

Riding the economic wave



Michael Georghiou of independent accounting, auditing and consulting firm, MGI Brisbane, suggests steps you can take to ride the economic wave.

Businesses of all sizes are facing the most challenging times since the early 1990s, when Australia experienced the “recession we had to have” (Paul Keating).

However, an economic downturn can be an opportune time for owners to take stock of their business and make those changes that will see them emerge from the downturn as a far more competitive operation.

So, what steps can you take as a business owner to ride the economic wave? Quite simply, you need to take a close look at how your business operates. I don't mean you should blindly cut costs; rather it is a time to make your business more efficient, so when things pick up again you can take advantage of opportunities that will most certainly arise.

So you ask: what should I be doing? Here are a few ideas...

1. Revisit your business plan

Your business plan should be fluid. Updating your business plan for the change in economic conditions will reinforce your business strengths and help you focus on areas of weakness.

If you don't have a business plan, I would urge you to develop one. A business plan is your 'roadmap' for where your business is heading.

2. Review your business and personal budgets

A budget will help ensure that you don't spend more than you need to. Eliminating non-

essential spending is the fastest way to increase your bottom line.

3. Scrutinize all spending

This is not the same as reviewing your budget. When you start scrutinizing spending, you are asking some additional questions, such as:

- Did I get the best value for money?
- Are the expenditure authorisation limits amongst staff appropriate?
- Is the business carrying too much inventory and, therefore, tying up capital?

This is an easy way to free-up cash for essential purchases.

4. Review all your borrowings

With interest rates coming down, it is worthwhile considering whether the cost of re-financing higher interest rate loans can save you money.

Is it time to consider fixing loans so that you can more easily budget, as you will have certainty with the repayments? If your credit cards are at their limit, you could save money by taking out a personal loan at much lower rates to pay off the higher interest rate cards.

5. Consider how you finance capital expenditure

Given the lower interest rate environment, financing through lease, hire purchase or chattel mortgage will allow you to budget the repayments over time and conserve cash.

If you have relatively new capital items that you have paid cash for, why not talk to a financier about a sale and leaseback arrangement whereby the finance company will buy the equipment from you and then lease it back to you over a period of two or three years. This is often overlooked by business, yet it is a simple method to free-up cash.

6. Talk to your suppliers

In slow economic times, suppliers with whom you have had a long business history will often encourage your continuing patronage through loyalty discounts or enhanced credit terms.

Business owners continue to tell me that they cannot get better trading terms, but few have actually asked. I believe that many of you would be surprised at the response from your suppliers. You are, after all, not the only one who is experiencing the economic slowdown.

An easy way to obtain increased discounts is to consolidate your purchases to one or two suppliers. Volume discounts are a painless way to reduce costs and increase the bottom line.

7. Monitor your cash flow

Reducing expenses is only one side of the cash flow equation. Getting cash in is just as important.

Be proactive with outstanding debtors – encourage them to pay before the due date by offering discounts for early payment. Call them as soon as they exceed their credit terms, and find out why they haven't paid. I am sure, if they are in business, they would do the same thing.

Slowdowns are a great opportunity for each of us to refocus on our business, and arm it for the eventual economic recovery. Make some positive contributions to your bottom line, without the 'slash and burn' approach, by simply implementing the above ideas.

If you require assistance implementing some of the above ideas, call the team at MGI Brisbane on (07) 3002 4800 or email to info@mgibris.com.au.

Now is an opportune time to take stock of your business and make those changes that will see you emerge from the downturn as a far more competitive operation.