in a downturn.

Report: Leo D'Angelo Fisher

● Debt collector Baycorp is six months into a new program that identifies the skills and attributes of its best staff so that it can recruit more people like them – and keep them longer.

Amid the swirling economic crisis, demand for Baycorp's services is rising, but collecting outstanding debts from distressed individuals and businesses in this climate is easier said than done. "There's more work, but it's harder work, so our selection process has to be smarter, and our commitment to existing staff has to be more visible," the chief executive of Baycorp for Australia and New Zealand, Geoff Harper, says.

Baycorp employs 400 people, most of them in call centres, and steady staff turnover is the norm. The company wanted to find out more about its top performers before they left. "We wanted to know about the characteristics of our successful employees and convert that information into a recruitment profile of the people we need to build our business," Harper says.

The profile building, conducted by external organisational psychologists, is behind new induction and staff training programs, better career paths and better remuneration structures.

"We're saying to our good people, we want you to know that we value you and that you have a future with us. The 24-year-old kid who is just moving around and making a buck may not want to move within the organisation, but he should know that the potential is there."

Attracting and retaining talent is a critical factor for organisations aiming to navigate the choppy seas ahead. Top-performing executives will be quarantined from job cuts but, in most cases, they will be required to implement them, as well as steer companies through the downturn.

A study by human resources group Hewitt Associates found that 90 per cent of companies in Australia have strategies for high performers. Another survey by HR consulting firm Hay Group found that although salary increases for

all employee groups in Australia are expected to fall from an average 4.5 per cent in 2008 to 3.8 per cent in 2009, salaries for top-end high-performing staff will increase from 11.3 per cent in 2008 to 15 per cent in 2009.

As layoffs increase and unemployment climbs – Australia's jobless rate in December 2008 hit a two-year-high of 4.5 per cent – companies are contemplating not just cuts, but who to retain.

Organisational psychologist and managing director of HCA Consulting Group, Helen Crossing, says retaining top talent is critical in a downturn, but organisations will also be able to "cherry pick" top talent from organisations unable to retain their best employees.

Restructuring is also an opportunity for companies to redesign jobs to better utilise promising management talent and provide them with the incentive to stay. "It's a chance to do some interesting things by adding some complexity and more responsibility for talented young managers," Crossing says.

This could involve giving managers responsibility for building a business unit or increasing the size of the team they are leading from 10 or 20 people to 50 or 100 people.

Talented managers who have felt hamstrung by blocked career paths will feel more inclined to stay with an employer if there is access to higher levels of responsibility.

However, Crossing also warns that many young managers will need some guidance. "Many young and relatively inexperienced managers will be facing their first serious downturn and they've never experienced this degree of difficulty," she says.

Crossing believes coaching and mentoring will play an important role in developing the skills and competencies they require – including the ability to manage workforces nervous about their prospects in a downturn.

The director of professional services at HR consulting firm SHL, Eric Wilson, says that in volatile times, employees require honesty about job prospects, motivation and job security.

By job security, he does not mean guarantee that jobs will be safe in the downturn, but the assurance that redundancies will be a last resort, that staff will be kept informed, and that they will be given the chance to contribute to decisions about their employer's future.

Wilson says many companies will employ "a bunch of HR claptrap" to keep staff motivated, "but employees don't want airy-fairy motivation they want honesty and straight-talking" from their employer. "They want to see that their CEO is fighting to preserve their jobs and not just treating them as cannon fodder," he says. "Employees know that the best way of protecting jobs is to protect productivity and profit."

Organisations that show leadership in managing uncertainty in their workplaces will reap the rewards of a motivated and committed workforce, Wilson says.

5

GET A LOAN

Credit may be tight, but it is not impossible to obtain. Report: Anthony Sibillin

● Credit is still tight for business owners. Business lending is growing at half the rate it was a year ago. Forty-three per cent say this is having a negative impact on their business, the January 2008 D&B National Business Expectations Survey shows, up from 26 per cent the month before.

Banks "have definitely" tightened their lending criteria, the national president of the Finance Brokers Association of Australia, Peter White, says. "There is no argument about that."

So how can business owners overcome those difficulties? First, by strengthening their relationship with their bank. Banks are giving existing customers first dibs on the money they do have available to lend – this is no time for a business to knock on the door of another bank unless it has to. If business owners are "happy with their current arrangements then, in this environment, stay happy," White says.

Of course, there are no guarantees even for familiar faces. Much depends on the reason for new borrowing. Banks are still eager to finance

new franchises based on approved models, Adrian McFedries of franchising consultancy DC Strategies says. "Talk to the franchise lending teams and they've never been busier."

Eyewear maker and retailer Luxottica found three of the four big banks willing to approve its franchise model for the OPSM, Budget Eyewear, Laubman & Pank and Sunglass Hut chains, launched in the middle of last year.

However, banks are less than eager and generally unwilling to back even proven independent entrepreneurs. For entrepreneurs and business owners with no choice but to enter the fray, shop around, advises the chief executive of financial-comparison website infochoice.com.au, Shaun Cornelius. "It is definitely worth shopping around for the lowest rates and fees."

Loan rates also depend upon the security provided by the business borrower. For example, Suncorp's business loans secured by residential property are priced 0.15 percentage points lower than commercially secured loans.

"Business can also save up to \$600 on annual and application fees by selecting the best product," Cornelius says. "Annual service fees can be as much as \$360 while some banks do not charge any annual fees."

"Monthly service fees range from zero to as much as \$20, with some providers waiving fee if a minimum balance is maintained."

Banks, building societies and credit unions are not the only options for businesses seeking credit. The credit crisis has sunk many, but not all, alternative lenders. JPMorgan, for one, is wholesaling loans to local business brokers, including White's own business, Avan Commercial, at a competitive rate of 7.76 per cent (secured against commercial property).

Working-capital financing is another source. Businesses can borrow against money owed to them (debtor financing) or their inventories (inventory financing).

Yet another option is to approach investors directly. While this can be daunting for owners of small and medium enterprises, outside assistance is available. The Australian Small Scale Offerings Board, for one, helps unlisted SMEs raise between \$200,000 and \$3 million.

If all else fails, business owners can try to persuade better-off suppliers to become their bank. This is what some technology vendors are doing for cash-strapped local customers. Dell, IBM, Microsoft and HP, among others, are extending interest-free financing to business customers, and even offering to play "hedge fund" by absorbing the adverse impact of the falling dollar on software and hardware costs.

White insists businesses in the market for money in 2009 have a positive story. "Everybody who is still surviving, has gone through the hard yards. They've had their test of fire and brimstone, and they've survived, and they are here to stay. They are clients you want to be lending to."

CREDIT IT: BEST BANK DEALS FOR SMALL BUSINESS LOANS

Institution	Product	Variable rate %	Application fee	Yearly service fee
Heritage Building Society	Fully-drawn loan	7.70	1%	\$120
Community CPS Australia	SmallBiz investment loan	7.74	\$595	n/a
AMP	Classic variable rate loan	7.87	\$600	\$120
BananaCoast Community Credit Union	Commercial/business loan	8.00	\$0	n/a
Citibank	Commercial standard variable <\$500,000	8.26	0.25%	n/a
Members Equity Bank	Residentially secured business loan	8.58	0.50%	n/a
Westpac Banking Corporation	Business loan – residential	8.69	\$820	\$120
Savings & Loans Credit Union	Business loan	8.86	0.75%	\$100
Adelaide Bank	Business mortgage loan	8.99	\$600	n/a
Commonwealth Bank	BetterBusiness loan	8.99	\$600	n/a
ANZ Banking Group	Business mortgage loans	9.07	\$600	\$360
National Australia Bank	NAB business options instalment loan	9.28	\$600	\$360

Source: Infochoice.com.au Current as at December 8, 2008

6

SEEK HELP

Experience and insight are available on a personal level.
Report: Rowena Ryan

● Feeling alone, scared or unheard? Maybe it's time to delve into the world of mentors and coaches for personal and professional direction. A business mentor or coach is proving to be an increasingly popular option for knowledge, advice or experience to draw on.

"In business, you can either create your own path and make your own mistakes or you can have the helping hand of someone who has been there before," says Suzi Dafnis, general manager of Australian Businesswomen's Network and organiser of a six-month structured mentoring program called MentorNet.

ABN runs the weekly internet program built on social media and networking. Women can blog as well as be part of closed-door online communities and collaborate on a wiki that allows its users to add and edit content.

Dafnis believes mentoring "is not a career, it's a mind-set", matching people by their needs, not their industry.

"If you are great at numbers but fall down

in marketing then MentorNet will find you a marketing guru," she says. "Mentoring is about tapping into someone's experiences and tapping into their networks."

The director of Cheeky Food Group, Leona Watson, who became a mentor two years ago, believes mentoring is about understanding the reasons why a person is not getting where they want to go.

"Often the issues are personal as much as they are business-driven" she says. "Fear in growth and success, as much as the fear in not having it" is a common emotion expressed by business entrepreneurs. "This is across males and females, it just comes out differently."

For Watson, mentoring is beneficial in that it often raises topics she should be considering in business. "I can hear myself saying things to people and thinking I need to do that," she says. There is also the satisfaction in watching those mentored succeed in their goals.

For those who are established in business,

7

BE CANDID

Retain business clientele through vigilance, flexibility and straight talk.

Report: John Stensholt

● Coffee wholesaler Phillip Di Bella opens the doors of his Brisbane premises at 3pm every Friday to anyone – customers, clients, the public – who wants to come along and find out what is happening with his business and in the coffee industry.

It is part of his strategy of looking after customers. "I want to make sure there are no surprises for them," says Di Bella, owner of Di Bella Coffee.

"Anyone can come along and see what we are doing with our coffee, talk about how our business is

going and discuss current trends." The number of attendees may fluctuate but every week the doors are open.

Di Bella says his customers know exactly what his strategy is, what prices he intends to charge and the terms of payment.

"[They] know that our culture is always to keep them informed and they also know I will never change my [profit] margin

The last thing his customers want at present is to have sudden price changes thrust upon them Di Bella says.

He constantly leans on his suppliers to give him two months' notice of any price changes so

Coffee culture: Di Bella roasting warehouse, North Melbourne

a coach can be an alternative to a mentor. A mentor provides advice and direction. A coach tends to be non-directive, providing support and building on available skills to achieve goals. Choosing either a mentor or a coach depends on the needs of the individual.

The founder of coaching consultancy Clyderhowe, Mike Howorth, uses a bike-riding analogy to describe the difference between a mentor and a coach.

"A mentor will get on the bike and show you how to pedal," he says. "A coach will join you once you're on the bike and ride alongside you."

A typical coaching session consists of identifying the problem, and using open questions such as what, how and who. "You need to establish the real truth to self-generate the answers to their questions," Howorth says.

Self-help has become more acceptable in Australia, he says. "It's not perceived to be weak to say you've got a coach - it's someone who's healthy."

he can then give four to six weeks notice to his customers. "I make my suppliers accountable so I can keep my customers informed."

The strategy is particularly important in a time of economic uncertainty. Customers want to be confident their suppliers are, at the very least, going to stay in business - as well as wanting plenty of notice of changes.

Retailers and service providers have to be especially vigilant in looking after their customers, particularly those in industries that depend on consumers' discretionary spending.

Eight Hotels Group chief executive Paul Fischmann says he is redoubling his efforts to ensure his boutique hotels are offering the best price possible.

"We are doing a lot of internal things like keeping costs down and going through every line item on the balance sheet," he says. "That means we can offer lower prices for our rooms."

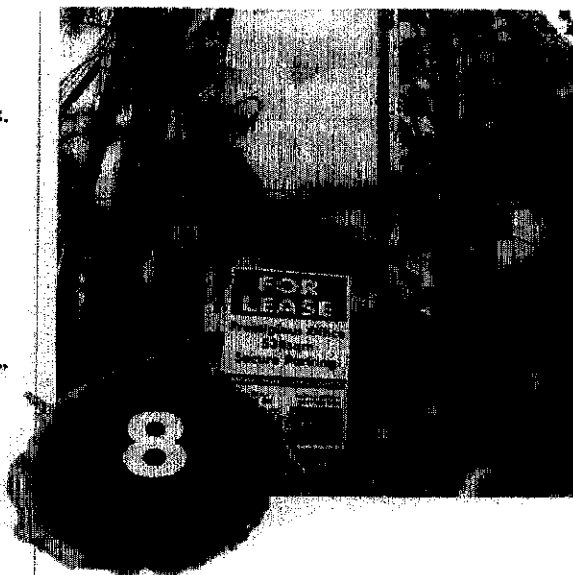
"And we think there will be more customers coming down to our price level, those who have previously stayed at more expensive hotels. We have to make sure we look after them especially well ... because if we impress them now we hopefully capture them for life."

Flexibility in dealing with payments is another recommendation of small business owners.

Di Bella has told his customers they can have more time to pay their bills as long as their next orders are paid for in cash on delivery.

Victorian regional accountant Steve Di Petta, a member of the *BRW Young Rich*, says for the first time he has had to call clients who have gone past their payment-day terms and offer them alternatives such as paying by credit card or by instalment.

Di Petta says customers always have to be treated well, no matter how large or small. "Put it this way: I treat every customer as if they are James Packer."



CHASE INCENTIVES

Tenants should re-evaluate their premises. Report: Ainslie Chandler

● Like many things in the past year, the property market has shifted markedly, this time in tenants' favour - which makes now a good time to consider options on business premises.

Vacancy rates are increasing in central business district and suburban markets as employment levels fall and businesses collapse. Some companies are looking to sublet space as they shed staff and cut costs. Falling asset prices are also putting pressure on building owners who are seeking to shore up their leasing portfolios to retain as much value as possible.

While businesses are reluctant to take on new leases or expand their accommodation before determining which way the economy is headed, landlords want tenants to sign longer term leases - meaning savvy businesses can seek incentives, such as deferred rent or rent-free periods.

Property Beyond director Mark Daniel says that because of the competition for tenants, some businesses with a few years left on their lease can benefit by asking their landlords for a longer term lease on more favourable terms.

"Landlords will have heightened anxiety and businesses may be able to take advantage of that," the managing director of property consultancy Charter Keck Cramer, Scott Keck, says. "Opportunities could emerge."

When considering accommodation needs, professional assistance can help cut costs in the long run, Keck says. There is often a lack of understanding about property at a middle-management level so some topics are not addressed and "often, property is grossly misunderstood" and rental reviews, insurance or capital management often mismanaged.

CB Richard Ellis's senior managing director of global corporate services in Australia and New Zealand, Peter Messenger, says tenants need to be aware when their next rent review is due because if rents are falling landlords are unlikely to invoke the review. Landlords may also try to raise rents in a falling market. "The owners could be going for a rent increase that is unjustified - the rent may actually be lower than what they're paying because the market has turned down."

It is essential that businesses take the initiative if they are in financial trouble, Messenger says. "Go in and tell your landlord that you're struggling or you need to reduce space ... the landlord would rather have a tenant than have someone go broke on them."

Keck says businesses should consider keeping their property arrangements flexible so they are better equipped to cope with a rapidly changing operating environment. "What might have been an appropriate business premises even as recent as 10 years ago may not be an appropriate business premises going forward. Their proper needs are likely to change fairly frequently and for this reason they are better to be structured into renting property where they can move in and out without all the capital costs."

Daniel says businesses need to think about their accommodation needs in the long term and should consider how much space they will need if business picks up again.

When a business owns its premises, it is important to understand whether the company is getting a good return on the investment or if the capital could be used elsewhere, Keck says. "What they should be looking at very carefully now is what debt they are carrying on property that they may own."

Businesses should assess their needs and, if they see a benefit to selling property assets, do so before they are forced to so that time can be taken to achieve a good price, he says.

"If their business cash flow comes under pressure, or if their debt in general comes under pressure, property would be one of the things that they'd have to sell first."

Things to consider:

- Are you paying a fair market rent?
- Do you have a rent review coming up?
- Do you need all the space you occupy?
- Are your premises suited to your needs?
- Are you struggling to pay the rent?
- If you own, is it time to sell?

9

STOP WORRYING

Take a good look at existing business plans and create targets. Report: Jeanne-Vida Douglas

It was a difficult quarter for the managing director of Micromine, Graeme Tudor. After expanding the business by 60 per cent in 2008, the mining software company had a lot of orders and increased staffing levels in preparation for another bumper year.

Then credit markets froze, the stockmarket swan-dived and commodities tumbled from record highs. All this left smaller mining companies scrambling for investors and larger companies putting projects on hold until business sentiment and commodity prices recover.

"We haven't had much cancelled outright but a lot of projects have been put on hold until further notice," Tudor says. "So while we were ramping up for another year of strong growth, we're now restructuring to focus on growth markets."

With work still coming, but not at the speed which had been expected, Tudor has had to put off staff and redouble efforts in markets such as China, Russia and Brazil, where demand has softened only slightly.

"There is work on and we will grow next year,

but just not in the way we had planned," Tudor says. It is a nice problem to have, given many Australian businesses are facing a significant slowdown in demand, and perhaps even negative growth, through 2009.

The first thing business owners need to do is to stop worrying and take a well-considered, pragmatic look at their business plan, business coach and author Louise Woodbury says.

"We can easily buy into the fear of the future but what we actually need to do is take a step back and look for the opportunities that are created in times like this," she says. "I'm advising people to take a very deliberate approach to their business plan, to create a target for the next 12 months and divide it into opportunities which can be turned around in periods of 12 weeks."

Rather than looking frenetically for new business, Woodbury suggests managers concentrate on existing clients and contacts, and look for ways to ensure that these relationships survive the economic storm. In a similar vein, she suggests avoiding staff cuts wherever

possible, thus avoiding losing the experience and relationships skilled staff take with them when they leave.

"Times like this are a real wake-up call for businesses to assess the resources they have available," she says. "Now is the time to get the whole company aligned and focused on a common goal and a common purpose. The businesses that survive in times like this are the ones that take the time to focus on the challenges, create a plan to get through and take the time to inspire staff as well."

As liquidity, margins, productivity, expenses, input costs, payment terms, profit-to-loss ratios and staffing are all reassessed, business coach Anne Sorensen says cash flow is the one area in which managers need to pay particular attention. "Reviewing payment terms and ensuring projects are deposited are a couple of simple ways to facilitate cash flow in times like these," Sorensen says. "Build on relationships with existing customers using cost-effective tools such as e-newsletters."

Having survived two macroeconomic downturns and a GST-induced spending slowdown, Eagle Boys Pizza chain founder Tom Potter says business owners need to move quickly to rewrite their business plans to focus on new spending patterns. "People will still be buying food, but rather than spending \$60 on

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START COUNTING

Reducing supply-chain costs can transform an also-ran operation.

Report: Anthony Sibillin

● "Fundamentally evil" is how Tim Cook, chief operating officer of Apple – the United States consumer-electronics company known for sleek gadgets, not a slender supply chain – describes inventory.

On Cook's watch, Apple holds just 10 days of total inventory. This, and not just the high price of iPods and iPhones, is why Apple has a 16 per cent profit margin, twice that of rival HP. It is also why businesses are being urged to be more like Apple to see out a tough year ahead.

Transforming an also-ran transport, purchasing and warehousing operation into an industry-beating one can halve supply-chain costs as a percentage of sales, a partner at Melbourne supply-chain consultancy GRA, Carter McNabb, says. "A lot of businesses, when things get tough as they are at the minute, often look at short-term fixes," he says. "They reduce headcount, freeze expenditure or don't run promotions. But if they do things smarter in the supply chain, there is typically quite a bit of opportunity there. And the reason being is that supply chains, by their nature, are complex – lots of transactions, lots of products, lots of locations, lots of customers – so most businesses tend to manage their supply chains with reasonably unsophisticated approaches."

A common example is to manage inventory by holding a supply of stock, based on historical demand. "The problem with that is it is an averaging technique," McNabb says. "You end up with too much in some lines and too little in others."

A better approach is to exploit advances in supply-chain planning, optimisation and execution technology to work backwards from a service-level goal for satisfying customer demand, he says. "[You] typically have an opportunity, from an inventory perspective, to extract a fair amount of cash and return it to the business, while at the same time improving stock availability or level of service."

Good times tend to divert management attention elsewhere, notes Salil Parekh, Asia-Pacific head of Capgemini, a business-technology consultancy. "There was so much growth to be had in the last three or four years for companies at large, there was great focus on time to market and catch-up with the growth; less on efficiency," he says. The trouble is that since growth has stalled, management has the attention but not the spare cash to devote to the supply chain.

McNabb's rule of thumb is that businesses turning over \$50 million or more annually should beg, borrow or steal to buy the necessary tools, given the potential gains. For smaller businesses, it depends on what they do. So even a \$25 million-a-year logistics business should keep putting advanced warehousing and scheduling systems high on its to-do list.

There are things all businesses can do at minimal cost. One is renegotiate supplier contracts. Online auctioneer GraysOnline.com.au recently consolidated multiple delivery contracts into a single one with Australia Post.

Another is to review existing production and distribution arrangements. Would making a certain product in a different workshop save money? Would another warehouse cut delivery time? "When you are dealing with transport, inventory or operating modes, don't have to do much other than change your decision-making process with better information, and that can yield very significant benefits," McNabb says.

Importantly, these benefits don't have to come at the expense of others along the supply chain. As Simon Harper, Amit Kapoor and Marco Kesteloo of consultancy Booz & Company write in relation to the retail sector: "too often, buyers walk away from a negotiation feeling successful, unaware that their victory may well have been compromised by their failure to deal with issues that can have much more impact on retailer and supplier profit such as in-store availability. The shelves still won't be stocked and what seemed like a highly profitable day's work is actually only a slightly larger share of a smaller pie. By contrast, building holistic relationships with select suppliers across the value chain that can create higher revenue and lower costs than the old haggling habits requires collaboration and cross-functional participation."

Capgemini Australia managing director Paul Thorpe says collaboration across and within sectors is the way to make more out of investments. "The amount of technology out there is incredible," he says. "But what has not yet happened is the interconnection between different segments of the economy." For example, Capgemini, together with leading global retailers and manufacturer such as Tesco, Johnson & Johnson and Nestlé, are investigating the idea of "collaborative transport" as a way of reducing truck movements and cost.

The challenge is to put some urgency into supply-chain management, Cook says. "You kind of want to manage it like you're in the dairy business. If it gets past its freshness date, you have a problem." **BRW**

family meal, they will be looking at maybe \$20 to \$25," he says. "The companies that will do well will be those that provide a friendly option in this price bracket. The ones that don't get into that zone will either lose customers or will have to change in some other way to survive."

Predicting that the current economic malaise is likely to last at least two years, Potter suggests businesses redraft their plans with a mid-term outlook that accounts for a different profitability equation than in previous years. "Let's say you're making profit on 70 per cent of your stock and breaking even on 25 per cent," he says. "You may need to shift that ratio to 60 per cent profit, 40 per cent break even just to keep customers walking through the door."

In the current climate, consumers are actively looking for less-expensive options and will shift their allegiance to whoever caters to their financial constraints and respects their wants, Potter says. Ideally, businesses should have a few different plans, beginning with a worst-case scenario through to more favourable markets.

"The crowd is looking closely to what solutions are being offered and at what price. Businesses need to adjust to their requirements or lose them. The bottom line is unless you have a really high-end proposition you need to respond to where the market is headed and be prepared to reassess your strategy regularly as the market changes."

