

# Managing Through a Recession

## - Some suggestions for Manufacturing SMEs

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## Themes

1. **Ensuring viability – Cash management**
2. **Strategic re-appraisal**
3. **Strengthening performance of key capabilities**
4. **There is no magic bullet**



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## 1. Ensuring viability – Cash management



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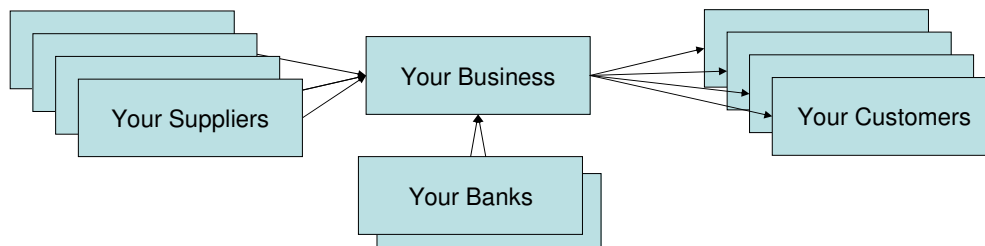


**Cash is crucial — if you're out of cash and out of credit, you're out of business**

**Typically, in a recession:**

- You can't rely on your banks for credit
- You have to look after yourself

**Cash must be managed across the business....**



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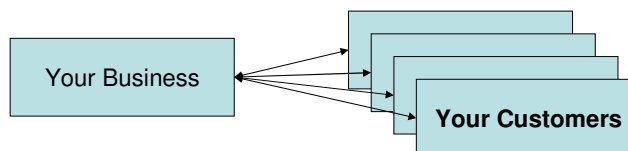


## Topics

- Customer cash management
  - Supplier cash management
    - Internal cash management
      - Working with your banks
        - Cutting costs within the business
          - Leadership
            - Managing the margin

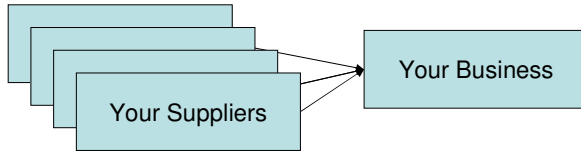
## Customer cash management

*Cash begins with the customer*



1. **Strengthen the customer relationship (at a higher level):**
  - Keep revenue flowing - Don't lose orders to competitors or "no-decision"
  - Keep cash coming in - Collect receivables on-time
  - Understand the customers' business / drivers - Tune your customer offer
2. **Closely monitor the revenue forecast**
  - Qualify the short-term forecast robustly - Avoid surprises, for you & the bank!
  - Quantify prospects for the medium-term and the underlying drivers
    - it will help you:
      - Advise your banks, based on sound information
      - Scale the business
      - Plan for the upturn
3. **Develop new customer offers that meet their changed needs and circumstances, e.g.**
  - Change to a Service model if customers can't buy new equipment
  - Service competitors' equipment if customers won't switch to yours

## Supplier cash management



*A failed, or failing, supplier can lead to:*

- *Loss of income*
- *Breach of contract*

### 1. Identify your key suppliers

- Are they viable?
- If they are laying off experienced staff, watch out for changes to:
  - Specification and quality, delivery reliability, service, responsiveness
- Perform detailed risk assessment on sole suppliers

### 2. Work closely with trusted key suppliers

- Give key suppliers visibility of your customers' needs and likely orders
- Consider loaning your personnel to a struggling key supplier
- Consider developing mutually beneficial financial arrangements

### 3. Identify alternate vendors for "at risk" suppliers

### 4. Consider alternate supplies

- Has the technology moved on? Are cheaper options possible? E.g. packaging

### 5. Plan how you would bring new supplier(s) on-board quickly, e.g.

- Credit arrangements, conformance to specification, process performance, delivery

## Internal cash management

### 1. Financial management

- Model cash flow accurately, update often

### 2. Inventory management

- Review inventory levels in line with expected demand
  - Manage runners, repeaters and strangers separately for both Finished Goods and Raw Materials (ABCX Matrix)
  - Review MINIMUM stock levels as well as maximum levels – you cannot afford to miss a sale and yield market to competitors

### 3. Energy management

- Review energy use across the business

### 4. Flexible working

- With workforce explore possibility of flexible working to reduce labour costs
  - all share the pain but be ready for the recovery.
- No lost skills and whole workforce in position to maximise sales as upturn comes

### 5. Training

- Conduct education, training and mentoring in "lost" time

## Working with your bank

- **Develop relationship to ensure you understand the bank's drivers and perceptions**
- **Share your business plans**
  - Provide regular updates demonstrating you deliver what you forecast - good or bad
  - Be prepared to accept an audit of these plans
- **Be honest but confident about your approach and determination to succeed – a bank will not support an organisation that does not believe in itself**
- **If you need additional finance you only get one chance so ensure you receive sufficient funding – no bank will support a second request for funding**



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## Cutting costs within the business

**Sometimes it is necessary to cut costs to survive...**

**However...**

- **Don't "slash and burn"- it will damage the business**
- **Don't just cut discretionary costs, such as advertising**
  - Cutting (effective) advertising may further weaken demand, causing the business to spiral down
- **Look at the whole business**
  - Understand what is vital to winning orders and satisfying customers
  - Improve processes: increase effectiveness and efficiency
  - Remove activities that don't add value
  - Remove people who don't add value
- **Make plans *before* there is a crisis in the firm**
- **Communicate, communicate, communicate with your employees**



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## Leadership

**The press often creates a sense of doom and gloom...  
...Which can lead to loss of morale, motivation, and failure**

**Leadership must:**

**• Inspire a sense of belief and purpose**

- “We shall survive this recession!”
- “We know where we’re heading”
- “We know what we have to do...
  - With our customers
  - With our suppliers
  - With our internal processes and capabilities”
- “By surviving the recession, we shall emerge...  
stronger, healthier, and with real sense of achievement!”



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## Maintaining the margins

**My plant’s operating at 60% capacity. At what margin should I turn away additional business?**

**1. Understand your fixed and variable costs**

- Fixed costs include, for example:
  - Staff, premises, promotional budget, capital equipment, interest on loans
- Variable costs include, for example:
  - Raw materials, utilities, direct labour, consumable materials (e.g. tools, tooling)

**2. If you accept business which does not cover your variable costs, you will lose money**

**3. If you accept business which covers your variable costs and makes some contribution to your fixed costs, you will be better off than if you turn away the business, providing it doesn’t displace more profitable business**



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## 2. Strategic re-appraisal

## Components of strategic re-appraisal

### 1. Assess viability of:

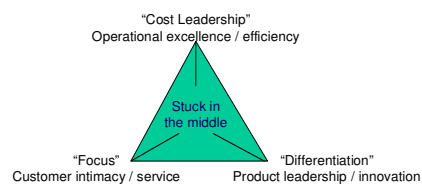
- Market
- Customer offer
- Supply base
- Business model
- Financial model

### 2. Consider tactical adjustments to market / product offer to achieve:

- Deeper market penetration
- Market extension:
  - New sectors, geographies
- Product development
- Diversification

### 3. Formulate revised strategy:

1. Review external context (market, demand drivers, etc.)
2. Assess internal capabilities and core competences
3. Generate and evaluate strategic options, based on:
  - Market opportunities
  - Core competencies & capabilities
4. Agree action plan to implement chosen strategy



### 3. Strengthen performance of key capabilities



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### Strengthen performance of key capabilities

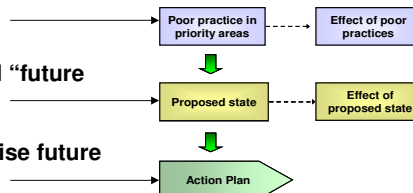
1. Understand relative importance of order-winning and business-limiting factors to the business strategy
2. Assess performance of order-winning and business-limiting factors
3. Identify important, low-performing capabilities. Identify causes of low performance
4. Establish case for change
5. Define and agree proposed "future state"
6. Develop action plan to realise future state

**Order-winning criteria:**

- Delivery performance
- Price
- Unique value and innovation
- Quality and specification
- Ethical performance

**Business-limiting factors:**

- Demand management
- Supply management
- Cash management
- Structural management (Plant and equipment)
- Infrastructural management (People, processes and ICT)



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## 4. In summary...

### 1. There is no magic bullet

- Just do what is right, more effectively

### 2. Don't abandon your strategy without a good new one!

### 3. Surviving the recession is based on what you keep, not what you cut