

# Opportunity in recession?

Patrick Treacy, finance director at Outtrak Software Services reports, "In February Michael O'Leary, Ryanair's CEO, rather gleefully predicted that the UK was entering a recession. Now while reactions to Mr O'Leary vary, it cannot be denied that he does run a most successful airline. So why is it that in addition to predicting recession he also announced plans to increase passenger numbers in 2008 by 19%, to double both his fleet in the next four years and company profits by 2012? What does O'Leary know that the rest of us don't? While it's true that recession is a time of falling turnover, tighter margins, cash flow pressures and reduced profitability; for a tightly controlled efficient company recession can also be a time of opportunity. With a tight cost structure and efficient asset utilisation it is possible to come out the other side with a bigger market share simply because many competitors have fallen by the wayside. The well run firm able to survive the lean years will be the one best prepared for the upturn when it comes."

Recession forces businesses to be more efficient  
"For the next two to three years costs are king. In good times chasing turnover is the fuel distributor's strategic goal but now the focus is on controlling costs and milking cash flow. Ways to minimise costs without damaging business must be found. Many business leaders see periodic recessions as a good thing because they force industry to be more efficient. The last two recessions, in 1990 and 2001, lasted only eight months; the likelihood is that we will not see an upturn until at least 2010."

### Future proofing business

- **Financial data** is more crucial than ever - know your profit & loss and balance sheet as well as your accountant. Assess assets, evaluate liabilities and go over every line in your cost base with a fine tooth comb.
- **Optimise assets** - every truck and depot must work efficiently. Can today's processes be improved by streamlining with better use of key staff and IT systems, longer but fewer truck days etc?
- **Non-core activities** - do they use assets inefficiently? Can you divest to concentrate on areas where you excel competitively?
- **Where are you most competitive?** Which geographical area? Which market segment - domestic, industrial, agricultural? Be most active in your best areas.
- **Debt renegotiation** - interest rates will fall and even though the banks have been feeling the brunt of the credit crunch, funding will return and, when it does banks will be anxious for business. Look to consolidate debt or renegotiate at better rates. Alter terms to allow interest only payments during off season or allow payment holidays.
- **Costs** - every contract that means expense should be assessed and every line of expense must be essential - not just necessary.
- **Balance sheet strength** - if you have it, use it - with the necessary cash why rent depot or office space when the property market is plummeting?
- **IT** - invest in areas that streamline the distribution process making it better and cheaper.
- **Milk cash flow** - use a system that allows customers to be invoiced at point of delivery. The quicker you can convert a sale into a debtor the quicker the debt can be collected and converted into cash.
- **Be flexible** - competitors will be flexible, stretch payment periods and

- renegotiate terms. More frequent deliveries may be more acceptable than carrying large stocks.
- **Staff** - planning for the worst must be done even if it never happens. Know your key areas - can staff be moved into areas of competitive strength? If you have to cut staff numbers, do so only once so those remaining know jobs are safe and will remain loyal.
- **Marketing** - customer confidence is low but they still need oil. Your target market is long term customers - does your debtors' system tell who they are?
- **Advertising** - promote dependability, solidity and reliability with no gimmicks.
- **Pricing** - smaller deliveries, more often. If you charge a higher per litre price for small deliveries, are your drivers charging it and are you controlling it?

"Business is a long term game. The recession will end and those companies that plan their way through will survive to a marketplace with fewer competitors, bigger opportunities, and longer term growth and profitability. Recession can be an opportunity if used to commercial and competitive advantage."  
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