

The Orchard Advent Calendar 2008

Welcome to the Orchard Advent Calendar. This was first produced on a daily basis on our website in December 2008 and proved to be so well read we thought we'd make it easier for people to use by putting it into a downloadable file. It featured daily useful tip from our SMART programme which is designed to assist companies to survive and thrive through the recession. We hope you find it useful and if you have any comments then please email us at smart@orchardgrowth.com.

Day 1 - Don't Panic (aka ignore the media)



the chances are that you will.

Much of the media reporting has been disappointing and there is an argument to say that many of these recent events have been panic driven. However a reality check is always worth doing. Even with a (hopefully mild) recession GDP is likely to remain at 98% - 99% of what it is now and the vast majority of people will continue in work and live as they did before. So look out for the best but prepare for the worst. If you are a good enough business to survive

Day 2 - Cash is King!



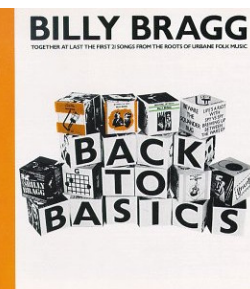
The old clichés are the best! Turnover is sanity, profit is vanity, cash is reality.

Every transaction you do should consider cash e.g. how much cash profit, will it actually be paid for and when. There is no point in making sales if they don't end up as cash in the bank. So, what can you do?

1. Cash flow forecasts should be part of your regular reporting framework.
2. Such forecasts should also use "What if....?" scenarios so you can have contingency plans in place for the unexpected.

Two more thoughts. Businesses fail because they run out of cash. The best way to generate cash is by selling your products and services at a profit and collecting it.

Day 3 - Back to Basics



The basics we refer to are the basics of financial management.

Bad habits creep in during the good times e.g. slack debtor collection, lack of care in providing credit, carrying excessive stocks, working in the business not on the business. When you are busy and making money these things don't seem to matter too much - however when things get difficult their cumulative effect can make things worse than they need to be. Cash is King, therefore make sure you take action to manage your cash situation as a priority.

1. Collect debts when they are due
2. Pay creditors when due and not before unless you can get a healthy discount
3. Manage stock levels and make sure you are not left with stock that you can't sell.
4. Control who in your business who can incur cost.
5. Make sure you have proper financial controls and reporting processes.
6. Understand your business financially and know where you are making profits and losses.

Day 4 - Look Outwards not Inwards



The tendency in any downturn is to look inwards, to batten down the hatches, cut some costs and assume that the outside world will take care of itself and that normal service will be resumed in due course.

However if you concentrate your focus internally you risk missing out on any opportunities that might arise and lose sight of what is happening in the market place. By looking outwards, by exposing yourself to new ideas you have a better chance of finding the solutions that will improve your performance and give you business the best possible chance of being a winner in the current climate. So what can you do?

1. Keep talking to your regular circle of contacts. Find out what's concerning them. Are they issues you should be thinking of? Are they optimistic or pessimistic? Do they see opportunities that might be relevant in your business?
2. Build new contacts. It's a great time to develop your network. This will supplement what you hear from your existing contacts, but also may in time lead to new business. In making new contacts, try to broaden out the range of people you know to provide a broader perspective on business.
3. Talk to anyone and everyone. When did you last speak to someone in the queue in front or behind you? Try it! It's not as crazy as it sounds. You never know where the conversation might lead

Day 5 - Make it easy for people to pay you



You don't need a large man in a dark suit to help get payment of your invoices. There's an easier way. Do not give people an excuse not to pay you! Here are some simple tips on how to get paid on time.

1. Issue invoices promptly and correctly.

- (a) Make sure there are no errors in your order and invoicing systems which could delay payment.
- (b) Provide clear payment terms and encourage electronic payments which avoids having to cash cheques.

2. Put in place credit control procedures to make sure you get paid on time.

- (a) Check your debtor balances regularly.
- (b) Remind people when debts are due, and chase immediately when they are overdue. It is a good idea to phone up early and ask for payment - this can be disguised as customer service.
- (c) Make sure you have clear procedures in place for chasing overdue debts including putting customers on stop and solicitors letters.
- (d) If you say you are going to do something do it and don't cry wolf.
- (e) Make sure you have an answer for all the excuses.

Day 6 - Cut costs not corners



It's a recession, batten down the hatches, cut out all unnecessary costs, it's what you have to do isn't it?

Well that was certainly the case in the 80s and 90s but this time it is different. Yes it is an opportunity to remove the fat from your business but don't cut costs indiscriminately or just go for soft targets.

1. Be strategic in how you cut costs by making sure you really understand your cost base and how it affects your business.
2. There is always the potential to renegotiate supply contracts or consolidate suppliers.
3. If there are seriously underperforming customer groups, products or services it might be time to eliminate them.
4. Think carefully about what you cut;
 - especially cutting staff costs which may have a negative morale effect on the remaining workforce
 - don't compromise on compliance costs such as health and safety
 - don't cut back on your marketing activity.

Day 7 - Communicate, communicate, communicate



Perhaps the most important tip of all.

1. Talk to customers, suppliers, employees, other stakeholders, banks and finance providers.
2. Definitely talk to your bank. They do not like surprises and would much rather know in advance if you envisage some turbulence in your business so that they can help you work through it.
3. Find out what all these people who affect your business are thinking.
5. Let them know what you are doing to solve their problems. (Yes their problems - if you take care of their problems it stops them becoming your problems).
6. Talk to friends, colleagues and fellow networkers. This can be a really good way to find out what is really happening in the business world.

Day 8 - Manage working capital



Think of working capital as a sponge sucking up your cash. So, how can you minimise this sucking up? Well, you can minimise your working capital requirements by collecting your debts efficiently, maximising your credit and controlling your stock.

Debt collection

1. Make it easy for people to pay you by invoice correctly on time, providing clear payment terms
2. Check your debtor balances regularly and chase immediately when they are overdue.
3. Do not give people an excuse not to pay you.
4. Credit check customers both new and existing - don't forget anecdotal evidence as well as credit agencies when doing so.

Creditors

1. Make sure you take your full credit from suppliers but don't take advantage and abuse the credit you have been given. You would not like the same thing to be done to you and one day you may really need their help and understanding. Slow payment could also create the impression that you are finding it difficult to pay them, which could mean your credit facilities are withdrawn.

Stock

1. Manage your stock by becoming lean and mean and aiming for just in time delivery. This means that you only carry the stock you need and avoid being stuck with stock you can't sell.
2. Control how you order and reorder stock and if you are already overstocked see if you can turn it into cash, even if you need to take a loss on it, without disturbing your existing market or pricing.

These sound like simple steps but they require strong discipline. However, if you manage to stick to them you'll see your cash balance getting much healthier over time.

Day 9 - Business Planning



Business planning needn't be over complicated with lots of squiggly flowcharts! OK we're finance directors so we would say that wouldn't we but it is totally logical that a business should have a business plan as to how it will achieve its goals.

However it is surprising how many businesses do not plan properly, and by properly we are not suggesting rigid inflexible voluminous business plans and management reporting packages documents involving the destruction of rain forests that are so beloved by corporates that goes into the drawer once finished. We mean simple flexible documents supported by regular update reports that enable everybody in the business to understand where they are and highlight any changes that need to be made. So what can you do?

1. Review your existing business plan and budget or start preparing your new business plan and budget. If you don't do business planning and budgeting now is the time to start - it is a good way to find out how well you really do know your business!
2. When preparing your business plan and budget test some scenarios e.g. sales down 5%, loss of certain customers - what would you need to do to survive in those circumstances?
3. An outside viewpoint on your business plan can often be invaluable even if you have to pay for it. Sometimes you can be too close to your business to be objective about it.

...and finally don't overcomplicate it! Squiggly flowcharts might look impressive but they probably won't increase the value of your business plan.

Day 10 - People are your most important assets - seek their help



"People are our most valuable asset". This is something that is frequently said by businesses of all sizes. Now is the time to prove it and to put it to the test! Here are some useful tips.

1. People will get nervous so you need to be honest about the situation with your employees. This is something that an SME should find easier than a larger concern.
2. Leadership and communication are key so don't be afraid to outline your vision and strategy and explain key business issues and problems.
3. Be upfront about problems that your industry and your business are facing
4. Don't be afraid to ask for help - you may be pleasantly surprised at the result! Use your people to look at new ways to create new business and improve the current operations.
5. Of course one upside in the current climate is that there could be a number of top class talented people becoming available who you may not normally be able to attract to your business. Keep your eyes and ears open for such and opportunity.

Day 11 - Reinvigorate your sales processes



[I asked for an image of sales not ales. I know it's getting close to Christmas but this is ridiculous. Ed]

Now is a great time to re-examine and reinvigorate your sales processes.

1. However for this to be effective you will need sufficient information necessary to achieve a good understanding of your sales, particularly such things as sales margins and the costs of servicing a customer. It is clearly not worthwhile making a sale unless it leads to profit and cash.
2. This information should be used to ensure you look after your good customers and get rid of your bad ones. It should also help you avoid becoming dependent on one or two customers.
3. You can then orientate and incentivise your sales team both to look for new customers and find new ways to sell to existing customers, always remembering that it costs much less to sell to an existing customer than to acquire a new one.
4. Look at pushing through some targeted price increases, possibly by enhancing and explaining the value you are delivering to your customer.
5. Don't rush to cut prices just to maintain market share, make sure that any cuts are justified in terms of margin achievement and covering the costs of servicing a customer.

Day 12 - Reporting and KPIs



What information do you use to manage your business?

We believe that good financial and management reporting should consist of regularly-produced simple numbers and key performance indicators (KPIs) that you look at daily, weekly and monthly and that that will provide with an early warning system. Remember if you can't measure it you can't manage it.

1. Businesses should be monitoring things such as cash flows, which products are making money, break even points, overhead costs, stock turnover, debtor days and debtor collection.
2. You should chose KPIs that are meaningful to you and that reflect the drivers of your profits and your cash.
3. Make sure your information is up to date as there is no point getting reports and accounts when it is too late to take action.
4. Remember that the only reason for any report is to take action of some kind (even doing nothing as a result of a report is OK as long as it is consistent with the findings of the report).
5. Don't assume that your bookkeeper or accountant (or your full and part time FD) is taking care of numbers and understands them - you need to make sure they do and that you do!

Day 13 - Cutting staff costs



No one likes to do it but to help ensure survival of the business sometimes it has to be done. However;

1. Cut staff with caution and consider the alternatives.
2. Can pay be deferred or more creative remuneration packages devised?
3. If things are currently difficult but the business is fundamentally sound then maybe a salary deferral scheme could be implemented, which could be preferable to redundancies
4. Remember the costs of firing and rehiring. Cut too quickly and you will be faced with recruiting rapidly which means you are lumbered with both redundancy and recruitment costs.
5. If as a last resort you do have to cut staff make sure you do it properly and take legal advice. The cost in time and money of a tribunal hearing could more than outweigh any savings.
6. If you have not already done so make sure all your employment documentation is up to date
7. And finally be aware of and deal with "survivor syndrome". Employees who remain left behind often experience a negative reaction in spite of still having a job. Have plans in place to deal with stress management, look at team building exercises, ensure good communication, have some realism in setting goals and do not neglect training.

Day 14 - Don't cut back on marketing activity - be SMART



The four P's of Marketing seem to have inflated now to the seven P's of Marketing. We suppose it's a way that Marketing folks seek to emphasise how important their discipline is, and even with our FD hats on we'd agree.

1. So, don't cut back on marketing! This is the time your marketing resource should come into its own, the time for it to add real value.

2. However that does not mean that you should not examine the return you get from marketing activity and how influential

it is in developing your business and improving sales and cash flow. You may need to better understand what it is costing and how effective it is, and then make sensible decisions about how you improve it with the same or less resource.

3. Make sure you remain visible to Customers, Clients, Employees and other Stakeholders. Don't turn inwards - look outwards. If you cut back on marketing activity people may think you've gone bust or aren't interested in them as potential clients any longer!

Day 15 - Know when to Quit



Just surviving? We recognise that what has been said before may seem glib and unrealistic if you are really struggling just to pay the bills. However all is not lost.

1. So if sales are falling and cash isn't flowing don't put your head in the sand and pretend it is not happening - face up to it - take advice - if you don't do something about it now it will almost certainly be too late. Clearly the need is to improve cash management with regular cash flow forecasts and debtor collection being key. You may have to trade for cash in the short term through one off deals that boost cash flow rather than profit.

2. Keep stakeholders informed e.g. bank, suppliers, clients, employees - it is possible to work through a solution if your product and service is valued long term and you are just in a short term crises position.

3. However if things are really serious you do need to be aware of insolvency law and the risks of trading whilst insolvent. Although it is not always easy to prove, you as a director may be personally liable and as it is a complex area, advice from an good quality Insolvency Practitioner is vital if you have any concerns.

4. Know when to throw in the towel - ultimately if there is no hope and it is ruining your life and your health it is not worth it.

Day 16 - Ask for advice



You are probably not Superman or Superwoman. This may also be the first time you have had to cope with such an economic situation. Read widely and don't be afraid to ask for help. There is plenty of good advice around if you look. Good sources of advice include professionals such as part time finance directors, bank managers, accountants and lawyers, business organisations such as the Institute of Directors or local chambers of commerce plus various SME business magazines, websites and blogs. Sometimes it is free but don't be afraid to pay for good advice and

assistance if you need it - it could be the difference between success and failure. Just be sure of who you take advice from.

Day 17 - Buying or Selling a Business



Why might buying or selling a business be a good idea during the economic downturn?

1. If you have the cash or can get hold of it now could be a good time to acquire a business either to strengthen your position in your key markets or enter into new but complimentary markets. There will be weak competitors who are not as SMART as you are who as a result are fatally weakened so you could buy them out, although hiring their best employees can be an easier and cheaper way to get

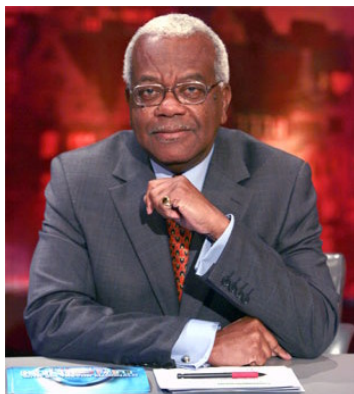
their business.

2. However be careful - over 70% of acquisitions fail to achieve their objectives, so be honest as to why you are doing any deal, take advice particularly in structuring the deal, and do your due diligence.

3. Equally if you don't fancy battling through the next 18 months to 2 years then there is the option to sell. The timing may be ideal, but if you can get a cash lump sum you are happy with, there could be good lifestyle reasons for doing so.

4. If you are going to sell treat it as a sales and marketing exercise and choose advisors who will research the market thoroughly. Remember that the best buyer for your business might be somebody you would not have thought of as the obvious choice. Make sure your advisors run the process for maximum value and create some competition to buy your company.

Day 18 - And finally.....



Those of you who have made it to the end will no doubt be mulling over in your mind all the advice that we and other have given you over the past weeks and months. Common themes will have emerged such as

Don't panic but be realistic
Look for the best whilst preparing for the worst
Always be aware of opportunities
Look outwards not inwards
Cash is reality
Plan, Control, Monitor
Cut costs not corners

Be flexible
People are still important

However our final point is; Remember the work-life balance.

Christmas is a time to escape from the work environment and enjoy time with friends and family yet your mind may drift towards work issues on the odd occasion.

In those moments focus your mind on the fact that during the no doubt hectic return to work in the new year you will also need to maintain a life outside of work. This tip is as important as any in helping you to survive and thrive during 2009. Merry Christmas and a happy, healthy and successful New Year to you all.