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Dearer fuel a warning sign

By LILIANA MOLINA

WHEN the economy starts slowing, small businesses are among 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 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," he said.

"Your basic foods, your basic beverages will keep selling. It's really an indicator of people's confidence."

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

But he warned that any change had to be in line with the long-term strategy of the business.

Profit Revolution managing partner John Corrigan said a healthy outside appearance, especially in boom times, could 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 said. "Like any illness, initial symptoms are often played down or ignored before appropriate action is taken to correct the problem."

Focusing on sales and revenue could hide other indicators of a downturn in the business, especially if a big proportion of profitability was coming from a small number of major customers, he said.

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

She said a recent survey by Action International found small-business owners often took on too many tasks, with 80 per cent doing their own accounts and working more than 70 hours a 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 said.

"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."