

Managing Your Business in a Recession – Part 3

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This week we look at how to manage your suppliers during a recession. For previous instalments, refer to www.spireca.co.nz

The starting point is to undertake a review of your suppliers, to ensure that each one is still the most appropriate provider of inputs for your business. For example, if a supplier cannot demonstrate a financial or operational benefit of their product, then discontinue that relationship. However, this will only apply to a limited number of suppliers.

Regarding key suppliers, focus on their current pricing and service levels. If a key supplier's prices have begun to creep upwards, or their service has deteriorated, consider tendering your purchasing requirements to a number of suppliers, to determine the range of pricing and servicing options available in the current market. It may be that you can obtain significantly better terms elsewhere.

I will cover cost cutting alternatives later, but be warned that cost cutting:

- Contributes far less to profitability than revenue growth, primarily due to the leverage provided by fixed operating costs;
- Reduces the ability of your business to grow; and
- Can damage employee morale.

Some additional tips:

Keep suppliers honest

- For example, a property developer tenders all major materials and services contracts for construction.
- A manufacturer maintains at least 2 suppliers for all critical production components.
- By tendering your procurement to at least two vendors, you reduce the risk to your business if a supplier's business fails.

Reduce rent burden

- Ask your landlord for an unscheduled rent review if market rates have fallen dramatically and your business is under financial pressure.
- Request a brief rent holiday if your seasonal business is finding it difficult to navigate a low point in the year.
- Premises rent often represents a significant proportion of a business's costs, so any cost reductions will immediately assist operating cash flow.

Increase payment terms

- If possible, extend your payment terms with key suppliers. This will provide a one-off (cash) increase in working capital.