



10 Secret Strategies To Recession-Proof Your Business

A Coupa Executive White Paper



Introduction

When the economy is moving forward robustly, most executives focus on growing sales. It's only natural. But inevitably when the economy slows and times get tough that focus shifts. Most executives turn inward, looking at how their business is operating, as they face hard choices on how to preserve the company.

As businesses struggle to survive a downturn, leaders generally choose to behave in one of three ways:

- “the ostrich” - preserve the status quo, and just hope for the best
- “the bull in the china shop” - blindly cut expenses across the board
- “the fox” - use the downturn to make your business more effective so when growth returns you'll be in an even better position to move quickly

We encourage leaders to behave “like a fox.” Instead of viewing a recession through fearful eyes, use it as a means to pounce on emerging trends - and to get lean, mean, and in position to crush their competition as economic conditions improve.

Here are ten “secrets” you may want to consider as you deal with our current economic climate.

Secret #1. Really Monitor Non-Payroll Spending

An average business does a poor job of tracking how much money it is spending on non-payroll expenditures. There's just too many other things to do. So most businesses use the reporting from month-end close to track what's already happened. But by "driving their business from the rear-view mirror" all too often there are nasty surprises.

One of the best ways to begin recession proofing any business is to get spending under control. And one of the best ways to get spending under control is to monitor it more closely. Increased oversight on spending immediately begins to alter behavior and deter a business from spending frivolously on items it doesn't really need, or spending more than it has to on items it does need. In addition, monitoring encourages employees to exercise prudent fiscal discipline and compliance to (often unwritten) spending policies.

Monitoring spending also inevitably leads a business to examine its policies. Who is allowed to purchase goods and services in the first place? What signing authority should managers have?

Examination of spending policies is a great first step towards cutting costs in ways that don't negatively impact your business operations. By beginning to understand all your non-payroll costs, you can start detecting and curtailing wasteful spending while continuing to fund the business' many necessary expenditures.

Secret #2. Establish and Enforce Budgets

Most government agencies and higher education institutions have used budgets to operate for a long, long time. These organizations would be quick to point out that managing to a budget isn't perfect. For example, managing to a budget carries the downside risk of a practice called "budget flushing" where managers rush to spend all they've been allotted to ensure next year's budget is just as juicy. But managing to a budget also carries the very positive upside of ensuring your business does not spend more than it should. And in tough economic times that's more than enough benefit to make the investment in budgetary planning worthwhile.

Without a budget, there's nothing to stop an employee from spending \$1,000 on a new printer when a \$500 printer would do. Without a budget, it's too easy to rationalize the more expensive purchase and not examine the opportunity cost implicit in consuming funds that could be directed elsewhere.

The best way to start is to review the last 12 months of non-payroll spending and set budgets at 10% below those levels. You may find that you'll want to modify the "buckets" of spending you want to budget against, so make those adjustments as needed. Then establish a process to account for spending against each budgetary "bucket". Quarterly periods for establishing budget amounts are a good way to start.

Plan on adjusting budgets early and often as your organization gets used to the new fiscal oversight. You may find some budgets can be safely set to 20% or more below what you spent last year. And depending on how fast the economy recovers, you can begin to set expectations that budgets for non-payroll spending may continue to tighten in the future. After all, every dollar you don't spend goes straight to your improving bottom line.

Secret #3. Curb Non-Essential Spending

A recession is a great excuse to trim the fat that always creeps in during times of plenty. There are three big easy ways to trim the fat: delay unnecessary purchases, reduce employee benefits, and invest in products and services that offer a quick ROI.

Delaying unnecessary purchases

Delaying common purchases like computer upgrades and office furniture can result in substantial savings. While a software developer will often have their productivity hindered on a workstation that is over two years old, most workstations run standard office software more than adequately for four years. Sometimes a redistribution of assets on hand will solve your problem.

Reducing employee benefits

Treating your employees well, paying them fairly, and providing health insurance plans are good business practices. However, extras may have to be eliminated to stay within a budget and keep your business fiscally fit. Society memberships, (unless membership is required by your company or their profession), commuter subsidies, and filled to the brim break rooms may have to be eliminated for the time being. When times return to normal, and funds are available for perks, reward your employees accordingly. Most employers fail to understand employees want the business to succeed and are willing to make modest sacrifices in the short-run to avoid larger problems down-the-road.

Invest in products and services that offer quick ROI

Our economy is vibrant and competitive. Entrepreneurs adapt to economic conditions very rapidly. So seek out purchases that look to offer continuous and fairly rapid savings. Evaluate solutions based on TCO not just purchase price - e.g. An average desktop workstation often costs more to power over the three years you'll use it than it costs to buy it. Spending a touch more for a lower-energy consuming model can pay-off.

Secret #4. Get Rid of the Supply Closet, or Start Managing Inventory

As a business grows, “pockets” of excess non-essential goods begin to build. An office supply closet per location emerges, an IT equipment depot forms with spare parts aplenty, and other physical goods begin to fill the nooks and crannies of your once-lean business.

An easy way to cut costs and enhance efficiency is to draw down and eliminate these “holding pens of spending”. Even if you’re not a manufacturer, you may be surprised at the “inventory” you’re carrying.

An insurance company was once told that they “carried more inventory than a furniture store” due to all of the pre-printed paper forms they had at each of their small, geographically dispersed offices.

If you do find categories of goods that make sense to have in excess quantities, start managing them formally through inventory management. Track consumption patterns and set re-order alerts.

Staying lean through minimizing inventory-on-hand is one of the best-kept secrets out there when it comes to saving money and recession proofing a business. Inventory costs money. There's overhead on the space that is needed to store it, and it uses up cash that could be used to pay salaries or buy other products and services.

Secret #5. Negotiate Supplier Concessions

If your business is already following our first secret - monitoring spending - then negotiating supplier concessions might be your biggest win. A business that tracks how much it spends on a given product, or set of similar products, which can be obtained from the same supplier, can often negotiate big discounts.

This is a big topic, and one that many professional procurement personnel spend their careers mastering.

The basic premise is that by consolidating your spending on like goods and services and channeling to one or two suppliers, you can increase your leverage and get pricing concessions in return.

Usually, you can achieve greater discounts without making big bulk purchases all-at-once, as long as it is willing to commit to a certain volume over a given time period.

Whether they'll admit it or not, many suppliers are quite happy to offer discounts across the board for a repeat business guarantee - especially if times are tough.

Start where your spending is the highest, whether on marketing and advertising, IT equipment, travel, or facilities maintenance. Formalize the process with suppliers and make sure they know what's in it for them. Many firms use a formal RFQ (Request for Quotation) process, and some advanced firms perform a "reverse auction." In both cases, supplier participation is key to achieving pricing discounts. Enlist a consultant to help if your category-specific spending is high enough to justify the cost.

Secret #6. Ask Your Suppliers For Advice

Your suppliers are very likely an untapped resource full of valuable business advice. So go seek them out. Many will happily brainstorm with you on how you might stimulate demand for your product or service. And some will have cost-cutting ideas too.

Building good supplier relationships will pay off in bad and good economic times.

Of course a positive relationship is a two-way street. To be in good standing with your suppliers, you should ensure you pay your bills on time and communicate your order expectations clearly.

Secret #7. Look for Alternatives to Capital Spending

To state the obvious, a sharp downturn is a risky time to buy a piece of expensive capital equipment. Although suppliers might tempt you in an attempt to prop up their own flagging businesses, it is often more prudent to delay future growth plans and defer these larger expenditures until you are more certain of your own financial forecasts.

After all, the key is to use the downturn to “tune up” your own business by getting lean.

Hardware and Operating Equipment

So instead of expensive CapEx items, look for affordable leases where you must. Seek out businesses who own the capital assets you want. They may jump at the opportunity to lease their equipment at attractive rates rather than have it sit idle.

Software and Licenses

Instead of pricey perpetual software licenses, look for Software-as-a-Service (SaaS) offerings. SaaS providers own the licenses, already acquiring the hardware infrastructure needed to run these applications, and are able to spread these costs out over a larger user base. Chances are that if you're looking at a \$100,000 enterprise application, there's a SaaS provider with an equivalent offering that you could get for as little as \$10,000 a year. If you're looking at a \$5,000 CRM small business license, there are SaaS offerings that start as little as \$10/month per employee. If you only have 10 employees that need the system, that's a 76% savings!

Secret #8. Streamline Your Processes

Surprise, it's not internet surfing or water-cooler chit-chat that waste company time and money, but the complex processes and sign-offs that require committee decisions and slow down even the simplest of tasks. Consider this quote from the recently unclassified OSS Simple Sabotage Field Manual for general interference with organizations and production:

"When possible, refer all matters to committees, for 'further study and consideration'. Attempt to make the committees as large as possible - never less than five."

The most cost effective way to run your business is to create a concise decision making process, with a few avenues as possible.

A good question to ask when evaluating your current processes is: "how often does this oversight step result in corrective action?" If the answer is never, the process is effectively a rubber-stamp and a waste of time. So eliminate it. You can carry this logical argument too far and begin to encourage undisciplined behavior, so use common sense to guide your review.

Secret #9. Innovate and Use Your Savings to Fuel Growth

The best companies continue to innovate during a recession. They know individuals and businesses have to buy goods and services even in tough times, so there's still a market out there. Reaching it may require a change in tactics however.

In a recession, generally, people are looking for a product that is better, more cost effective, and even smarter. Innovation is the path to serving those needs. You can apply the innovation principle to product development and service delivery, but also to your marketing and sales tactics. A common turn-of-phrase we hear during downturns is: "We used to sell on value-add, but now we sell on saving money." Take the time to adapt your message to your customer's shifting focus on the economy.

Leading companies find a way to take market share during a downturn. So take care to invest some of the savings generated through your cost-cutting measures to launch new products and services, and to reach new markets. You may find you catch your competition completely by surprise.

Secret #10. Implement a Cost-Cutting Tool Like e-Procurement

The first 9 secrets all involved modifying your day-to-day business processes. But how will you do that? Send a memo or an email? You may find using an electronic system, one that can enforce your new policies, is the best way to rapidly cut costs and make the changes “stick.” A tool like an e-Procurement system can really help, as you can use it to make progress on all nine previous “Secrets”. You can

- Easily monitor spending according to the rules you set up
- Automatically enforce budgets to the limits you define
- Curb non-essential spending
- Better manage inventory, using the system to track what you've ordered, what you've used, and what you have left
- Negotiate better prices from your suppliers based on detailed spending reports
- Engage suppliers in collaborative dialogue while communicating with them better
- Isolate and reject large capital spending requests, moving the organization towards more capital-efficient vehicles for business investment
- Streamline approval processes to reduce overhead costs
- Boost efficiency of employees at every level of your company so they can be more creative and innovate

Implementing a cost cutting tool like e-Procurement can allow you to more rapidly improve your business processes. Then you'll be in a better position to grow your business as growth returns. A recent study by the Aberdeen Group found that the simple act of introducing and using e-Procurement saves an average organization 5% on their purchases. And with a nasty recession in progress and inflation rearing its head, a 5% reduction in operating expenses is a good start.