



Business Mentors  
New Zealand

# How to survive an economic downturn

Ray Schofield says it's important to review every aspect of your business in order to survive and thrive in the current economic climate.

**T**he smartest Kiwi small business owners have been thinking about what kind of impact a dip in the economy will have on their companies and are considering all of their options.

According to Gerald Delany, a director at Auckland business consultancy, Advantage Business, each business owner will deal with a flattening of the economy slightly differently, depending on the specific industry that they are working in.

However, the first thing that all businesses should do, regardless of size or industry, is take a step back from day-to-day operations, in order to refocus and reassess their position in the market. A business mentor can often provide a useful external perspective at such a time.

"When things are tight, companies should be reappraising their markets and really looking at who they are selling to," says Delany. "Businesses owners should be reconnecting with their consumers and figuring out how to add value to the customer experience.

"Small New Zealand business cannot compete with large and overseas companies on price so they need to think of how they can add value in other ways. This could include diversifying their product range or streamlining the way that they deliver their goods. Customer loyalty schemes are also an effective way of adding value without cutting prices," says Delany.

Cash flow is something that many small business owners have problems with, even

when the economy is booming. However, when the economy is struggling, it is even more vital that business owners get to grips with this aspect of business management.

"It is crucial that business owners pay attention to their cash flow," warns Delany. "This may seem obvious but it is an area that many companies, especially SMEs, tend to neglect.

"Business owners can regain control of their cash flow by ensuring that their invoicing process is quick and efficient and by requesting deposits for bigger jobs. There are also a lot of extremely cost effective services available, which can assist businesses with tasks such as managing their debtors' ledgers."

Many business owners, when faced with a slow market, naturally turn to thinking about what costs they can afford to cut back on. While it may be prudent to scale back on some areas, business owners should avoid plunging into a budget-cutting panic.

"Business owners should put plenty of thought into which areas they cut back on," explains Delany. "Each aspect of the business model should be reviewed, from operations to the marketing and advertising, to ascertain what is and isn't working."

"Negotiating better prices with suppliers can also save money," adds Delany. "New Zealand business owners are often too polite to renegotiate prices with suppliers but they really need to check prices, shop around and make sure that they are getting the best deal possible."

It is not only the financial side of things that can cause headaches when markets are cooling. Deterioration in employee motivation, largely due to job uncertainty, can also have serious repercussions for a company's productivity.

Delany recommends keeping the lines of communication open with employees. Being as honest and transparent as possible

will reassure staff members, who may be feeling insecure. It will also put a stop to any rumours flying around the workplace.

"Business owners should also make sure that they give employees positive feedback," says Delany. "Verbal acknowledgment for a job well done, along with non-cash incentives for more senior staff members can make a huge difference to employee motivation."

Periods of economic decline can be stressful and challenging for small business owners. This is a particularly testing time for owners of SMEs in New Zealand as, having experienced good trading conditions over the past eight to nine years, many will never have had to deal with the issues accompanying the tightening economy that they are now trading in. However, there are many things that can be done to ensure that companies remain intact and profitable. If business owners stick their heads in the sand and consider themselves too busy to make improvements, it is unlikely that they will survive a significant slump in the economy. However, if the head of a company takes the time to review and improve every aspect of their business they will give themselves a fighting chance and may even come out of the downturn a better and stronger company than they were before.

*Ray Schofield is CEO of Business Mentors New Zealand, a fully funded service of Business in the Community. [www.businessmentor.org.nz](http://www.businessmentor.org.nz)*