

Surviving the downturn

The financial crisis hit hard and fast. The majority of business owners have never experienced a market reversal this severe. Literally billions of dollars have been ripped out of global markets. This reversal of wealth and value will impact all business sectors, SMEs included. So what can you expect from here? Should you go looking for growth or batten down the hatches?

The flow on impact is likely to come in at least three stages. Don't expect it to be a single impact or consistent through the stages. Phase 1, where we are now, is the initial impact and reaction; it comes with high levels of volatility. The natural reaction is either panic or do nothing – watch and wait. From there, hopefully, the market settles to its new natural level in Phase 2. This should occur before the end of the year. Once this happens everyone readjusts to the new environment. Phase 3 is likely to occur some months later as the flow-on effects and the ripple through to the SME sector occurs.

Not all businesses will be affected to the same extent and in the same way. You need to understand your industry sector like never before. Some industries are more recession proof than others. The goods or services that you provide may be part of a supply chain that is a necessity or it may be more discretionary. The more discretionary your supply chain the greater the volatility that can occur if confidence leaves the market. Going forward we will likely see falling interest rates and around \$7 billion pumped into the consumer market by the Government in December. This will have some effect. The question is how much and for how long?

You also need to understand your customers. Where you supply directly or indirectly to a consumer market you need to measure consumer confidence closely. Government hand outs and falling interest rates are a positive. Offsetting that will be whether consumers are confident about the future and in particular their employment security.

Your business may be somewhere in the resources supply chain. This should be insulated to some extent through the demand flowing from China. The Government also plans to bring forward much of its future infrastructure projects. If you are in this supply chain there will be an increase in activity.

If you are in either an import or export affected market you need to factor in currency movements. The sharp decline in the Australian dollar makes exports more attractive whilst

importers, with no currency protection, have had a major increase in their costs, and possibly in a market where cost increases will be harder to pass on.

Until the markets settle to their natural levels expect continued volatility. From there we will see some waves flow through as the Government and the financial markets try to offset the global impacts. Much of this activity will not cause sustainable growth but a surge of activity, followed by a resettling to natural levels. The boom market is over. This doesn't mean doom and gloom but it does mean that business owners who have a more strategic approach to their business will be the winners.

The downturn at a glance

- The Australian market is more than 40% below its peak
- Housing prices fall by 1.8% in September quarter
- October ANZ survey of job ads shows 5.9% drop from previous month
- Australian dollar slips to lowest level since 2002 (from around 90 US cents in July to the October average of 69 US cents with a low point of 61 US cents)
- Annual CPI increases to 5% in September quarter (highest since introduction of GST)
- Government announces \$10.4bn package including an increase of the first home buyers grant to up to \$21,000
- Government guarantees all deposits of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks for 3 years
- RBA reduces interest rates by 1.75% in two months (October and November) to protect consumer spending
- Annual retail sales trend down by 1% (but hold steady at +0.2% in September). Swings affect smaller retailers more than larger counterparts. Food retail (40% of total retail sales) dips slightly but tracking at 7% annually. Household goods retail slipped 2.7% in September; declining at a 6.9% annual pace.
- More than 25 banks around the world have failed or been bailed out

Downturn warning signs

Everyone has a level of nervousness at the moment and most of the concern is about the unknown. In the same way that Australia is affected by what happens in the global markets, small businesses tend to be affected by what happens with

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large corporates and consumer sentiment; it's the flow on effect that has the impact.

Despite the uncertainty, there are early warning signs that there could be some rough times ahead. These early indicators are typically in the areas of:

- Your order book;
- Liquidity; and
- Capacity

If your business is fundamentally sound then you need to watch out for the external factors; the impact from your customers, and the market. Depending on the sector you are in, your order book or sales activity is a quick barometer of activity. When your customers start to slow their spending you need to recognise this early enough so that you can reorganise your own levels of activity. This may mean reducing stock levels, limiting spending, or even reducing staffing. Don't simply do this as a knee jerk reaction; you could miss out on business that was otherwise available to you. By measuring order and sales activity by comparison to prior months or the same time last year, you can see if there is a trend emerging. Once you can see a clear trend, start to make adjustments.

On the liquidity front, the first sign that your customers are feeling the pressure is when they start to slow down their payment to you. One of the best ways to measure this across your customer base is your average debtor days. This is the average time your entire customer base is taking to pay you. If the average days are on the increase then you need to act on this and tighten up your collection process. Where this is happening you will also require increased levels of working capital. As well as measuring the overall trend, identify those individual accounts that are outside of your trading terms. Deal with them individually and be prepared to act early or withhold supply. A sale is only a good sale if you get paid for it.

Keep an eye on your available capacity. Most businesses carry free capacity to allow for growth or fluctuations in activity. Capacity is a good thing to have, but in a tightening market you need to limit the amount of capacity you carry.

The key to all of this is to keep a close eye on your business and your numbers. Not everyone will be affected in the same way. **Smart business operators make good money in tough markets; the cream floats to the top.**

Talk to us today about assessing your level of business risk and how to protect your business in the tough times.

Today's Stock Market Report.

Helium was up, feathers were down. Paper was stationary. Fluorescent tubing was dimmed in light trading. Knives were up sharply.
Cows steered into a bull market. Pencils lost a few points. Hiking equipment was trailing.
Elevators rose, while escalators continued their slow decline. Weights were up in heavy trading.
Light switches were off.
Mining equipment hit rock bottom. Diapers remain unchanged.
Shipping lines stayed at an even keel.
The market for raisins dried up.
Coca Cola fizzled.
Caterpillar stock inched up a bit.
Sun peaked at midday.
Balloon prices were inflated.
And Scott Tissue touched a new bottom.
And batteries exploded in an attempt to recharge the market...
[From Clyde's collection](#)

Hope you now have a smile on your face! Don't forget to make an appointment to see Ashley for your end of year Financial Planning.

The Quote of the Month

"On the five occasions since 1985 that the Australian market has suffered a negative return, it has generated an average rise of 28% in the following year!
So history tells us that the share market generally bounces back sharply after a period of negative returns."

Rob Coombe, CEO, BT

*** Alchemy News ***

There were Happy Birthdays to Robyne and Jodie this month. Congratulations also to Rex who has now received his official CPA Certificate.