

Surviving the cycle

So you've survived the economic downturn. Now, the question might be, *Are you ready to take advantage of the next upswing?* Because inevitably that's the nature of economic life in a modern economy. One key to surviving downturns, and thriving during upturns, is a strategic approach to business planning.

For John Bayliss, a principal with the Boston Consulting Group in Toronto, the planning part means setting a company vision for where you want to be in three to five years and then working out the concrete steps that will take you there. One of the most critical components of that process is forecasting the future.

"A lot of businesses forecast only one scenario," says Bayliss, "which is: what is my expected outcome for my business over the next year or three years? The best businesses think through two extremes — what is my dream scenario and what is my nightmare? Once you think about how you're going to operate in those two extremes, it gives you the confidence to make decisions in any scenario that falls in between."

Painting an accurate picture of the future requires a clear understanding of the factors and forces that impact the economy, as well as your industry, company and customers. Depending on your business, that can mean taking into account a number of trends and drivers.

For example, industrial output, commodity prices, the value of the Canadian dollar, inflation, interest rates, housing starts, vehicle sales, retail sales, labour market conditions and consumer confidence are just a few of the pulses that Dawn Desjardins, assistant chief economist at RBC, keeps her finger on to forecast which way the economy is headed.

"These indicators," she says, "can help you make informed decisions and identify opportunity. For example, if you have a view on where the Canadian dollar is likely to be in six months time, that can help you decide whether it's better to make a major purchase now or wait. Or, whether you feel the U.S. will be in a better or worse position down the road might impact your decision to lock in contracts or hold off."



These can be difficult issues to navigate. Working with financial advisors is a great way to stay informed and keep on track. Bayliss advises businesses to pick out the three or four metrics they need to monitor in order to really make sure they are on top of their game. To identify those metrics, he recommends the 80:20 approach.

“Whether you run a \$10 billion or \$10 million business, usually 20% of your customers are driving 80% of your revenue and profit. You need to isolate that 20%. Understand them. And be sure what you’re doing is keeping them happy. Internally, what drives 80% of your cost structure is usually 20% of the activity. It could be raw materials purchasing, employee headcount or your sales force. Understanding those costs and managing them religiously is key.”

Bayliss also recommends paying close attention to things like customer orders and backlogs for early warning signs of an economic change. And he warns against cutting too quickly or deeply without careful evaluation, even if the nightmare scenario comes true. “Equally important

during a downturn,” says Bayliss, “is to look for opportunities to make a game-changing decision — to access a new group of customers, make an acquisition, reorganize your sales force in a way that helps you emerge stronger.”

Desjardins concurs. “The companies who look at an economic downturn with an opportunistic eye often find that there are a lot of good prospects. You just have to seize the day and get involved — provided you’ve got the economic resources at your disposal.”

Given the complex yet critical nature of strategic planning and forecasting, both Desjardins and Bayliss recommend keeping a financial advisor involved in your decision-making — someone who knows your business intimately, whether that’s a banker, an accountant or a consultant.

“And know where you’re getting your financing from,” says Desjardins. “Don’t wait until the last minute to put things in place. You need to be able to react quickly, as the environment changes, if you want to achieve your goals.”

Signs of the times

7 Signs Your Business Might Be in Trouble

- › Increasing expenses
- › Frequent borrowing
- › Low cash reserves
- › Delayed payables
- › Decreasing sales
- › Taxes in arrears
- › Bottom feeding

6 Tips on Coping with a Downturn

- › Improve sales
- › Control payables
- › Control expenses
- › Reduce borrowing
- › Restore cash reserves
- › Seek advice from strategic partners

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