

“MY LEG! IT’S GOT ME BY THE LEG!”

JR’s Teresa Hooper says when the sharks are circling, businesses that know their strengths and weaknesses are less likely to be gobbled up.

A retail business that’s just pootling along, comfortable in a rut, can get a rude awakening when hard economic times hit. As the air fills with the noise of chickens coming home to roost, accountants like Teresa Hooper, of Greentree partner Johnston Rorke (www.jr.com.au), get called in to help sort out the mess.

“People’s disposable income declined during the global financial crisis,” she says. “Retail sales – thus profits – dropped, but they could have dropped a lot more if businesses hadn’t taken corrective action.”

For retail businesses that need to lift their game, a recession can provide the moment of truth. It’s when a business is likely to realise that its key performance indicators (KPIs) are not what they should be.

“When you’re in great times you’re too busy delivering the goods and you don’t necessarily concentrate on whether a certain expenditure or KPI has improved or not improved,” Teresa says. “I had a lot of clients coming to me wanting to improve their business’s performance and KPIs, and needing us to build systems for monitoring this.”

To Cut or Not To Cut?

With KPI monitoring in place, businesses affected by the recession were able to determine whether they should be cutting wages or stock, seeking better buying deals, or moving from permanent staff to contracted, casual labour, etc.

“Businesses consulting with me just wanted a steer on what to do, or had some ideas they wanted to kick around to see if they were right,” Teresa says. “I’ve had other clients who understand their businesses very well and just wanted to use me as a sounding board, or perhaps run some figures on their thoughts.

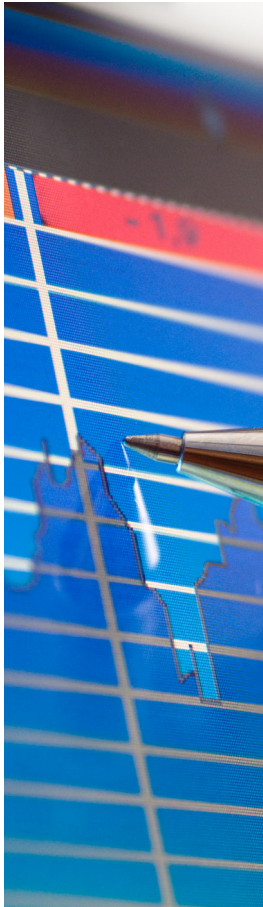
“I think when it gets tough and they take a really hard look at their business; perhaps they’ve actually iterated for the first time what they really think their offering is, and that gets them focused to go forward. So these sorts of hard times are life lessons, really.”

When she’s called on to help a business, Teresa starts by comparing the company’s financial details with KPIs that are typical for the retail sector. This helps to identify potential quick fixes; wages, for instance. The effects of laying off staff or cutting their hours need to be measured, to ensure they’re achieving what they’re supposed to. However, those short-term solutions are only the beginning.



Teresa Hooper, Partner,
JR. bizlink

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"Usually that's part of a much longer programme," Teresa says, "because then you'd look at your next cost, which is probably your inventory. That's not a quick fix; it's a progressive change and/or sell-down, depending on what you're trying to achieve in your business, and that's probably a 6-12 month process."

Clearance Sale

Any business that's over-stocked when a recession hits needs to clear out some of that inventory – probably should have done it some time ago. Items that aren't moving need to be discounted for quick sale, since it makes sense to get some cash in the bank, rather than hold onto goods that won't sell because they're priced above public demand. It's also an opportunity to investigate newer, more popular lines that are more likely to get customers coming through the door. But above all, it's essential to avoid the 'slash and burn' mentality.

"If you have to cut costs, then cut costs, but don't cut them to the point where you can't come back quickly," Teresa says, "because markets generally do rebound quite quickly. You have to trade off really; make less profit but still keep the underlying structure of your business going, so that when market share returns or the market environment gets better, you are able to respond to that."

The only way to address such a crisis sensibly, Teresa explains, is to examine the current performance of the business and what the immediate future looks like. By measuring this to KPIs relevant to your business, you should be able to make the necessary changes required to be delivered through tough times. You need to know the strengths and weaknesses of your particular marketplace, and capitalise on them. Then there are your overheads; we've already mentioned wages, but a business that's renting its premises needs to factor that in as well. Your location could

be in a declining area – do you move to a place where business is better, or try to negotiate a more favourable rent? What sort of wholesale prices are you paying? Could you be squeezing better deals out of your suppliers? Could you benefit from new equipment or technology, specialist advice or skills?

Don't expect to be able to apply any standard formulas to your particular situation, Teresa warns. Your product or service offering, the vagaries of your particular marketplace, your location – all combine to produce a unique profile. Nor can all the lessons learned from previous economic crises be applied to a current situation.

"Every recession is different because the markets and consumer preferences and technology are different from what they were 10 years ago," Teresa says. "So you can't always say 'Well I'll just do what I did before', because it doesn't always work."

Back to Basics

When a company is facing troubled times, its traditional response is to return to its core business. This generally works in the short-to-medium term, but Teresa says you should never lose sight of potential growth areas. Once you're back on an even keel, you need to be ready to shift from recovery to development mode.

"What happens in a recession is, people go back and say 'Let's try and not do some of this fringe stuff; let's get back to our knitting to make a reasonable return'. I have seen that happen, where sometimes they've just had to put projects on hold because the market or the industry or the current economic climate is really saying 'We're not ready for it'. So shelve some projects, but don't forget about them."

Whether they're making plans to survive, or looking to re-invent themselves, Teresa Hooper says SMEs are increasingly waking up to the value of KPIs.

"I'm seeing smaller businesses now not waiting for their accountant nine or 18 months after year-end to tell them they did well or badly; they're actually wanting to know if they did good or bad in the last month. In my experience, tracking KPIs can absolutely improve your bottom line."

About Teresa Hooper

Teresa is a Partner at Johnston Rorke, Chartered Accountants in Brisbane, and specialises in finding solutions to clients' issues through technology for all types of SMEs. She also specialises in retail management for pharmacies. She heads up the IT Division - JR.bizlink, a Greentree Partner.

When not sorting out businesses' problems, she dabbles in genealogy and photography and loves to travel – especially on cruise ships. She's married with two children and her husband is a Kiwi, so Teresa is especially passionate about sport when Australia wins.