



Business Management during a recession – the FD's perspective

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How are Finance Directors handling business management?

With the furore over expenses and Gordon Brown's leadership, an outsider could be forgiven for forgetting that we are in the midst of a very deep recession and many companies are running very hard just to stand still. It is at times like these that a shrewd Finance Director is worth their weight in gold ensuring we keep a firm grip on the purse strings whilst positioning our organisations to make the most of the upturn when it does eventually come.

Today's Finance Directors are under more pressure than ever. A precarious economy, increased regulatory requirements and investor pressure have projected them into the spotlight. At the same time, they face pressure to reduce costs, grow revenue, and ensure controls are in place to both prepare for growth and ensure minimal losses.

We asked Finance Directors what their priorities are for the business from a finance perspective at the moment and how these differ from a normal market. Some interesting trends emerged, with many respondents reacting in very similar ways.

Cash is King

As the global recession deepens, and although all areas of the business are coming under scrutiny, FDs are increasingly focussing on a single line on the balance sheet: cash. Those who used to focus on trimming expenses and growing sales are now looking for pockets of cash in their companies to build "internal liquidity" and batten down the hatches for tough times. This is the direct fallout from the ongoing credit crisis; it seems that even credit-worthy companies are finding credit more costly, if they are finding it at all. Keeping the banks 'on-side' is certainly seen as very important! There is a need to plan for deeper relationships with a wider variety of credit providers and banks as well as developing a better understanding of the financial exposure those partners may be facing themselves.

"The risk of non-payment has significantly increased, [...] in better times the risk was one of payment timing."

All the FD's we contacted made this their top priority ensuring prompt invoicing and collection as well as 'pushing the boundaries' on payments to suppliers. But finding the right balance is key as customers and suppliers of all sizes have been impacted by the downturn. That means that the FDs we talked to are finding a need to track receivables more closely than ever before, constantly assessing the viability of every customer, no matter how large they are, or how stable they seem to be. The same is true with suppliers - you can't afford to be surprised by having a critical partner in the supply chain fold unexpectedly. As one respondent put it:

"In the current climate the risk of non-payment has significantly increased, whereas in better times the risk was one of payment timing rather than risk of non-payment."

Weathering the storm

There has been a growing trend towards very tight short term management, as one FD observes: “managing the short-term becomes the focus and longer term strategic decisions where risk profile or financial return not evident are being shelved much more quickly. There is a make do and mend philosophy and the need to be on the front foot to avoid surprises and to mitigate against further trading downturns”.

The FDs in our network also have a strong emphasis on identifying the most lucrative areas, to “dig into the source of profit [to] which product groups and customers contribute most”.

This provides invaluable information on which to base key business decisions. More than ever there is a strong emphasis on robust and accurate MI and forecasting - an FD from the consultancy sector commented: *“Much more detailed review and judgement is now required”* now required. There is a much tougher review process around the likelihood of business coming in and more realistic views on timing of work. We now link investment decisions to business performance, and if the forecast is weaker than we expect, we are more likely than in the past to wait for [a] better pipeline before incurring significant cost”.

Budgeting cycles are being tightened; with market conditions remaining volatile and unstable, focused, short-term 30-and 60-day forecasts are seen as a more practical option to enable FD’s to respond to unpredictable changes in their business. Some of our FD’s say scenario planning is also seen as an extremely valuable tool during times of such uncertainty. Cash flow and demand forecasting are at the heart of this; what will receivables and payables look like next month? In six months? A year from now? What if demand falls off, what would we do?

Ready for the upturn

All this necessarily fosters a cautious and defensive approach to decision making with survival being the name of the game. But some of the FDs we talked to also recognise that the need for companies to invest in innovation is more important than ever and thinking of contingency planning for “Plan B”. There is a danger that the nature of today’s economy keeps many of us spending more time doing the same types of business with diminishing results. Just finding time to innovate can be daunting, however when the market improves it is likely that it will be very different from the one we knew before the recession. Those that take the time to innovate will steal a march on the competition and many of the FDs in our network recognise that, whilst fiscal discipline will keep you afloat, innovation is the key to future growth.

“Managing the short-term [has become] the focus”

A final word...

We are very grateful to all of the Finance Directors who took the time to respond to the survey and we would like to extend our thanks to you all.

We hope you've found this summary of our survey useful, and we'd love to hear your thoughts. If you would like to discuss the findings in more detail, or if you would like to suggest other topics for our survey, please don't hesitate to contact us.

Best wishes

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