

The Business Fundamentals are the Elements of Business in Tough Times

Whether businesses have survived or flourished in the recent Global Financial Crisis, some common issues and themes are seen that can be applied to businesses in future tougher climates.

From earthquakes, to floods through to a major loss of credit in the marketplace, the occurrence of many events maybe outside the control of business. Yet, commensurate with the needs, capacity and capability of a business; efforts can be made in preparing for these events, in responding to events and by embedding a general durable and resilient business culture which will also yields other benefits.

One of the lessons reiterated by the current Global Financial Crisis is that the business landscape is a series of crises (from securing funds, to product recalls, to responding to floods and droughts, to security issues, strikes and more), of differing intensities, that need to be successfully navigated, i.e. crises are the norm and not the exception. Successful businesses have revised their view (from “if the crises did not occur, we would be successful” to “crisis are part of the landscape and we operate to them”) and have built in a natural durability and resilience capability into their operations.

Although the ability of a business to respond to a crisis depends on many factors including the severity of the crisis and the capability and capacity of the business, the Global Financial Crisis has also underlined some other major points including:

- *No change in business fundamentals* - The business fundamentals do not change in a crisis: Indeed the consistent and persistent application of business fundamentals is the key to enduring the crisis, even flourishing in the crisis, e.g cash-flow management, debt management and risk management.

- *Strategies remain* - The underlying strategies of the business should not change: The priorities and plans need to change but good underlying strategies remain unchanged, e.g. a vertical integration in a market strategy is still valid in a crisis.
- *A crisis provides opportunity* - The saying “never miss a good crisis to get things done” comes to mind because it allows businesses to build infrastructure, re-engineer processes and address other issues they may not have been able to address previously when priorities may have been growth, i.e. meeting growth opportunities requires a different response to consolidation of the business and preparation for the next growth phase.
- *Value of products/services* - Those businesses that focused on delivering valued products/services and developing the values of these assets rather than “paper assets” were of solid value before, during and after a crisis.
- *Sustainable profitable business comes from a longer-term focus* - Businesses with a focus on the immediate tend to adopt a “crash and burn” approach without care for the consequences. Those businesses using a sustained profitability approach are well placed to capitalise on opportunities provided by a crisis.

The headlines around the recent Global Financial Crisis often create the impression of “if you are big enough and your mistakes are bad enough, you will get bailed out and nothing will happen to you”. Yet history shows us that this is an over simplification. A look around business shows us that the words which may best sum up business success “business fundamentals”, because the culture that comes from the consistent persistent application of business fundamentals sets the platform for all of the successful business fundamentals.

Businesses get the most from employees when a business is focused on the fundamentals. Suppliers like dealing with companies that stick to the fundamentals because they know

“sound business fundamentals before a crisis, apply during a crisis and leaves business well placed after a crisis”

“underlying business strategy remains valid in a crisis, it’s the priorities and plans that change”

where they stand and it forges profitable and sustainable relationships. Similarly for Customers because of the trust factor that ensues.

It is the empowered culture and sense of ownership that comes from the consistent and persistent application of the fundamentals that is of most value to business. The business fundamentals include:

- *Cash-flow management:* This is the survival factor of any business, particularly in a crisis. Often the priority becomes cost cutting, significant cost cutting in a short-period (from cutting of staff and inventories, to scaling back operations and reprioritisation of markets). A sale of assets or securing investment, e.g. the sale of part of Aussie Home Loans to the Commonwealth Bank of Australia, may also be required to strategically secure cash-flow. Those businesses with well managed cash-flow before a crisis, a better placed to manage through a crisis and preserve the long-term business sustainability.
- *Conservative balance sheet:* Aligned to cash-flow management is the state of the balance sheet. Again those businesses that prioritised a strong balance sheet, managed conservatively to sound business principles, were of value before, during and are very well placed after a crisis. Many businesses with highly leveraged balance sheets have struggled and/or have not survived the Global Financial Crisis.
- *Risk management:* Whether it is the financial risks seen in the headlines of the Global Financial Crisis, the financial risks of the Savings and Loans crisis of the 1980's, or the manufacturing risks associated with the notorious industrial plant failures in Bhopal India in the 1970's, those businesses which have managed their risks to proven practices (from balance sheets to risk based contingency planning and recovery) are in a stronger position during and after a crisis.
- *Legislation and compliance:* The Global Financial Crisis showed that those businesses that worked within, especially

"cash-flow management is the survival factor in a crisis, where significant and rapid cost cutting maybe the order of the day"

"consistent and persistent application of the business fundamentals leads to a durable, resilient and profitable business"

those working with the intent of, legislation and compliance, survived the Global Financial Crisis in better shape than those who resisted legislation and compliance, e.g. Basel compliance for the provision of capital for operational risk or the regulatory framework of the Australian and Canadian financial systems. Businesses which tend to naturally adopt legislative and compliance principles often do so because they align with the best long-term interests of the business.

- *Customer preservation:* Preservation of customers and the related income is pivotal to cash-flow management, especially in a crisis. Those businesses that have valued customers and have induced loyalty within their customers are better placed to survive and even grow their business during and after a crisis. Customer preservation activities (from as simple as talking to customers through to small changes but advantageous changes in trading terms) can often yield significant results for small effort, e.g. communities and neighbourhoods prioritising their expenditure to support businesses in their local communities.
- *Discounting:* The reaction of many businesses in a crisis has been to discount and cut margins. Whilst applicable in many instances, discounting may not be a sustainable approach. Those businesses that focused on a value for money relationship with their customers have often preserved their margins through a crisis. Indeed, those businesses able to preserve margins and secure cash-flow are often well placed to acquire customers during and after a crisis.
- *Focus on core competencies:* Those businesses that focus on their core competencies and consistently and persistently deliver these products/services to meet and exceed expectation are successful businesses. A crisis often leads to a re-focusing of business effort on core competencies,

leaving the business in a stronger position.

The elements outlined are nothing more than the business fundamentals consistently and persistently applied to business operations. Whilst reference to the Global Financial Crisis is used to illustrate a resilient business, a casual view of other major and business specific crises, as well as general business management, shows that the basic business principles do not change and those businesses which consistently and persistently apply the business fundamentals are durable, resilient and successful. Although form suggests that many of the lessons of history may be again forgotten by the time of the next major crisis, hope springs eternal.

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IMS Corp. - Australia
Email: info@imscorp.com.au
Web: www.imscorp.com.au

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