

Surviving The Resources Recession

Whether you are in coal, iron ore or onshore oil and gas, you are no doubt experiencing a downturn. Unfortunately for the majority of resource based businesses, the short to medium term commodity outlook remains flat. In addition, the instability at all levels of government means that there is no reprieve in sight.

Whilst it is a challenging market, the good news is that you are not alone. The majority of businesses we work with have some kind of exposure, either directly or indirectly, to the resources industry. Over the past three years, we have been working systematically through the resources sector downturn and decided to put our collective wisdom to good use in helping businesses affected put a survival plan together.

With commodity prices, exchange rates, market confidence, supply and demand all in the mix, there continues to be conflicting opinions about the short and medium outlook for various commodities. With the bulk of resource infrastructure built, the focus for businesses will be to align their products and services to the 'resource extraction' phase which has no doubt grown in the past 10 years.

WHAT CAN YOU DO ABOUT IT?

Regardless of whether you are working directly for resource companies or are part of the supply chain, there are consistent themes of what good businesses are doing to survive. Whether your business is experiencing some kind of financial distress or you are operating in a highly competitive market, here are some specific actions you can take to future proof your business.

1. GET CONTROL OVER YOUR COSTS

The reality is that you will be asked multiple times by your customer/s to enter into price negotiations for your products or services. It is surprising how many business owners enter negotiations without fully understanding the cost structure of their business.

Our advice is to make sure you review all of your expenses and input costs to get a handle on your controllable spend. Ensure your accounts payable are up to date and inventories are at minimum levels. Conduct a supplier review - don't be afraid to shop around for the right price and check your contracts/invoices carefully. Look at streamlining key business processes to reduce waste and duplication. Lastly, review your labour costs and make the necessary changes. Dealing with reality is essential.

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2. DRIVE REVENUE

Once you are in control of your costs, your business model should be profitable (if not, go back to step 1!). The next step is to drive revenue. First, identify and secure the revenue from your existing customers. Clients undervalue their existing customer base and chase new customers rather than leveraging the value in cross-promotion. Make sure you track customers who are slow to pay or outside terms (especially if you are sub-contracting). Next, ensure that you have an up-to-date sales pipeline or forecast that outlines all of the projects, tenders or opportunities that are known to your business with a probability rating for success. Foresight is important to identify as early as possible any sales or cashflow shortfalls. For new target markets or clients that you would like to work with, develop specific strategies to engage. Lastly, don't forget about past clients. You can start to connect easily through electronic mail outs or by asking why they stopped using your services and see if you will be given the opportunity to sell back in.

3. LIGHTEN YOUR LOAD

Conduct a thorough review of your balance sheet from your cash cycle to the value of your assets. Ensure you have a three-way forecast in place (profit and loss, cash flow and balance sheet). This is a great opportunity to input your cost savings and sales forecast to be able to model your future financial position. Similarly, are you asset rich and cash poor? Do you have surplus assets? This means that you may need to lighten the load of assets on your balance sheet and limit capital purchases. This is the time to do some scenario planning if you find yourself having to downgrade revenue. The key is to anticipate problems and react quickly – don't wait until the end of the financial year to do something.

4. MANAGE KEY RELATIONSHIPS

Relationships are critical to the success of your business. You are only as successful as the people you surround yourself with. Make sure you are happy with your banker, accountant and lawyer. These roles are critical in helping you execute any possible restructuring plans – they could be the difference between success and failure. Ensure that your marketing maps out how you will manage your relationships with your customers and what their experience will be with your business. Ensure that you have the right talent to manage your business – really challenge your "sacred cows" (employees who have performance issues or challenges that you have accepted or are not ready to deal with).

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5. SHARPEN YOUR FOCUS

It can be stressful and even overwhelming in a tough market, especially if you have had to downsize resources and people have to do more. We encourage business owners to develop a 100 day plan with goals, actions, accountability and due dates to be able to monitor progress against your business plan or strategy. Also, review your reporting and ensure that you are getting timely and accurate information in order for you to make better or faster decisions.

The market is competitive – if you do not want to compete on price then look for ways to differentiate yourself from the competition. Our most successful clients look for opportunities not to compete on price but how they can add value.

On a final note, too often business owners procrastinate, delay or avoid making the tough decisions. This does not help anyone. You are better to make a decision that is 80% right and work on closing the 20% gap than waiting to have everything 100% right. Our clients, who were successful in the coal industry downturn, weren't the ones that saw it coming. They faced reality of their own performance, made quick decisions to rectify and followed through. You can only deal with what is in front of you and we can guarantee that waiting will be your downfall.