

BUSINESS ON A SHOESTRING

SURVIVING A DOWNTURN

Building a successful business...
without breaking the bank

JEREMY KOURDI

Revised Edition

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BLOOMSBURY

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INTRODUCTION

In business, a downturn is never more than a few minutes away. Major customers can leave, disappear or refuse to pay; your brand can be damaged, fairly or unfairly, by ignorance or malice. Mistakes, acts of God or simple actions and unforeseen sequences of events can all conspire to create adversity.

The fact is that the best businesses are those that are energetic, thoughtful and restless, and that avoid complacency, are continuously learning, adapting and improving—in short, even if a downturn is not present, the best businesses act as if one is right around the corner and there is no time to waste. In a fast-moving, competitive global economy, this seems to be a sound approach to ensuring success.

Surviving a downturn is one of the hardest and most challenging tasks in business. Downturns can result from a range of factors, including economic shifts, external market changes, competitive pressures or simple mismanagement. While people tend to focus on immediate problems that cause an enterprise to fail, such as a lack of cash or sales problems, these may actually mask a range of business issues that result in failure. Such issues can include weak leadership, a lack of market awareness, poor use of information and an inability to innovate. The solutions to surviving a downturn or 'competitive squeeze' are therefore not simply financial or sales-focused, but much broader, covering the long and the short term, and they provide the focus for this book.

These issues affect the largest corporations as well as the smallest enterprises, so this book is illustrated with examples relevant to a diverse set of challenges: focusing on customers, controlling the

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money, thinking ahead, building trust, being creative, getting the right plan and working with people to succeed.

Whether you are surviving a current downturn or simply avoiding a future one, I hope this book will help you and your business to find firm ground, providing ideas and insights that ensure you prosper.

Jeremy Kourdi

ACKNOWLEDGEMENTS

This book is the result of the active support of two people and whilst the execution, style and shortcomings are my own, their expertise and help must certainly be acknowledged. First, my business partner and son, Thomas Kourdi, whose diligence is much appreciated and who has been a valuable source of information and well-informed opinion. Second, my editor at Bloomsbury, Lisa Carden, who suggested the idea for the book and provided patient encouragement.

Finally, my gratitude goes, as always, to my wife, Julie, and daughter, Louise, for their constant support and the inspiration to write.

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1 WHAT CAUSES A BUSINESS DOWNTURN?

The most simple but possibly alarming answer to this question is – you. Of course, this is both bad news and good. It's bad because the potential for a downturn in business success is always there, but it's also particularly good news as well. If the only potential pitfall is one that you know intimately and can control, then your chances of surviving a downturn are greatly increased.

The view that you are the potential pitfall is one that seems counter-intuitive. What about the myriad other things that decisively affect your business that you cannot control: customers' cash flow, competitors' products and pricing, the strength of the economy, legislation, unforeseen developments affecting your market, employees' fraud? The list is almost endless. Surely these are the real causes of business failure or success?

Well, these are certainly the factors behind business fortunes, but they're not the most significant when trying to survive a downturn. The truth is that you can't control the world, you can't control the market (regulators will prevent that), nor your customers or even the people who work in your business. While you may be able to influence all of these forces, the only one you truly *control* is yourself.

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When you're facing a downturn, you need to be aware of both the challenges and opportunities facing your business, and you need to reflect that understanding by taking decisions at the right time. To illustrate, consider the case of Gary Flandro.

During the mid-1960s Flandro was an undergraduate student on a work placement with the NASA space agency. At that time NASA was in the middle of the first Mariner missions to Mars, and Flandro was given the routine and (supposedly) far less interesting task of calculating, in detail, the movement and relative positions of the planets and the best time to launch a probe for a future expedition to Jupiter.

Flandro approached the task carefully and enthusiastically. He understood that the gravitational field of one planet could slingshot a probe on to another target at even greater speed, and he calculated when the four largest planets in the solar system would be on the same side of the sun, in the same proximity. He then calculated that a specific timing for a mission to Jupiter would, because of their proximity, also enable the probe to visit Saturn, Uranus and Neptune. Finally, Flandro worked out that only once every 175 years were the four planets close enough to make such a mission viable. This led NASA during the 1970s and 1980s to launch the enormously successful Pioneer and Voyager space probes, that dramatically increased our understanding of the solar system (Voyager is now the most distant and far travelled object in human history). Not bad for a young student given a routine task to complete!

So what does Gary Flandro have to do with our understanding of the causes of a business downturn? One point is worth noting at the outset: Flandro highlights the fact that inspiration and insight can come from anywhere—home, family, friends, public service, academia—not just business. More particularly, Flandro's success shows that it's what we do with the information around us that

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determines success or failure, not the information itself. Understanding the movement and position of the planets was not Flandro's great achievement—this had been studied in a rudimentary way since ancient times. His great success was to build on this understanding and realise its implications (the chance for a slingshot mission once every 175 years). Events may be challenging but it's our *response* that determines success.

We'll discuss in detail how to avoid and survive a business downturn later, but for now, there's one vital lesson. Surviving a business downturn means taking 100% responsibility for your business and its results. And this means not blaming, complaining, justifying, defending or withdrawing, but becoming actively involved, focusing your thinking and applying the skills and abilities you have to get the business out of its tailspin. As the business philosopher Jim Rohn noted, 'You must take personal responsibility. You cannot change the circumstances, the seasons or the wind, but you can change yourself.'

To highlight *how* to take 100% responsibility, consider the formula

$$E + R = O$$

(Event + Response = Outcome)

To achieve a specific outcome, you need to take control of your reactions. Being able to influence events would help, but clearly this is not always possible; what is achievable, however, is a positive, productive response leading to the right outcome.

The basic premise is that every outcome you experience in your life is the result of how you have responded to an earlier event or events. If you want to improve the results you are getting, then you can simply change your response (R) to the events (E)—the way things are—until you achieve the outcome (O) that you want. To

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control your response, focus on three specific elements within your control: behaviour, thoughts and images.

Changing your response requires a change in attitude, but it helps to know that for most people a large proportion of their behaviour (85–90%) is habitual and unconscious. Simply managing this aspect of behaviour will make a significant difference. After all, your current habits will get you only as far as you are at the moment. What is needed is the ability to adopt—or sustain—the right mindset.

There is one final, positive point to note. Reversing the causes of a downturn results in real progress and success, not simply ‘an end to the rot’ but something much more positive. In business you are either going forwards or backwards, but never static. You may think you’re standing still—for example, this year’s results may look very similar to last year’s—but in fact your long-term prospects could be declining and you could be entering a downturn. So, don’t think of surviving a downturn as being defensive, defeatist or essentially negative: it’s entirely about making progress and achieving commercial success.

Challenge 1: adopt the right mindset

How can you make sure that you have the right mindset to overcome the challenges of surviving a downturn? Or, if you like to think of the glass as half empty rather than half full, how do you know when your approach is causing a problem for your business, and what can you do about it? The answer will, of course, be very different from business to business, but there are several fundamental steps that every company can benefit from.

Believe in yourself

Focus your energies on what you’re good at and strive to improve your abilities in those essential areas where there is a clear,

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identifiable benefit. In particular, don't think that you're 'weak'. Believe in yourself and your abilities. It really does matter, for several reasons:

- **we're stronger and more capable when we think positively than when we think negatively**
- **you'll waste both time and effort if you don't believe you can achieve your goal**
- **it encourages energy, clarity, focus and persistence—and many other attributes that will enable you to succeed**
- **you have to believe in yourself even when no one else does. You don't need all the right answers but you do need the right attitude: a positive approach focused on making your goals happen.**

Even though you may be going through a tough time at the moment, don't forget all your past successes: how did you achieve them? Are there any lessons or tactics you can carry across to help combat your present situation? Finally, there are some things that just can't be delegated or ignored. If you want to succeed, you'll have to pull out all the stops and put in as much effort as possible yourself.

Decide what you want—and set goals to help you get there

In the bestseller *Good to Great*, business author Jim Collins highlights the significance of goal-setting. The best executives establish 'Big, Hairy, Audacious Goals'—stretching, challenging goals that inspire and motivate people, bringing out their best qualities. Goals are especially valuable as they help to provide clarity and focus. In addition, your goals should be measurable.

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Start by deciding exactly what you want. Create a vision in your own mind of how things will be when success is attained: visions can be very powerful motivators that can help you keep your activities on track. Next, establish those clear, stretching goals that will drive your progress along the way. The process of achieving a stretching goal is itself virtuous, making you more likely to succeed, irrespective of the goal itself. Anecdotal research suggests that less than 10% of people have personal goals.

Focus on breakthrough goals, those achievements that will take your success to a new level, further and faster than might otherwise be attained. Also, everyday, at least twice a day, focus on your goals: this is because what you think about is much more likely to come about.

Practise the 'rule of five'

Once you've clearly defined a set of goals that are challenging and personal to you, do five things each day that will help you to achieve them. This 'to-do' list will help you focus the way you think and the actions you take.

Stop complaining, and work with successful people

This links closely with the earlier need to believe in oneself and be positive and to take 100% responsibility. Complaining can become a habit: we become so used to complaining that it can be very difficult to stop. The reason it is so important to knock it on the head is because it just gets in the way of our ability to respond effectively to situations, challenges and opportunities. We get too focused on what went wrong, why it went wrong and its consequences, rather than taking a productive approach of finding a successful way forward.

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One way to stop complaining is simple: avoid people who complain, as their attitude easily spreads. The converse is also true: if you surround yourself with positive people, you're much more likely to take on the attitudes, values and energy that have helped to make them successful, and by moving in the circles of successful people you are more likely to achieve your goals. This is because whether consciously or unconsciously, many high achievers recognise in others the qualities that achieve success. They may provide support, guidance, practical help or, at the very least, motivation and encouragement.

Self-awareness and developing the right personal mindset are vital. Without them, a business (and personal) downturn is more likely; *with* them, on the other hand, success is more assured.

Challenge 2: stop being complacent, too focused on short-term goals or simply unaware

Some of the commercial causes of a downturn are obvious: for example, your business might not have the right product or price; you might not have enough customers; your product might not be in the right place at the right time; or you might not be able to reach your customers and persuade them to buy from you. To get through this variety of issues, though, you need to have good information in a timely fashion so that you can take and implement the best possible decisions.

Develop your commercial awareness

Being up to speed with commercial trends is one good way of avoiding a business slump. Highlighting this point is the example of Foster Brothers—a mens' casualwear retailer—which owned shops on most UK high streets in the 1970s. One year, sales began to decline and they responded by using the traditional success formula

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of cost-effective procurement of finished goods—for them, this meant sourcing cheaper supplies of menswear made to Foster Brothers' own designs. Over the next few years, the company reapplied this recipe many times and the well-made items of menswear sold at very competitive prices. Foster Brothers maintained its margins on the basis of its excellent procurement process.

However, the success proved to be temporary, and in time Foster Brothers went out of business. The reasons for this failure can be traced back to the inertia evident in their strategic thinking. Men in the UK had become fashion conscious and preferred to shop at other emerging retailers more in tune with men's current fashion trends and style. In short, Foster Brothers' success formula no longer matched what their customers wanted. An aspect of their business environment had changed in a way that Foster Brothers seemed unable to appreciate.

Use knowledge and information

Being able to find and use the right information in the right way is at the heart of commercial awareness, as we explore in more detail in Chapter 3. However, it's worth appreciating that, for now, what matters is a business's collective skills and knowledge, and how they are managed. Businesses succeed because they have scarcity: they provide something that is distinctive, meaning more convenient or more valuable than their competitors can provide or something that is simply unique. Central to achieving this is knowledge. Thomas Stewart, author of the book *Intellectual Capital*, commented: 'Knowledge has become the most important factor in economic life. It is the chief ingredient of what we buy and sell, the raw materials with which we work. Intellectual capital—not natural resources, machinery or even financial capital—has become the one indispensable asset of corporations.'

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The rising importance of knowledge suggests that, to be successful, a business will need to be what's known as a 'learning organisation', an enterprise that is constantly sensing, valuing and sharing information, and using this information flexibly to improve efficiency, generate profitable new ideas and, above all, to add value for customers.

Avoid 'business as usual' thinking

Many businesses fail because they get stuck in a rut as Foster Brothers did. They allow their success 'recipes' to become routines that guide the way they think and act. If your business is to survive, though, it's essential that the decisions it takes match up with what external world wants. In other words, don't follow recipes just because you always have before; be ready to change them if they're no longer appropriate.

Sometimes, though, strategic inertia takes over and people are reluctant to change the way they do things in any way other than incrementally. There is a danger here: just as your business reacts to the outside world slowly, you'll gradually become distanced from it, sometimes almost imperceptibly, like being cut off from the mainland at high tide.

'Business as usual' thinking:

- prevents managers from sensing problems
- delays changes in strategy and tactics
- leads to action that has no connection to your customers or the real world

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Focusing on the wrong priorities or being complacent can happen to any size of business at any time, and this can be fatal. A classic example of flawed thinking and lack of awareness is provided by Xerox, who in the early 1970s held a 95% market share of the global copier industry. Their target customers were large corporations and their concept of customer value was that of centrally controlled photocopying. Xerox focused on manufacturing and leasing complex high-speed photocopiers, using its own manufacturing and sales service force to provide a complete package to those who leased its machines. The firm's name became so synonymous with this everyday office task that people did not copy documents, they 'Xeroxed' them.

Viewed over a 35-year period, the story of Xerox's business fortunes is a remarkable rollercoaster ride of fabulous highs and terrifying lows. We follow its story into the 21st century in Chapter 7.

Challenge 3: decide and then implement the right approach

Linked with the need for awareness, urgency and an absence of complacency is the ability to do the right things, in the right way at the right time. In other words, you need to get things done with making mistakes en route. (Turn to Chapter 9 for advice on the essentials of decision making under pressure.)

For now, it is useful to highlight several points about the causes of a downturn from interesting research highlighting the problems for organisations that are unable to detect or respond to change (known as the Sharpbenders' research). The research concentrated on companies that had been failing, as shown by a stock value that had been slipping against the market average, but that had been able to turn things around. That is where the word *sharpbenders*

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came from—a slipping stock value followed by a recovery. The idea was that these companies, having been able to turn things around, would be able to articulate what had gone wrong and why this had happened. After all, if they managed to turn things around they must have made a successful diagnosis of what went on during the downward period of their history.

Having identified such companies from stock market records, the researchers interviewed many of them and produced a list of what can go wrong (see Grinyer, Mayes and McKiernan, *Sharpbenders: The Secrets of Unleashing Corporate Potential*, Blackwell, 1989). The findings identify five key causes of decline:

- 1. adverse development in market demand or increased competition**
- 2. high cost structure**
- 3. poor financial controls**
- 4. failure of big projects**
- 5. acquisition problems**

Interesting though these are, *Sharpbenders* was significant because the causes of failure that they identified can be divided into two categories: 'hygiene factors' and 'business idea factors'. Surviving a downturn means understanding the difference between the two.

Differentiate between 'hygiene factors' and the business idea

Businesses have always tried to find ways of outsmarting the competition. Not all ideas are equally effective, but some stand out as clearly successful. Initially, some organisations develop significant competitive advantage by exploiting these ideas, but, over time, others see the beneficial effects and start to copy the