

ICAEW



# FROM SURVIVAL TO SUSTAINABILITY

## 7 STRATEGIES

to help directors and their advisers take advantage of the economic recovery



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# FROM SURVIVAL TO SUSTAINABILITY

## SEVEN STRATEGIES TO HELP DIRECTORS AND THEIR ADVISERS TAKE ADVANTAGE OF THE ECONOMIC RECOVERY

During 2009, the ICAEW's *UK Business Confidence Monitor* moved progressively upwards after seven quarters of continuous decline. In August, it went into positive territory for the first time since 2007.

There is certainly a sense of relief that the economic picture appears to be brightening. While there is talk of a return to economic growth, we remain cautious. The recovery is likely to be fragile and bumpy. Business leaders must continue to be vigilant in the months ahead; economic recovery will bring with it additional challenges as well as opportunities. Those firms that have taken tough decisions to ensure they stay afloat and get through the recession may well find that they emerge leaner, fitter and ready to profit from the upturn when it comes. Cash, working capital and funding for growth will be particular issues for many.

Over the last year, businesses have been forced to focus internally on survival. Now, as the economic outlook improves, it is time to start looking outward and to the future.

This booklet outlines ideas to help businesses manage and succeed through the upturn – to build for a sustainable future.

- Be ready for the upturn
- Plan ahead
- Look to new markets
- Manage your cash and secure your funding
- Have the right team in place
- Build a sustainable business
- Understand and manage the risks in the new environment

The issues and questions in this guide are relevant to businesses of all sizes, listed and non-listed, working across all sectors of the economy. They will give you practical help and topics to discuss with your staff and advisers. Our members are there to help businesses, providing more detailed advice and guidance on the strategies we've identified. To find your nearest chartered accountant, go to [www.icaewfirms.co.uk](http://www.icaewfirms.co.uk)

# 1 BE READY FOR THE UPTURN

Are you ready for economic recovery and an upturn in your business? Many organisations took tough measures during the recession to focus on core activities. They cut costs to protect jobs and preserve cash. As a result they now have a better understanding of their productivity, what they can achieve with a smaller workforce and fewer resources. Such businesses should be well placed to grow and respond swiftly to the opportunities that emerge as the economy recovers. Is yours one of them?

You may have made cuts or retrenched in order to gain short-term benefits; now is the time to review these again to ensure that your operations are in good shape for the future and for a new and different environment. Which functions are core to your business? Which might be restructured, sub-contracted or outsourced? If you made cuts in spend in so-called 'soft' areas such as marketing, IT, training or corporate responsibility now is the time to look again. Are you ready for an upturn in the market?

The recession gave many businesses the opportunity to reinvent themselves and find new ways of working. What can you learn from other organisations? How have they shaped or adapted their business in the downturn?

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## 2 PLAN AHEAD

As confidence returns, it is time to revisit your growth plans and strategy. Do you have a clear view of how you would like your business to develop over the next 12 months and, in the longer term, over the next three to five years? Do you have a clear vision of the company as well as the products, services and resources you will need to make this vision a reality?

The road to recovery is unlikely to be smooth and there will be further upheavals and challenges ahead. You will need the flexibility and ability to adapt quickly to these changing conditions.

You will need to review your business plan regularly – especially your view of the market and your finances – as the environment changes. It was hard to predict the downturn and the impact it would have on your business. It will be the same for the recovery. Businesses will need to be flexible to respond quickly to this changing environment. Be prepared to challenge your thinking and your plans.

Consider a number of different scenarios. For example, if you can spot opportunities within the market and respond to them quickly, you may be able to achieve your strategic goals faster.

Think of the people and the organisations who have helped you through the difficult times. Are they the right people to help you to deliver your strategy in the future? Have you developed strong relationships with your banks, key suppliers, advisers and customers, to support you in the future? How can you build on these relationships?

Who are your key stakeholders? Identify where there may be gaps in your network. Get in touch with old contacts, former employees, employers, customers and partners. You never know what they might be doing now but it's quite possible that they may be in a position to help you to achieve your strategy.

# 3 LOOK TO NEW MARKETS

Now is also a good time to review your products and markets. Many businesses used the recession to streamline their product and service lines, identifying those that are vital for their future profitability. Do you know which products, services, customers and markets are most valuable to you? Focus your activities and marketing on your most valuable products, services and customers for the long term.

Where are your key markets and customers, now and in the future? Examine these critically. Have you taken on new clients who, while protecting your income in the short term, could be unprofitable long term? Are you reliant on a major company, supplier or market? Are any of these at risk? Do you have customers in the public sector who will be vulnerable to public spending cuts in the next few years?

Recovery will come at different times and different rates across the world. As currency rates fluctuate, have you considered new and emerging markets? By 2050, it is estimated that Brazil, Russia, India and China, with Indonesia, Mexico and Turkey, will overtake the G7 countries in terms of GDP. What impact would this have on your business, markets, suppliers and customers?

What are your options to grow your business in the future? Is there already an opportunity to gain market share such as a strategic acquisition? Could you work in partnership or establish strategic alliances with other organisations to gain market entry, acquire complementary talents or profit from new channels to market?

Your competitors will also be preparing a strategy for the upturn. And there may be new companies entering your market. You need to be aware of what they might do to gain market share and be ready to respond. Do you need to invest in your marketing to protect your market share or build market presence?


## 4 MANAGE YOUR CASH AND SECURE YOUR FUNDING

Cash, working capital and funding will be as important when growth returns as it was when the recession first hit. Ensure that you have the finance in place to help your business achieve its strategy and review your requirements regularly. Update your business plan and be ready to talk to your bank and investors early about your funding needs. Don't wait until you are on the back foot. Provide up-to-date management information and cash flows on time and communicate any changes to them.

Consider all your finance options. Are there different types and sources of finance available such as asset finance, invoice factoring and discounting or grants from the Government or local agencies? Accessing finance will probably still be difficult for some time to come. Banks will be cautious about renewing facilities. Term loan or overdraft conditions will continue to be enforced strictly. If you have loan covenants, monitor them constantly and address any potential breaches early. Be prepared for banks to take a harder approach to interest rates, fees and charges. With lower property prices and falling asset values, you may also be asked to provide additional security or personal guarantees.

Your stakeholders will want to have confidence in your forecasts – and know that you have plans in place to respond and adapt quickly to unexpected changes in the market. Detail the assumptions you have made and understand the sensitivities in your budgets. Make sure your cash flow forecasts are realistic and update them monthly. Examine your debt cycles, stock and overhead levels and working capital.

Review your credit terms to make sure you are taking full advantage of these, ensure you get paid on time and that you have robust credit control procedures in place. Customers will continue to take their full credit term – and more. If cash becomes an issue, talk to your creditors, both trade and HM Revenue & Customs – their *Time to Pay* arrangements may help to ease your VAT burden.

 **Be prepared for banks to take a harder approach to interest rates, fees and charges.**

# 5 HAVE THE RIGHT TEAM IN PLACE

If you want to take advantage of the economic upturn, having the right team in place will be vital for your future growth. Now is the time to consider the skills you need to succeed and to start investing in the best people and resources.

You may have been forced to make redundancies or restructure your business to make savings. Do you now have enough resource and the right talent to help you build and develop your business in the future? Have you got the networking and business development skills that will be vital, already in-house? Review your staffing levels early. Identify any gaps in the skills sets that you need. There is talent on the market – now is a good time to recruit.

It's also an important time to look at all of your team including your board and senior management. The skills needed to manage a company through a downturn will be different to those needed to innovate and grow the business in the future. Have you identified the key individuals who will be essential for the long-term success of your business? What steps do you have in place to retain and grow their talent?

Are you investing enough in training to develop your talent? Remember that good staff could be the target for poaching by your competitors so focus on your high potential employees and those you don't want to lose.

How will you target and incentivise the team to help you to deliver the strategy? Now is a good time to review and amend your pay structures and incentive plans and make sure they are relevant to the changing environment. When growth comes, you will need to reward those who are driving the company forward and making a difference.

# 6 BUILD A SUSTAINABLE BUSINESS

The successful business of the next decade will look very different to the one of the last 10 years. As the economy moves out of recession you need to consider how you can adapt your business to take advantage of the opportunities sustainability offers and make sure your business is itself sustainable.

Sustainability extends beyond effective financial management. Those businesses that thrive in the future will be those that also place sustainability at their heart. Will people still need the service you are providing or the products you are selling in the future? How reliant is your business on resources that could run out? Is your business likely to become constrained in the future by legislation and regulation relating to sustainability? Will what you're doing be socially acceptable and will your stakeholders continue to support your prosperity?

Now is the time for business managers to consider sustainability as a core part of their operations and longer term strategy. The business environment is changing quickly. Fine-tuning and 'greening' of the business will not be sufficient in future to guard against the threats that this fast changing environment presents.

How will you take advantage of any new opportunities? For example, could you develop new products that meet the needs of a resource-constrained world? Is there another, more sustainable way to meet your customers' needs? Will you attract more talented employees by becoming a credible corporate citizen? Can you add value to your products and services by becoming not only more sustainable and attractive to investors but more efficient and less resource intensive?

**“ Is your business likely to become constrained in the future by legislation and regulation relating to sustainability? ”**

# 7 UNDERSTAND AND MANAGE THE RISKS IN THE NEW ENVIRONMENT

Business risks have changed dramatically during the recession. Organisations still face an uncertain future. Make sure that you have established a risk management process and mindset across your business; this will be vital for your future success. Have you built risk management into your planning processes? Have you identified any weaknesses in your internal controls?

Consider the main risks facing your business now and what they could be in the future. Have these changed and what will the impact be on your plans to grow and finance your business?

How will you respond to external events outside your control? Are you sensitive to exchange rate fluctuations? Are you able to cope with increases in taxation, for example VAT and corporation tax? If borrowing becomes more difficult or more expensive, how will this affect your finances and your ability to finance your future growth?

Now is the time to review your suppliers to see if there are any at risk. Re-examine your terms of trade and increase your level of due diligence before trading with any new suppliers or customers.

You should continue to undertake a rigorous and honest appraisal of the risks facing your business and ensure that you have a plan to manage these risks if they become reality. While being responsible about planning for the worst, don't allow the culture of your business to become so risk averse that it prevents you taking advantage of opportunities that could help drive business growth.

 **Consider the main risks facing your business now and what they could be in the future.**

## USEFUL WEBSITES

### **HM Revenue & Customs**

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

### **The ICAEW UK Business Confidence Monitor**

[www.icaew.com/bcm](http://www.icaew.com/bcm)

### **A monthly economic briefing**

[www.icaew.com/economicinsight](http://www.icaew.com/economicinsight)

### ***The Official ICAEW Directory of Firms***

[www.icaewfirms.co.uk](http://www.icaewfirms.co.uk)

### **World Economic Forum**

[www.weforum.org](http://www.weforum.org)

### **Financial Reporting Council**

[www.frc.org.uk](http://www.frc.org.uk)

### **International Federation of Accountants**

[www.ifac.org](http://www.ifac.org)

### **Business in the Community**

[www.bitc.org.uk](http://www.bitc.org.uk)

## FOR FURTHER INFORMATION

[icaew.com/economicrecovery](http://icaew.com/economicrecovery)

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Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

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