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Catching the light at the end of your business tunnel

Three years ago, CSA penned an article, "Catching the next boom". With the UK economy flatlining and having now possibly entered into double-dip recession, it could be time for business managers and funders to reassess if there is 'light at the end of their tunnel'. But, how does one assess business and market potential in these still very uncertain times? As an independent commercial due diligence and strategy consulting firm, CSA has some further thoughts on the subject.

A PICTURE OF ECONOMIC UNCERTAINTY AND SLOW RECOVERY

Growth, as measured by GDP, is a measure of government spending, private consumption, gross investment and the balance of exports and imports. Running through some of these elements, CSA believes the economy of the UK will remain flat for some time to come.

We think public sector expenditure will remain on a tight leash as the government struggles to reduce the deficit on which the country has been weaned over some number of years; higher producer prices, including oil, will dampen industrial production; deep-rooted problems in the Euro-zone will inhibit demand for a large slice of the country's exports and, last among some other things, the British public in its role as the great retail consumer is unlikely to return to former, free spending ways in the wake of continuing job uncertainty and pay outpaced by the effects of general inflation. It is also the case that the business investment cycle tends to respond to macro economic growth, not lead it, and will remain constrained as the greater driver of growth, leverage, will remain in short supply as the banks take time to redress balance sheets before recommencing lending once again.

As none of this sounds like a recipe for any quick return to growth at a macro market level, we run through several trade company situations at a more micro, day-to-day business level which we feel, as consultant advisors, one might well consider, if only to help to mitigate some of the more immediate commercial risks associated with business growth planning in the current economic climate.

BEFORE CATCHING THE LIGHT AT THE END OF THE TUNNEL, ONE MUST BE ABLE TO SPOT IT.

Business collapse can traumatise some owners and managers. It is said often that as many companies get into business difficulties rising from the ashes of recession as going into one. After almost five years of market downturn a first question that may be asked of a subject business is whether the company still has the senior management, with the necessary motivation and strategic thinking, to take the business forward? Are the business and personal objectives of the management sufficiently aligned - or possibly divergent as could constrain performance through loss of operational focus and direction? Business is about people and strategy and the ability of one to deliver the other – might the management team be in need of some diligent strategic support?

Can the old business plan be truly resurrected? Even a positive upturn cannot revive a tired formula! Is synergy and fit between business units and product lines as it was in the 'good times' or have they become diluted? Business planning review would confirm just how well company strengths remain aligned to levels of market attractiveness and whether or not the company is a true market contender in line with possibly more demanding customer purchasing criteria - and as distinguished from the competition.

Markets will revive at different rates in different sectors. What phase of the industry cycle is the business trading in? Would formal analysis of the addressable market quantify a pipeline of most immediate customer prospects and provide the necessary clarity about the order of returning demand? Some market and customer referencing could accelerate this understanding?

Markets under pressure may witness structural change. How has the industry supply chain stood up to the effects any rationalisation or consolidation amongst sector participants? Have the competitive dynamics of the industry changed through customer/supplier concentration and its impact on relative buyer/supplier power and pricing? Are legacy, product-to-market channels fit for purpose or have they become confused and made inefficient with further implications on cost competitiveness that could penalise forward trading in the new economic dawn?

What of the upturn? What will be the impact of returning business volumes when post-recessionary pricing could remain an issue? Will competitors aim for a land grab, in which margins are trampled underfoot? Are the old barriers to market entry as relevant or as robust as management have thought. What could cause the breach?

One may seek a light at the end of the tunnel, but perhaps the bigger question is whether the business is correctly positioned in the right tunnel to begin with. Market verticals change and often at a rate that is not fully appreciated by business managers who have become ‘internalised’. After all, managers and owners who have perhaps spent the last few years seeking to take cost out of the business in order to remain competitive or survive may have lost some of their front-end sharpness and market awareness about the true nature of the conditions in which they seek to trade. It may pay them to take stock; to redefine a somewhat revised strategy against fresh objectives and tactics against goals to better suit trading in the new economic environment – if only to resist the temptation to lurch, head-first, towards returning trade volume as a taken indicator of the first sign of an economic spring that may or may not be wholly sustainable.

CONCLUSION

The successful business will clearly always be the one that can occupy an identifiable trading segment, or market niche, able to build its commercial proposition around a differentiated, core business competence which is protected by defendable barriers to entry in a scenario that has the effect of generating recurring revenues through repeat customer loyalties at the same time as serving to keep out the competition. These are goals that are common to all businesses, of course, but it is the manner and process by which they are attained that serve to differentiate one company and its management team from another and relative success from comparative failure. Especially in the short and medium terms when business in general will remain constrained of anything resembling meaningful macroeconomic pull, in our opinion.

ABOUT CARLTON STRATEGY ADVISORS

CSA is a commercial due diligence transaction services and business strategy advisory firm. For help on business and market review or for any further information, please contact: David McClelland, Director.