

RECESSION 2024

A Guide for New Zealand Construction Businesses



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TABLE OF CONTENTS

RECESSION 2024 INTRODUCTION1

We have seen this before – what history shows us 2

What the smart companies did 4

RECESSION 2024 THE TRIAGE PROCESS.....5

Triage 1 – Stop the bleeding 6

Triage 2 – Fix what's broken 7

Rehabilitation – A healthy outcome 9

Watch for signs of recovery..... 11

RECESSION 2024

INTRODUCTION



The signs have been there for a while, albeit mostly overseas and masked by a strong domestic construction market. Rising trade tensions, the inversion of the yield curve between short and long term bonds, falling stock markets. Covid-19 has just been the trigger that has suddenly brought a halt to one of the longest periods of economic growth in living memory.

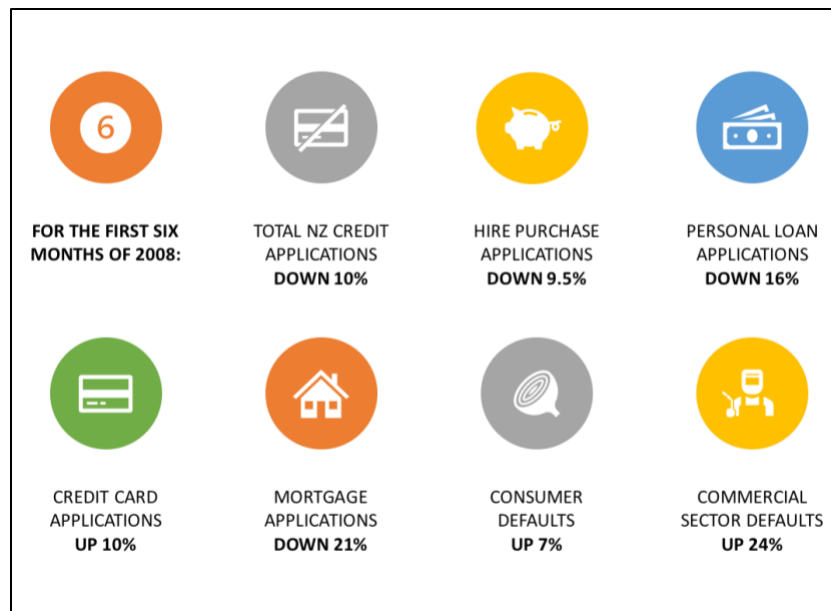
Most business owners missed (or ignored) the warning signs and are now in various reactionary states. Some are in a reasonable position to weather the storm, as they have built up reserves during the past few years. Some unfortunately won't make it through, as their businesses were in a weak state anyway and have little ability to adjust. The majority will probably get through, but it will be tough. We will all need to review our strategies and business operations and make changes to fit into the new economic environment.

"The rescue mission is under way but even with this help, be prepared for a significant economic downturn," BNZ Chief Economist Toplis said. "It's time to batten down the hatches. This is going to be a very rough ride." Stuff 16/3/20

This guide is designed to help you do that business review, equipping you with new strategies and tactics to help you get through this recession, and enabling you to come out as robust as possible from this challenging period.

WE HAVE SEEN THIS BEFORE – WHAT HISTORY SHOWS US

If we look back at the 2007/2008 recession in New Zealand, the first 6 months of 2008 showed us:

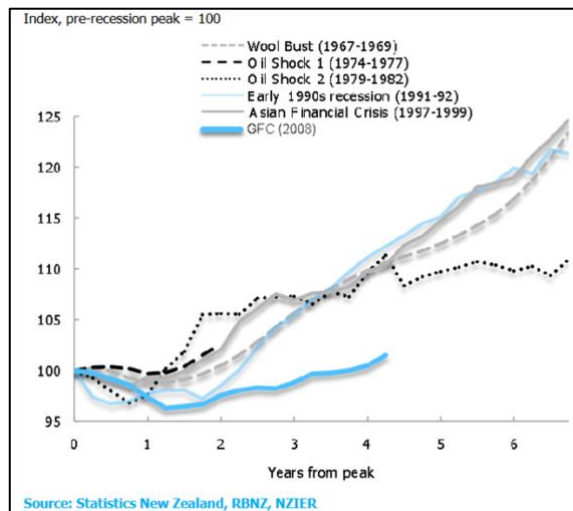


Source: Veda Advantage

While most of this data is around consumer credit, the biggest increase came in commercial sector defaults. Predictably, the number of businesses that defaulted on debt and/or entered insolvency spiked significantly in the 2008-2010 period.

The recovery from the Global Financial Crisis (GFC) took several years. This was perhaps influenced by the fact that the main drivers of the GFC were a housing crash and an (overseas) banking sector crash. The recovery took about four years to reach pre-GFC levels. The drivers for the current recession are different and what the government learnt on how to recover from the GFC recession and disasters like the Christchurch earthquakes, will hopefully mean it won't take us so long to recover this time.

It won't be fixed overnight however. New Zealand will be a different place over the next year or so. International tourism will be almost non-existent; immigration that used to fuel the housing shortage will disappear; migrant workers used (mostly) in vertical construction will not be so readily available. All these factors will influence what the wider construction market will look like and slow the recovery to pre-recession levels.



Consider:

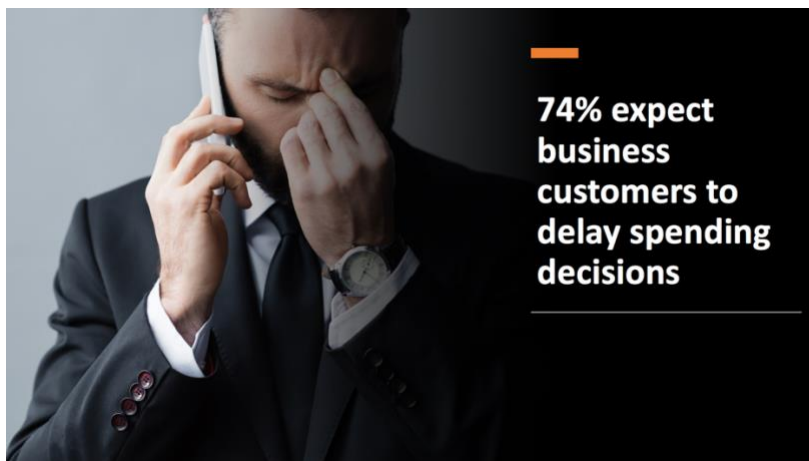
What will be your business plans for the next 6 months? Also, do you need to change your longer-term plans to anticipate a one-year downturn and even a three-year downturn? Will your current business model still be relevant, or does it need a makeover?

During recessions, many consumers close their wallets too, or delay purchasing, especially on big-ticket items. (Source: Marketing Week)



86% of businesses predict that consumers will delay major spending decisions

The same is likely to happen with business customers.



74% expect business customers to delay spending decisions

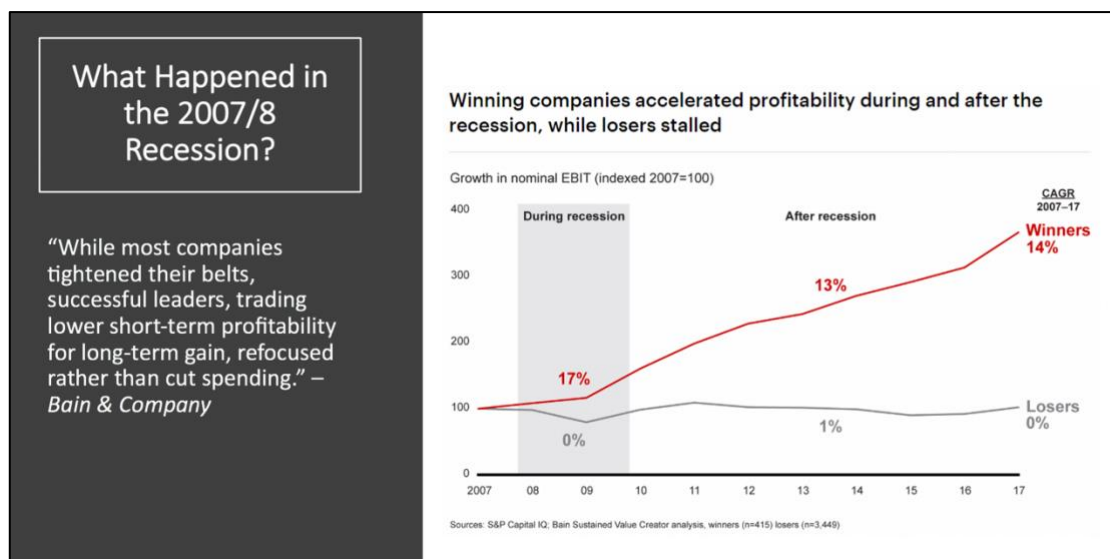
WHAT THE SMART COMPANIES DID

A Harvard Business Review (HBR) study of 4,700 public companies looked at the three years before, during, and after recessions. They divided companies' responses - their "driving" strategies - into four categories:

STRATEGY	GROWTH AFTER
Prevention. A focus on cost cutting - every decision is viewed through a loss-minimization lens. They do more of the same with less, often lowering quality and customer satisfaction.	21%
Promotion. A heedless optimism that ignores the gravity of the situation and early warning signs. Companies in this category add features when customers actually desire greater value.	26%
Pragmatic. A haphazard combination of prevention and promotion characteristics. These companies tend to over rely on reducing the number of employees.	29%
Progressive. These companies get the prevention-promotion balance right by evaluating every aspect of their business model - making near-term changes that reduce costs now and after demand returns (unlike layoffs).	37%

As the authors found, "Firms that cut costs faster and deeper than rivals don't necessarily flourish. They have the lowest probability - 21% - of pulling ahead of the competition when times get better."

Choosing the right strategy is important. The gutsier one of NOT just cutting costs (especially marketing) and staff numbers enables you to recovery faster and build a competitive advantage during the upswing. Another researcher, Bain & Co found similar:



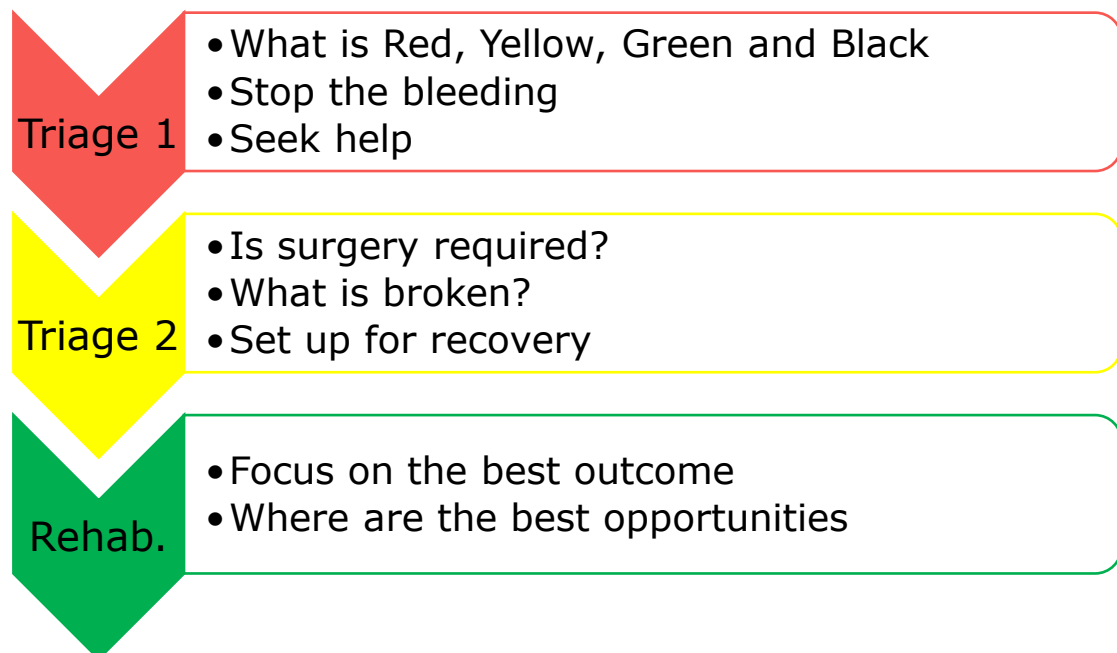
RECESSION 2024

THE TRIAGE PROCESS

"If you have been around a while you are probably familiar with the MASH 4077 television show, where **triage** is the activity from the time the helicopters deliver the wounded, through the sorting process prior to surgery. In the real-world, disasters such as 9/11 showed that **triage** is a vital process when critical events are competing for resources in a deteriorating situation that calls for swift and critical thinking." (Robert Jendry, *The Business Triage Concept* – 2009)

Triage is a French word meaning to sort. It has become a fundamental part of the emergency medical profession and has principles that can be adapted for use in business emergency situations, such as a sudden recession. It can help you prioritise what are the most critical problems to work on first, what are the most important (but less urgent) problems to work on next, what you can ignore and unfortunately what are the issues that are beyond help and must be cut loose in order save the business.

Graphically I follow this type of process during a business triage:



TRIAGE 1 – STOP THE BLEEDING

These are the immediate (business) life threatening, urgent issues:

- *What do I do first? (Red versus Yellow)*
- *What are important strategy changes that can wait versus short term survival?*
- *Get cash in the door by collecting receivables!*
- *What work can I do now to generate cash?*
- *Can I quit stock and turn into cash?*
- *What capital expenditure plans do we have and can we defer?*
- *What expenses can be reduced – deferred – spread – cancelled?*
- *Can I safely cancel any contracts for supply without legal issues?*
- *Can I reduce drawings by reducing personal expenses?*
- *Are there "black" type problems that may need to be cut loose to save the overall business?*
 - *Loss making parts of the business*
 - *Staff restructure to reduce payroll expense*
- *What government help is available?*
- *What can my bank do to support me?*
- *What is my immediate communication plan to staff, customers, prospects and suppliers?*

In a medical triage, the paramedic team will take your vital signs. Blood pressure, heart rate and the like. Similarly, in a business triage, you need the right financial data to make the right decisions. I would suggest you put together a 30/60/90 day cash flow forecast for your business to start with. Be brutally honest and realistic as to what cash you can expect to get in and how much you can trim off your expenses. Don't forget about taxes due and loan payments.

Don't forget to run financial reports from your accounting program to help you determine the financial health of your business. Hopefully you have

been doing this regularly and are familiar with the key reports. If not, now's a good time to take a crash course.

Engage a good business coach that has solid financial knowledge can help you here. **Contact me at andy@tradescoach.co.nz to discuss your needs.**

Also talk to your accountant and lawyer to get professional advice with some of these issues, especially around any contract obligations you have.

TRIAGE 2 – FIX WHAT'S BROKEN

In medical terms, the patient is stable and has been prepped for surgery. This is where the surgeon performs more serious and lasting work to ensure the patient survives in the long-term. The patient may require their broken arm to be plated, screwed and plastered. In the worst case, they might need their limb amputated if it is too damaged to save.

In business terms, this is where the core business fundamentals are more closely examined. It is a time where decision makers need to reflect and be decisive around changing key strategies, reinforcing existing ones, or choosing to divest parts of the business. There is not a one-size-fits-all process here. Each business is unique and needs a customised course of treatment to come out of the Triage 2 step in the strongest condition possible.

The new business environment we will be operating in will be significantly different to what the past 8-10 years has been in New Zealand. This will mean new business threats and opportunities. Doing a good old-fashioned SWOT analysis right now is a good first step in reviewing your business and how it may need to adapt.



A major part of this review needs to be around your marketing. Based on what happened after the GFC the focus of your potential customers will probably follow a similar pattern. After the GFC, New Zealand businesses and consumers:

- *Switched to more cost-sensitive choices*
- *Shopped closer to home*
- *Cut back on their spending*
- *Felt less financially stable*
- *Experienced job insecurity and higher unemployment*
- *Said goodbye to the bling (for a while)*
- *Thought staying in was the new going out*
- *Staycations were in vogue*
- *Even when trading down, small indulgencies were ok*
- *Were looking for safer places to put their money*

Considering the above we need to look at your business offering and see what is still relevant, what is not and what can be adapted to better fit with your core customers' needs and wants.



It may change WHAT you offer your customers



Heart says “sportscar”, head says “people mover”

Along with a review of your target market, you should also examine your business production and delivery steps and focus on becoming leaner and more efficient. When business is easier, we all risk falling into bad and wasteful habits. To meet the new business environment and still make a profit, we need to trim any excess fat and focus on being as efficient as possible.



REHABILITATION – A HEALTHY OUTCOME

A fundamental principle of the triage concept is to focus on the OUTCOME and not just on the problems at hand. The danger in a crisis situation is that you become fixated on the urgent issues and do not look at the wider picture. That wider picture means deciding on the desired outcome for your business and planning your strategy development (treatment plan) accordingly.



It is no different in good economic times. You should have a clear goal in mind for your business and use this as a yardstick to measure the merit of any potential decisions. Always ask yourself: "Will this decision move us closer to our goal, or further away?"

The goal for your business may well have changed in the past couple of months. That's okay. The important thing is to have that outcome clear in your head and in the heads of your team as well. The tactics you need to employ to achieve your goal need to be flexible. One size does not fit all. The new environment will reward the nimble and flexible operator yet punish those stuck in the old way of doing things.

Buyers will likely take longer to make a purchase decision, especially for big ticket items. They will research more and be on the lookout for information they can trust, which will give them value.



Loyalty will be important as well. Look at your current customer base. What can you do to better serve them and have them even more top-of-mind in your communications? They may be looking to you for solutions to their problems, either real or perceived. How can you help?

WATCH FOR SIGNS OF RECOVERY

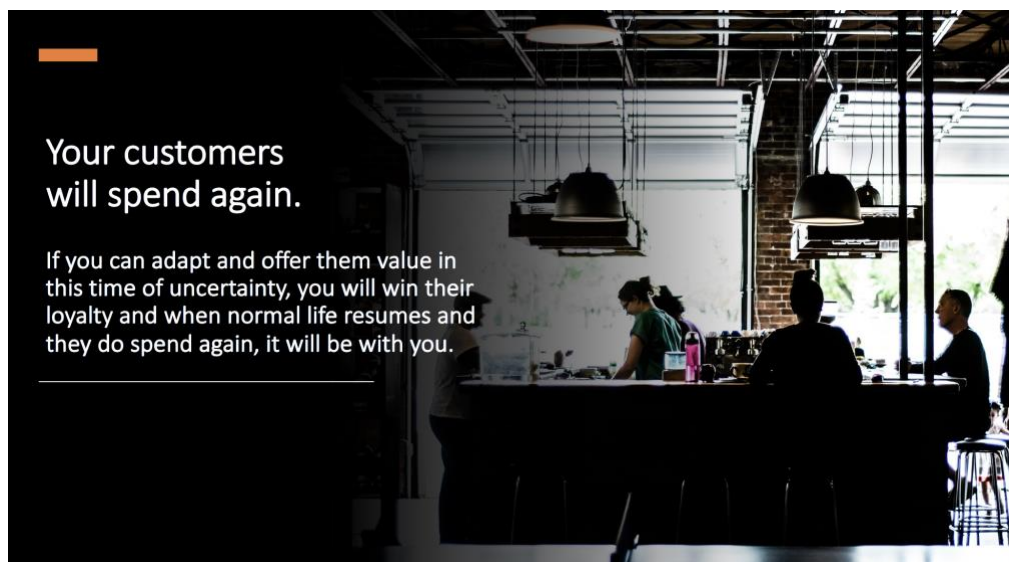
A saying goes that the Chinese character for crisis is made up of two symbols: one for danger, the other for opportunity. Whilst factchecking this, Google told me it's an urban myth – it doesn't have a double meaning. Despite my disappointment it makes a useful point. In times of crisis there WILL be opportunities for those who have their radar switched on and who are prepared to take action.

After Covid19 the marketing environment will unlike anything this generation has experienced. People's buying behavior will be different. For some this will create fresh opportunities.

The companies who decide to not hit pause, but instead look strategically at the market and continue investing in marketing will be rewarded. Past data proves this.



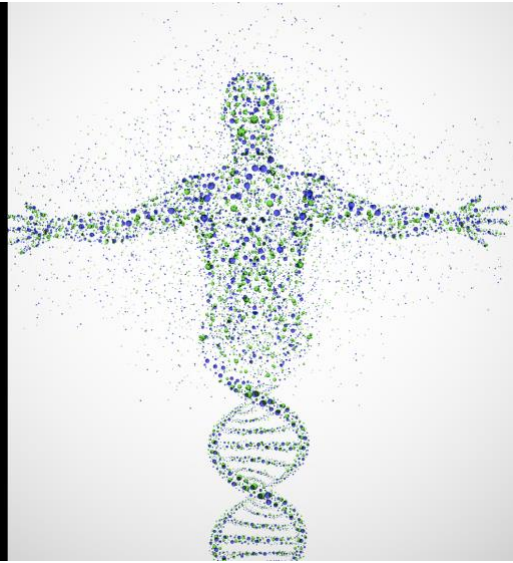
It is difficult to know where those opportunities will appear; they may be subtle at first and easily missed. Remember, however, the words of Winston Churchill: ***"Never let a good crisis go to waste"***.



Your customers
will spend again.

If you can adapt and offer them value in this time of uncertainty, you will win their loyalty and when normal life resumes and they do spend again, it will be with you.

The businesses that will survive this disruption "are not the strongest or the most intelligent, but the most adaptable to change." – *Sequoia Capital*



To discuss how a **Business Triage** can help you navigate your business through this troubled time, email me at andy@tradescoach.co.nz or phone on 027-688-6721.