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During Recessionary Times

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In my opinion, to manage recession, one has three main options:

1. Increase capital and cash flow by taking up more credit or loan facilities from a financial institution or from trade suppliers, while continue deploying the current systems, processes and procedures, hoping for the best to come soon;
2. Reduce running expenses and raise more capital by selling some of the assets, decrease the departmental budgets, and make employees redundant or make them work on reduced hours;
3. Invest in innovative systems, processes and procedures that would result in cost effective '*modus operandi*' in order to survive the recession and also to prepare the business organisation in a way that it would benefit from the recovery when it comes. In other words – to restructure and to find ways to become more efficient!

It is not the easiest task to decide which option is best for a business organisation during an economic turmoil, when demand for products and services decreases, cash flow would be at its worse and profit shrinking.

At face value, the first two options may look more feasible as they may both give prompt results, but what about their long-term implications?

For you to ponder!

- Taking up loans and credit facilities at very low interest rates on offer during a recession period is tempting. But what would be the effect on cash flow and profit when interest rates start to go up again and businesses will have to repay the loans and credit facilities?
- What would be the affect on the business of a firm, if the budgets for marketing, sales, operations, training, IT, R&D, and for the credit function had to be reduced?
- What would be the affect on the performance of a business organisation, if one had to divest or sell some of the firm's assets and resources?
- What would be the affect on the employees' motivation, if they had to be forced to work on reduced hours and some of them had to be laid off?
- How effective and efficient a firm would be when the recession is over, if the skilled and experienced people had to be laid off and probably they would end up working with the competitors?

These are the questions that one should address before choosing the strategy to manage recession.

I would personally suggest the longer, the tougher, and the most laborious route – the third strategic option - as I strongly believe that a recession is the ideal time to invest for the future, to ensure that the business organisation is in a state of readiness to capitalise fully when the economic and financial recovery begins.

A compendium of business studies contend that improvements in the internal systems, processes and procedures would result in better profit. And this also applies to the credit function. If we had to improve the way we grant and extend credit to our customers, it would probably attract more profitable sales, improve cash flow and ensure long-term profit.

Reichheld and Sasser conducted a study in 1990 and demonstrated that relatively minor improvements in customer defections can generate significant improvements in profit.

Using their same argument, I ask:

- What would be the result if we had to improve the processes and procedures that we currently deploy to grant and extend credit?
- What would be the result if we had to improve the invoicing system in order to decrease the number of disputes that we currently experience with our customers?
- What would be the result if we had to improve our internal communication system with our senior management team and with the other departments such as the sales and the distribution units?
- What would be the result if we had to improve our accounts monitoring processes?
- What would be the result if we had to improve the way we approach our customers when asking them for payment and treat them as our esteemed customers and not as our debtors?
- What would be the result if we had to employ effective measuring tools to assess the performance of the credit function?

Conclusion

During a recession, the secret lies in investing in what a firm already owns and manages. The recipe for future success is getting ready for when the weather gets bright and sunny again and not staying indoors complaining about the bad weather. When it is bad weather and you cannot get outside, take the opportunity to put your house in order, so when the right time comes, you will be well prepared to go out and gain competitive advantage in the market!

Josef is the Director General of the Malta Association of Credit Management and President of the Federation of European Credit Management Associations. He is also a credit management lecturer and coach.

He obtained his MBA from Henley Management College, Member of the Chartered Institute of Marketing (UK), and Fellow of the Chartered Institute of Credit Management (UK).

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