



1. Don't panic

It's been a long time since the last recession; for many directors the economic downturn is a new experience.

"My advice is not to panic," says Henry Bosch AO FAICD, who has been chairman or a director of over 30 companies in Australia and overseas.

"This time the depth may be greater but we have seen many downturns before and there are inevitably many to come," he says. "It always swings back."

He also warns against taking journalists too seriously.

"Until early last year almost all stories in the media were unquestioningly upbeat," he says. "Now there is competition to find a new cause for gloom. If you're listening to this without sufficient scepticism there's a real danger that you'll be carried away and behave rashly."

2. Respond quickly

Jon Cordes, director of California-based Activus Corporation, says his company is currently riding out its third recession.

"What we've done at each step is to stay abreast of industry and economic factors," he says. "We've been able to identify, relatively early, when a downward cycle was approaching. We've never grown too big or extended ourselves too much during the good times, and we always prepare ourselves for worst-case-scenario situations."

Cordes has seen many competitors disappear from the marketplace over the past 12 months.

"They range from organisations with 30,000 employees down to 50-person firms – and the one common denominator was a failure to adapt," he says. "Many of them either didn't respond or responded too slowly. The ones that did respond are still here – some of them struggling, some shadows of their former selves, but still around."

3. Cut costs strategically

"In this instance, cash is king," says Dick Warburton AO FAICD, Chairman of Magellan Flagship Fund and former Chairman of Caltex. "The conservation of, preservation of and perhaps even growth of cash is pretty much paramount because debt is going to be expensive, and that's if you can get it. Equity is also going to be expensive at lower share prices. The lower your gearing the better off you'll be."

Conserving cash means looking critically at every expense down to phone accounts, travel and entertainment. There may also be opportunities to delay expenses, like replacing staff cars.

"The aim of cutting costs is to create a scalable business that's flexible enough to respond quickly when the market starts to turn," says Billy Meston, Partner at PricewaterhouseCoopers. "You need to trim the fat without cutting the muscle."

4. Keep your best people

Sometimes redundancies can't be avoided but it's vital to be selective. Good people are valuable assets; they're also very expensive to replace.

"Look first to see whether you can do something like move the workforce on to short time," advises Bosch. "Not many companies will have to cut labour costs by more than 10 per cent and that should be possible with their agreement. Cuts would have to be across the board from the CEO down, and you would also need an agreed point six or 12 months into the future when you will review the situation and decide how people can be rewarded for their patience."

5. Maintain your brand image

David Gonski AC FAICD, Chairman of Investec, ASX and Coca-Cola Amatil Limited, says that, after thirty years in business, he's still surprised to see how frequently advertising is one of the first things to be sacrificed when times get tough.

"It's treated as an optional extra but, to me, it seems essential," he says. "Sales fall so you stop advertising. Brilliant! People forget you're there! You may well need to reduce your spending but any reduction should be very carefully considered."

Building a brand takes many years of careful planning and investment but the value can be lost overnight. Cutting prices in an attempt to capture market share can be particularly damaging.

"There will be downward price pressures on a lot of products but nothing destroys business value and brand value faster than a price war," says Meston.

6. Be in business for a valid reason

Ferrier Hodgson Partner Morgan Kelly says that directors should continually challenge what their business is doing and its relevance to the marketplace or the economy. He uses the example of a typewriter manufacturer failing as people began to use computers.

"If that business had been outward looking, they might have been exploring options such as building computer keyboards – using the same machinery, skills and people but with a slightly different business model to suit the changed environment.

"In an upwardly-moving economic cycle you'll be making changes and adjusting your business model to take advantage of opportunity. In a downward cycle you need to be doing the exactly same things in order to survive, retain market share, keep your talent pool together and maintain your size and infrastructure. Challenge your business model before the market does: you can't change the wind but can set your sails."

7. Manage client and supplier relationships

Some directors might be tempted to manage working capital a little too rigorously.

"Of course you're going to want to collect cash as quickly as possible and keep stock levels as low as possible," says Meston. "But managing working capital effectively is not about destroying relationships with your customers and suppliers. It's a difficult balancing act, but collaboration may well be the best way forward.

"It takes an element of bravery to instigate the discussion; if a customer is struggling to pay it's human nature to try to avoid someone who's after money. But some of the businesses that did well through the last recession made a real effort to gain a better understanding of their customers' issues. This helped them to identify possible solutions as well as improve their own value proposition."

8. Communicate

"A lack of clear communication creates nervousness," says Meston. "My strongest advice would be to make sure you take all your stakeholders with you on your journey – shareholders and employees as well as customers and suppliers."

Warburton agrees that shareholders communication is vital.

"Now, rather than just putting out an annual report, one of our companies is putting out three-monthly updates giving the status and position as we see it," he says. "We're finding that shareholders really respect that. What they dislike most is silence; if you say nothing they invariably assume the worst."

Nevertheless, you need to be very sure about what you're communicating.

"If you're trying to reassure shareholders by saying that things aren't too bad and everything will turn around in six months you could be misleading the market," adds Warburton.

Internal communication is equally important.

"Companies that fare best have the right sort of management information," says Meston. "In a downturn, the quality of this information is critical. In the last recession, businesses that were able to harness their key performance indicators and have real time updates on how the business was performing were in the best position to be agile and flexible in their response to the marketplace."

9. Be resourceful

"People question things in bad times – how they do things, the way they run their businesses – which they don't do in good times because they don't need to," says Gonski. "For example, in good times it's generally very hard to share resources with a competitor. In bad times, your competitor might need that as much as you do. You can create ways of doing things that may well set you up for a much more glorious future than you would have had had the boom times continued."

While there's nothing quite like tough times to focus the mind, an organisation with no tradition of innovative thinking is unlikely to pull it out of a hat.

"Innovation demands a process," says Cordes. "It requires a culture and systems to support it. And it must have a leader who is committed to the process. The real problem is the way companies define innovation. Most organisations mention it in their annual reports or corporate profiles, but the reality is that most of them just don't get it. Innovation is who you are, not what you do – or say you do."

10. Be prepared for upturn

"In my experience many of the great businesses of our time have grown during bad times," says Gonski. "What one has to do is not just be glum nor, I might say, to give away one's carefulness, but one does have to look for opportunities consistent with what one can afford."

"You might be able to increase your competitive advantage by doing your best things better," says Warburton. "You could also consider mergers and acquisitions if the opportunity arises and you have the cash to do it."

"Boards should be looking now at their best estimate of when they think the turnaround is likely to come. That's far easier said than done and you're going to have to keep on adjusting that position but it's an important exercise; you don't want to leave it too late to start thinking about getting ready for the upturn."

Breakout box

Jeff Lancaster has helped businesses such as Toyota, Ameritrust and the West Wing Foundation to manage large-scale strategic change. His latest book is *Eight Great Strategies for Surviving a Recession*; they're outlined below.

Communicate

Now is not the time to close ranks, keep secrets and act in ways you think will preserve and protect your business.

It's more important than ever to clearly and honestly communicate with employees and customers.

Innovate

The best way to survive a recession - and accelerate out of one - is to create and sustain a culture of innovation and performance.

The organisations that develop sustainable, engaged and provocative cultures where innovation is the benchmark will be more productive, more profitable and more likely survive and thrive.

Activate

Creating a sense of urgency to engage and motivate your people drives performance.

Be careful not to design that sense of urgency using counterproductive fear-based measures. Create a challenge and work together to overcome it.

Infiltrate

Look at the competitive landscape.

Identify opportunities for occupying your competitors' space.

Take advantage of a competitor's reluctance to act.

Eliminate

Surviving a recession isn't just about making money, it's about saving money.

Now is the time to look at processes, products and partnerships that are outdated, unnecessary, time-consuming or over-priced.

Replace unhappy, unmotivated or underperforming employees with workers who are motivated and engaged.

Negotiate

Reach out to your media partners, distributors, vendors and competitors to negotiate better deals, better rates and better strategies.

Form partnerships that are mutually beneficial.

Regulate

Consumers will be shopping around for the best deals.

Don't devalue your brand - and ultimately your profitability - by introducing price cuts.

Instead, offer price promotions and package-sell products or services (selling more at slightly less versus selling less at slightly more).

Investigate

Now more than ever, it's important to understand consumer behaviours.

How are your customers redefining value?

How are they responding to the recession?