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DON'T PLAY THE BLAME GAME



The messages emanating from the business world are not encouraging at the moment. Businesses are reporting losses both at year-end and on their monthly accounts, and they often don't know how to start tackling this issue.

The old excuses will, of course, be trotted out, and many companies will initially blame dropping sales. But blame won't fix the problem. Companies need to take action, or they will run out of cash, according to Colm O'Grady, Partner with Russell Brennan Keane (RBK).

He said that some businesses were losing between €10,000 and €30,000 per month, and that meant that hard decisions had to be made to turn these situations around.

But there is a wide range of actions available which could lend to cost reductions.

"Many management teams are busy doing a bit of everything, trying to get organised," said O'Grady. "But critically, they are not delivering on their core key performance indicators (KPI's) and are not managing their own teams.

"Clarity has to be brought to their KPI's and they have to get really focussed. If they don't bring focus, there will be consequences. Under-performers should be helped improve or helped out. It's amazing watching how the teams will respond – some will rise to the occasion, some will run for cover and some will get really indignant."

O'Grady gave some specific examples on how substantial savings could be made, some of which would require a redistribution of talent and others which would require redistribution of resources.

"The sales reps model is not the only model," he said. "We have a distribution client losing money, but dropping two sales reps and retaining a substantial part of the turnover through telesales from the office yielded an €80,000 per annum improvement to the bottom line."

Similarly one of RBK's clients had multiple van delivery routes across a number of counties, with varying sales from each van route. But after dropping the most unprofitable customers and eliminating a van route, savings of €50,000 a year were engendered.

Of course, next to staff, the largest investment most businesses have is in their premises. Again, O'Grady said it was critical to ensure that a company's investments were working to their maximum.

“A client had three warehouses,” he said, “but by purchasing a smaller, more versatile forklift – one that fitted between shelves – and by allowing higher and additional tracking in two warehouses, this resulted in the elimination of one warehouse. The introduction of accurate stock recording and handhelds resulted in the reduction of one additional headcount. The annual savings were in the region of €120,000.”

It is also useful for companies to benchmark themselves against the best in their industry, so that they can see where their margins need to be improved. For example, a supermarket client of RBK has a gross margin 3 per cent less than best in industry, resulting in €150,000 lost profit. Similarly, a hardware client’s margin was 5 per cent off best in industry, resulting in €350,000 lost profit.

“These can be fixed over a six-month period, it just requires focus,” said O’Grady. “Talk to your accountant or adviser, and make sure your advisers understand your industry.”

Even with greater attention to the bottom line, RBK is still seeing huge inefficiencies in businesses, which O’Grady puts down to a carry over from the Celtic tiger economy, when business was so easy.

“It’s time to get really focussed and get down and dirty – see what is really going on in your business and where savings can be made,” he said. “It’s time to apply some clear thinking and simple business principles. Putting your hands up in the air and blaming the recession or the banks doesn’t work.

“The key issue we are seeing is that businesses are either making the decisions but implementing them slowly, or not making decisions fast enough,” he said. “Few businesses have the luxury to hold off facing the core challenges in their businesses. Do it now.”

Lastly, a big and critical challenge is to keep your staff motivated by applying the age old practices of giving praise where due, rewarding high performance, dealing with underperformance, completing staff appraisals as they fall due, communicating clearly and often the rationale for various decisions that are being made and engendering confidence that you know what you are about, and you and your management team being focused, positive and upbeat and singing from the same hymn sheet.

If you have any queries or would like to discuss your business in confidence, please contact Colm by email at cogrady@rbk.ie or Tel 01 6440100 or 090 6440100.

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About RBK

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

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