



THE Daily Telegraph

Date: Tuesday, 19 July 2005
Page Number: 33
Edition: First
Supplement: Business Owners

Market: NSW
Circulation: 403,139
Published: MON TO SAT
Editorial: [email the editor](mailto:email_the_editor)
Item No: P6822088

Size: 181.07 sq. cm.

Time to batten down the hatches

WHEN the economy starts slowing, small businesses are one of the first to feel the pinch. With consumer spending tipped to decline as a result of fuel price increases, business advisers have warned small businesses to try to “weatherproof” themselves against downturns.

But short-term methods of improving the bottom line, such as cost cutting, reducing quality standards and putting extra pressure on staff, suppliers and customers are not always the best way to increase ride out the storm.

PricewaterhouseCoopers managing partner Rob Baker says businesses involved in discretionary or luxury spending are likely to feel the first signs of lower consumer spending.

“That’s those things that you don’t need to live, electronics, games, high-end fashion items, high-end restaurants, people may think twice whether they still need to spend the money,” Mr Baker says.

“Your basic foods, your basic beverages, will keep selling. It’s really an indicator of people’s confidence.”

He says businesses affected by a drop in consumer spending can look at ways to increase sales or minimise expenditure.

But he warns any change has to be in line with the overall long-term strategy of the business.

Profit Revolution managing partner John Corrigan says a healthy outside appearance, especially in boom times, can disguise problems below the surface.

“Every business has problems, the issue is

whether the underlying problems are identified and actioned before they significantly impact on the performance of the business,” Mr Corrigan says.

“Like any illness, initial symptoms are often played down or ignored before appropriate action is taken to correct the problem.

“The healthy appearance can mislead the business and those managing it, with all parties thinking that they are better than what they really are.”

Focusing on sales and revenue can hide other indicators of a downturn in the business especially if a large proportion of profitability is coming from a small number of major customers, he says.

Action International global marketing manager Jodie Shaw also warns that business owners doing their own books often do not have time to look at the wider picture.

Ms Shaw says a recent survey by Action International found small business owners often take on too many tasks with 80 per cent of small business owners doing their own accounts and working more than 70 hours per week.

“Many proprietors think the expression ‘the buck stops here’ means they need to do everything themselves to make sure it gets done properly,” she says.

“However, when the business starts growing, they find themselves struggling to cope with what needs to be done. Accounting is generally not the business owner’s area of expertise.”

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Think ahead: Some businesses are more vulnerable than others when an economic storm hits