



# Top tips for businesses during the economic downturn

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## Introduction

You can't listen to the news, read a newspaper or browse the Internet without coming across stories about the effects of the current economic slowdown, jobs carnage and credit crisis. According to the media there is no end in sight and the situation is likely to get worse before we see any genuine signs of recovery.

While it is true that not all businesses are laying people off - some are actually taking on new staff - the overall outlook indicates tough times ahead. Many business owners are not sure what to do and most have no previous experience of surviving an economic downturn.

This is a recession not a depression. Downturns are cyclical and not permanent. The slump will not just go away if we ignore what is happening, but there are plenty of things that business owners can do, and should be doing now, to ensure they are still trading when the situation improves.

Here is our guide to planning, preparing and making your business operate more efficiently to help you ride out the recession.

## Controlling costs

Controlling costs is vital in any business, regardless of size and regardless of the state of the economy. In difficult times it is essential to identify ways to cut costs and take action as soon as possible to improve your prospects of survival.

### Human resources

Reducing staff costs is a difficult process to implement properly and can raise a range of legal issues. However, in a slump you may need to review your firm's staff costs and you should start by asking the following questions:

- Are staff fully occupied or can they do more?
- Does the role they were employed for still exist? If not can they do other things?
- Are there roles in the firm that are necessary, but don't require a full-time staff member?
- Have you considered contractors or freelancers for some tasks? This may be more cost effective.

### **Utility bills**

It pays to shop around for the best deals on mobile phones, electricity, gas, broadband, etc. Check comparison websites to find the suppliers that offer the best value for your business.

Utility Watch ([www.utilitywatchuk.co.uk](http://www.utilitywatchuk.co.uk)) reviews the phone, mobile phone, gas and electricity services on offer to businesses and uses its buying power to try to offer better deals. It provides free quotes for new prices and tariffs and users can sign up to a newsletter service.

Moneyfacts ([www.moneyfacts.co.uk/business](http://www.moneyfacts.co.uk/business)) helps you to compare business banking, gas, electricity and phone providers to help find the best deals, depending on your particular circumstances.

The Make It Cheaper website ([www.makeitcheaper.com](http://www.makeitcheaper.com)) helps you to search for the best deals on gas, water, mobiles, landlines, broadband and insurance to suit your needs.

North East Chamber of Commerce (NECC - [www.necc.co.uk](http://www.necc.co.uk)) provides contract negotiation on gas and electricity services as well as access to funding and advice for reducing energy consumption.

The Broadband Expert website ([www.broadband-expert.co.uk](http://www.broadband-expert.co.uk)) enables you to compare your current broadband service with market competitors and calculates how much you would save if you switched provider. There are also comparison sections for business broadband and broadband services compatible with Apple Macs.

### **Professional services**

Try to negotiate better rates or find cheaper alternatives for your professional services including market researchers, lawyers, accountants, surveyors and insurance brokers.

### **Office supplies and spares**

Look at the stocks you hold and you may be amazed how much inventory is sitting in the stationery cupboard. Are you buying wisely or over-buying? Can you shop around for more competitive deals for the things you use the most or high-value items such as printer cartridges?

### **Office services**

Review the costs of office services such as cleaning and buildings maintenance to see if you are getting the most competitive deal.

## **Premises**

If you are coming to the end of your tenancy agreement or looking for premises for the first time, think carefully before you sign up to any major commitments such as taking on a new long-term office lease. Consider whether you can run your business from home. If not, shop around for the best deal. You may be able to negotiate a rent free period or monthly payments in advance.

## **Travel**

There are opportunities to cut the costs associated with business travel. Reduce costs by shopping around for travel offers and self-booking rather than using travel agencies. If face-to-face meetings aren't absolutely necessary consider web and phone conferencing instead.

See [www.dimdim.com](http://www.dimdim.com) as an example of a free web conference tool.

Adopting a low-cost mentality in your business and continuing this in the longer term should help keep your business lean. With good cost control and management this will help you to trade more profitably.

## **Improving cash flow**

Every business needs to ensure it has a steady stream of cash to pay the bills and keep the enterprise ticking over. Controlling cash flow is even more critical in an economic slowdown because you may have to cope with circumstances such as late payments from your customers. Identifying and addressing cash flow issues quickly and effectively is essential to avoid problems before it is too late to resolve them.

Poor cash flow management is one of the main reasons why new businesses in the UK fail. During an economic slowdown many lenders take a closer look at their lending criteria. They will review your business's financial operations and your plans for alleviating cash flow issues in much more detail, and more critically.

### **Ten tips for managing your cash flow effectively**

1. Agree terms and conditions of sale up front and stick to them. Include your payment terms on your invoice and establish debt collection procedures.
2. Send the invoice as soon as the work is done. Follow it up with a phone call to make sure that it has been received and find out when you can expect payment.

3. Offer incentives for prompt payment. They will improve your cash flow but make sure you cost them carefully to assess their true effect on your profitability.
4. Have a good collection system in place and make sure you follow your procedures when collecting debts.
5. When customers fall behind chase up late payments rigorously, record all conversations you have and save all e-mails you receive regarding the payment of the invoice. You should also set targets regarding debtor days or collection amounts. See the Better Payment Practice Group for sample letters and forms to help chase payment - [www.payontime.co.uk/collect/collect\\_letters.html](http://www.payontime.co.uk/collect/collect_letters.html).
6. For more difficult cases consider using a debt collection agency to recover your payment. Remember you can charge interest on late payment of invoices. See the Credit Services Association for a list of debt collection agencies - [www.csa-uk.com/csa/members-list.php](http://www.csa-uk.com/csa/members-list.php).
7. Aim to resolve disputes quickly and make sure you have copy documentation, such as proof of delivery, to answer any queries.
8. Consider financing options. Invoice finance can help with the funding of invoices and collection, and can advance up to 85% of unpaid invoices when they are raised.
9. Use a computerised accounting system so that you have a back-up of invoices/reports etc, and keep copies of orders, invoices and sign-offs from the debtor to validate that the work done has been agreed by the customer.
10. Suppliers - pay on time, particularly if you're a young business, as this helps to establish your credibility. Invoice finance can help with your cash flow and allow you to use the cash generated against your invoice to obtain prompt payment discounts from suppliers. To check the credit worthiness of a business follow the advice at [www.payontime.co.uk/collect/collect\\_creditworthy.html](http://www.payontime.co.uk/collect/collect_creditworthy.html).

The Institute of Credit Management, with the Department for Business, Enterprise and Regulatory Reform, have produced a series of guides to help manage cash flow, covering payment terms, invoicing, credit insurance, factoring and financing, chasing payment and what to do when a customer goes bust. The guides can be downloaded from [www.creditmanagement.org.uk/berrguides.htm](http://www.creditmanagement.org.uk/berrguides.htm).

## Increase your marketing

Studies have found that businesses that increase their marketing spend during a recession achieve greater rates of growth, higher sales, competitive advantage and enhanced brand reputation.

However, normal rules still apply, and simply increasing your marketing budget doesn't necessarily bring success. Marketing has to be cost effective and deliver a measurable return.

- Target your efforts carefully. If necessary, reduce the breadth of your marketing to focus investment on your most profitable products, your highest spending customers, and your best prospects.
- Don't allow budgetary pressures to erode your brand value and reputation. This often happens in a slowdown, but it could make a difference when customers compare you with your competitors.
- Don't implement a full marketing campaign without testing it first, however confident you are of success. Test everything on a small scale, measure the results, and scale up if it works. It can be helpful to test a number of different approaches to see which create the most interest and then focus more on those generating the most leads/success.
- Look for low-cost guerrilla marketing opportunities. Word of mouth and viral marketing can generate lots of buzz for relatively little investment. The Internet offers the opportunity to circulate a huge range of promotions and offers via e-mail and social networking. Humorous and quirky can work well, but discount codes also get shared and circulated.

The UK Small Business Marketing Bible ([www.ukmarketingbible.com](http://www.ukmarketingbible.com)) has hundreds of low-cost, easy-to implement marketing tactics for any business, no matter what they sell.

## Maintain service levels

During an economic downturn service levels may drop. Customers tighten their belts and spend less so their value to you falls. You have to work harder for each sale so you tend to spend less time on each customer. Workloads increase, and morale may decline; you may even have to lay people off. All of this can have a detrimental effect on your business.

Now, more than ever, your staff are your greatest asset. Motivating and encouraging them has to be a priority. In the short term, there's nothing wrong with explaining the pressures on the business and calling for extra effort. You just can't keep doing it over and over, for months on end.

Reassure them that the current climate will not last forever. Help them to see any new measures as an opportunity to gain ground on the competition and improve their own future. Explain what else you are doing to strengthen the business.

It is worth reviewing procedures and looking for areas of waste and unnecessary bureaucracy that you could cut. At the same time, ensure that you have sufficient training, procedures and reviews in place to maintain standards. Whilst training could be an obvious area to cut costs it can be used as an opportunity to develop your business and staff further by keeping informed about key legislation changes or sector developments.

Make sure all staff know what is required of them, and how they should treat customers complaints and that escalation procedures are in place to ensure that difficult problems are properly dealt with. Consider something like a monthly staff award scheme to reward examples of excellent customer service.

## **Preparing for the upturn**

Even though the economy is suffering now, there are some things that businesses should do to prepare for the upturn. You should take stock and review the areas of your business that need to change.

### **Products and service offering**

Review your products and service offering. Do they still make sense? Does your business still offer good value to your customers or have your offerings weakened?

By carrying out some market research and predictive analysis you will be in a better position to understand where improvements can be made, how competitive your offering is, new opportunities for demand, opportunities for diversifying and where additional value can be added.

Review the resources used to make your products. Is there unnecessary waste? Could improved technology help to make things more efficient?

## Some general tips

1. **Stick to a plan** - an indecisive knee-jerk reaction in a slowdown does not demonstrate the leadership your business needs. Clearly communicate what your plan is and stick to it.
2. **Avoid discount fever** - offer incentives but don't cut prices so far that you make a loss or face problems reverting to normal pricing when the economic situation improves.
3. **Focus on your core market** - The temptation may be to widen your market whereas focusing on getting more from your core market should be your priority.
4. **Reduce waste** - trim fat and any excess or non-essential parts of your business. You'll be leaner and more flexible.
5. **Don't panic** - remember, recessions are cyclical. Things **will** turn around.

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