BusinessPlus+ Newsletter

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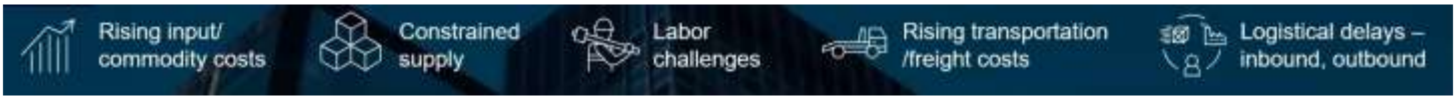
Action Plan for Operating in a Difficult & Uncertain Environment

So we now have the perfect storm in which to operate a business - in the context of the following factors (and others too):

- *Rising Interest rates*
- *Inflation at high levels*
- *Significant ongoing and forecast energy and fuel price rises*
- *Skilled Labour shortages continuing for a while yet until targeted immigration is implemented*
- *Ongoing Supply Chain delays and freight cost increases*
- *Continuing global geo-political instability and war*
- *A changed Federal Government and the uncertainties that brings for business & taxes*



What can business owners and leaders do to protect their businesses in light of the above factors and future uncertainties that are as yet unknown?

There is no New "Normal"

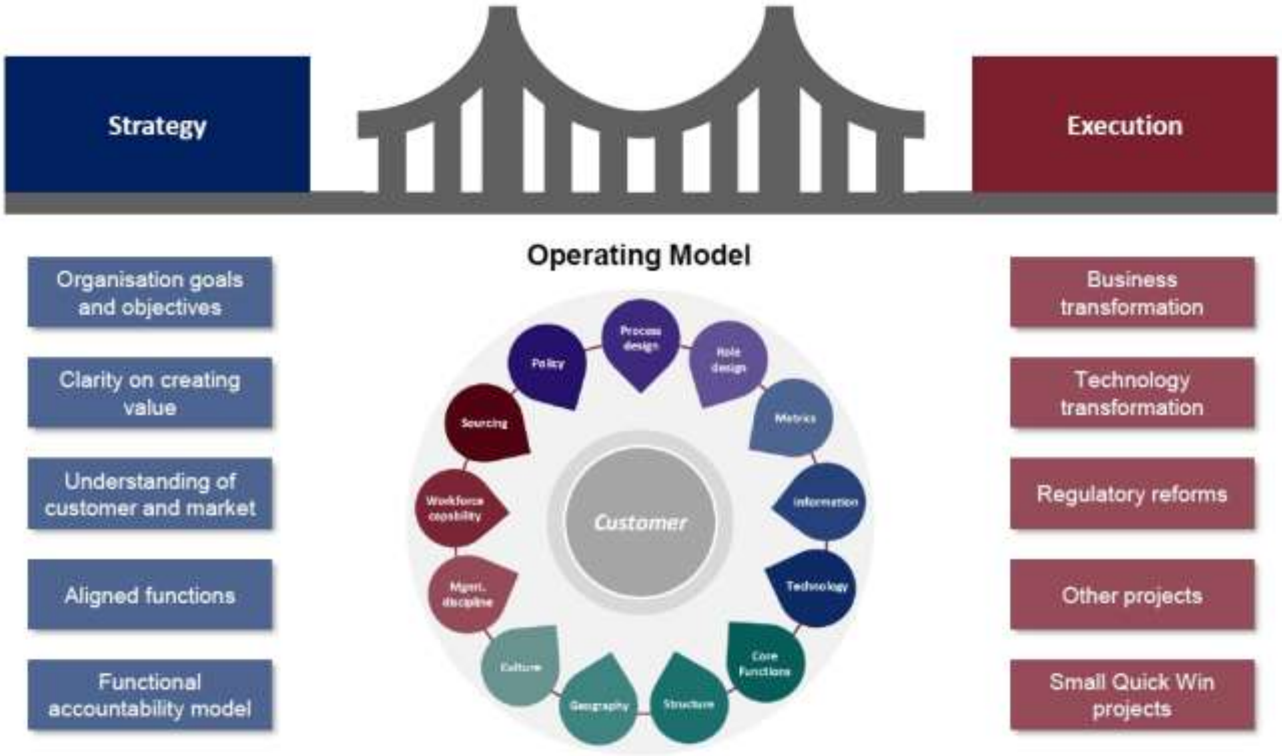
Business should anticipate continuing turbulence and volatility for the foreseeable future and fortify their positions by:

Prediction: Adopt scenario planning and risk management strategies in anticipation of the known impacts and also for possible unforeseen events – "B*lack Swan*" eventualities. So, understand how different inflation/disruption scenarios impact the cost structure and gross margins of products/services you deliver to customers. Good scenario planning requires imagination and a suspension of disbelief of what is really happening today. You need to strive for credible but not necessarily accurate scenarios. You need to focus on what matters most for your particular business and fundamentally the customers of the business, when developing the scenarios;

Resilience Measures: These are required to shore up the business that provides the capacity to absorb the shocks as they arise; and

Adaptability: Flexibility to quickly course correct as the operating environment changes and evolves.

Fundamentally, improving organisational adaptation means improving your "Operating Model" – the link between business strategy and execution



Business Coping Strategies

- Following the GFC three respected academics (Gulati, Nohria and Wohlgezogen, 2010) conducted invaluable studies on the best ***coping strategies*** during economic turbulence. Further analysis and research have validated the findings, which turn out to be ***very practical***

- It seems that strategies which only focus on ***cost cutting***, as opposed to ***productivity improvement***, experience ***sub-optimal outcomes*** as the world normalises

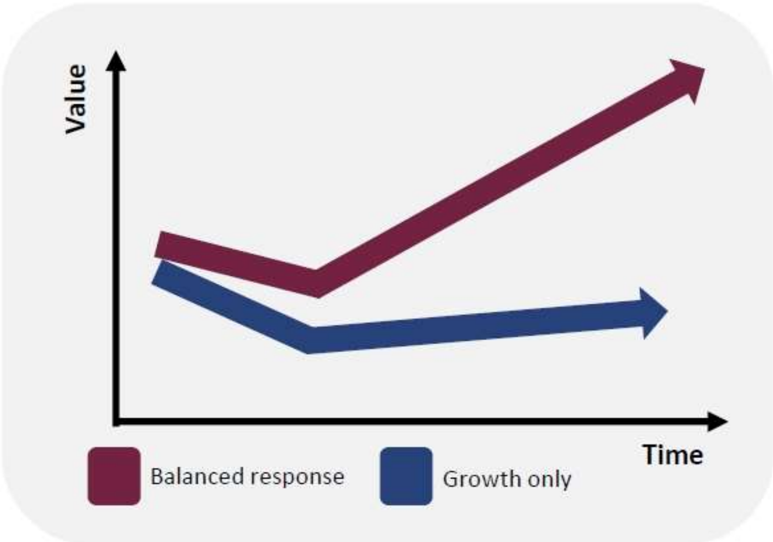
- Furthermore, those that fail to ***invest in growth*** risk being left behind in the recovery

- The best response is one that combines a ***productivity focus*** (done with a sense of urgency) with ***targeted growth investments***, all whilst keeping an eye on ***changing customer needs***

What early actions will be necessary – remember that there is a difference between cost reduction and productivity

- Productivity reduces costs but also increases margins in a way that is ***sustainable*** when ***growth returns***
- Productivity may actually ***lift service levels***

- Cost reductions can get you through in the ***short term***, but cost reductions may ***damage service standards and morale***, and ***impact recovery***

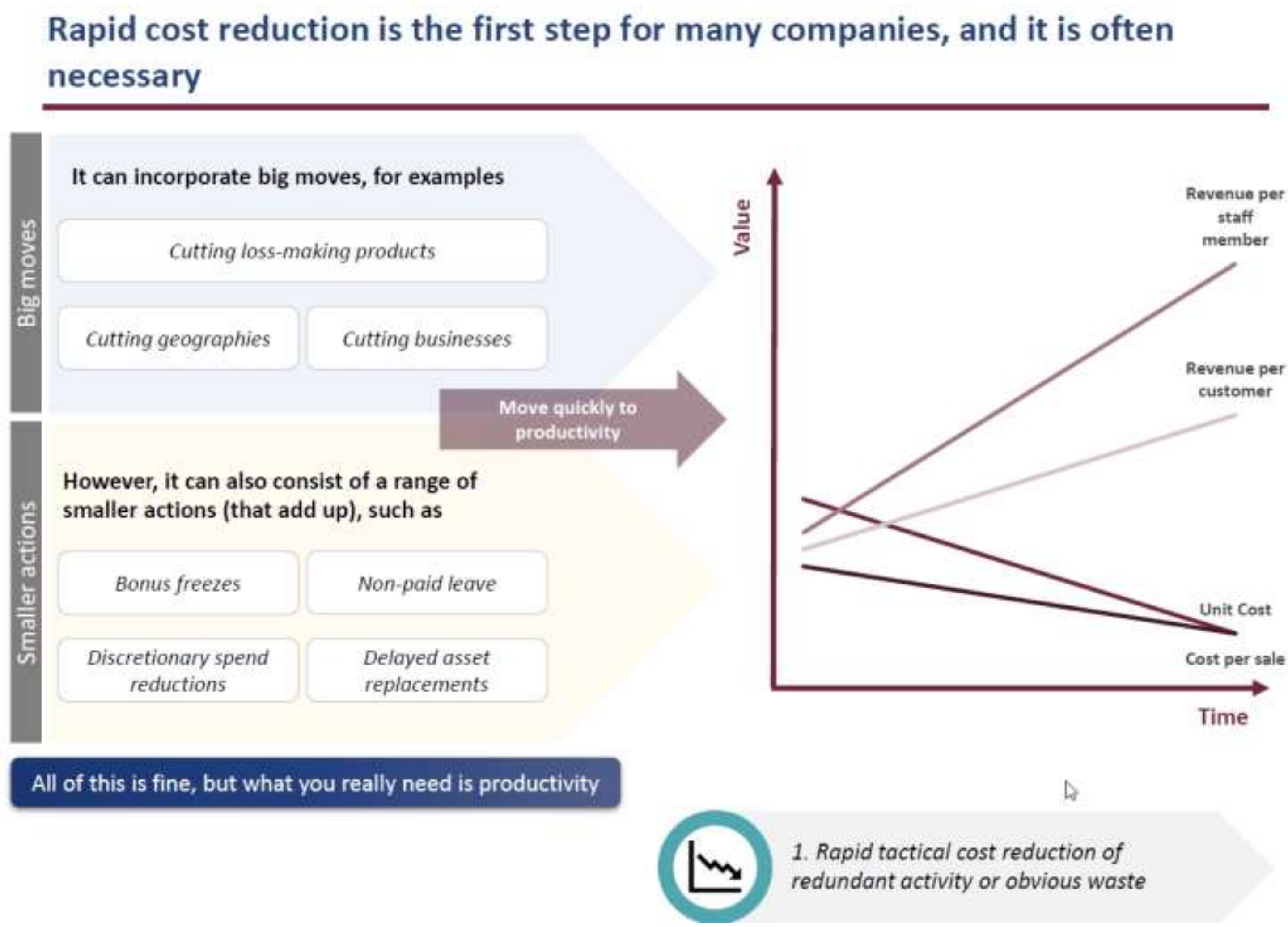


"Balanced response" strategy fared better on EBITA increase than "Growth only" strategy

** EBITA = Earnings before Interest Tax & Amortisation

So, if a Balanced Response is the right way to go, how do we go about executing on the challenge? Well, there are really four components to this strategy

1. Rapid tactical cost reduction of redundant activity or obvious waste
2. Moving on productivity opportunities with a sense of urgency (including operating model reconfiguration)
3. Finding growth opportunities in existing and new markets
4. Prioritising growth and productivity opportunities in ways that don't lose sight of changing customer needs



Transform your Business Costs Focus

You need to review your business costs and develop a clear "*cost agenda*", making deliberate choices – with a focus on supporting both process improvements and your businesses distinctive operating capabilities, that your customers value.

So, while cost-cutting may be necessary, it will likely not be enough if approached on a piecemeal basis. Even worse, done the wrong way, it can harm chances of survival. Business leaders also have to pivot value propositions, figure out new ways to grow and find new sources of revenue to find their place in the future. **This involves cutting costs in a way that doesn't harm the business, while redirecting costs to the drivers of growth — capabilities that differentiate a company from their competitors and attract good customers.**

Cost cutting vs. strategic cost transformation

Wrong way	Right way
Treats costs separately from strategy	Treats spending as an investment and allocates costs in service to your company's strategy
Is driven by external pressure	Is driven by an internal culture of continuous improvement
Focuses on cost cutting	Focuses on capability building and performance improvement
Shares the pain equally	Reinvests in a few priority growth areas and cuts aggressively elsewhere
Barely moves the needle	Transforms the whole organization
Follows industry benchmarks blindly	Is tailored to the specific needs of your organization
Leads to costs creeping back over time	Creates a more sustainable cost base
Leaves you weaker	**Makes you stronger**

But moving quickly on rapid productivity change shifts the dial on the sustainable cost-to-income ratio

- It includes actions that reduce waste and improve asset utilisation. It is often associated with disciplines such as lean and process reengineering

- The major trap here is that many leaders buy-in to the hypothesis that we need large capital spends to improve productivity. Certainly, ***capex can help, but there is usually a lot that can be done without capex***

2. Moving on productivity opportunities with a sense of urgency

Productivity itself can be thought about at four different levels

Process changes can have dramatic impact even without big technology investment, e.g. consolidation of roles to remove handoffs, root cause elimination of waste drivers, and tactical automation.

Governance and decision-making changes can speed up your organisation and reduce costs

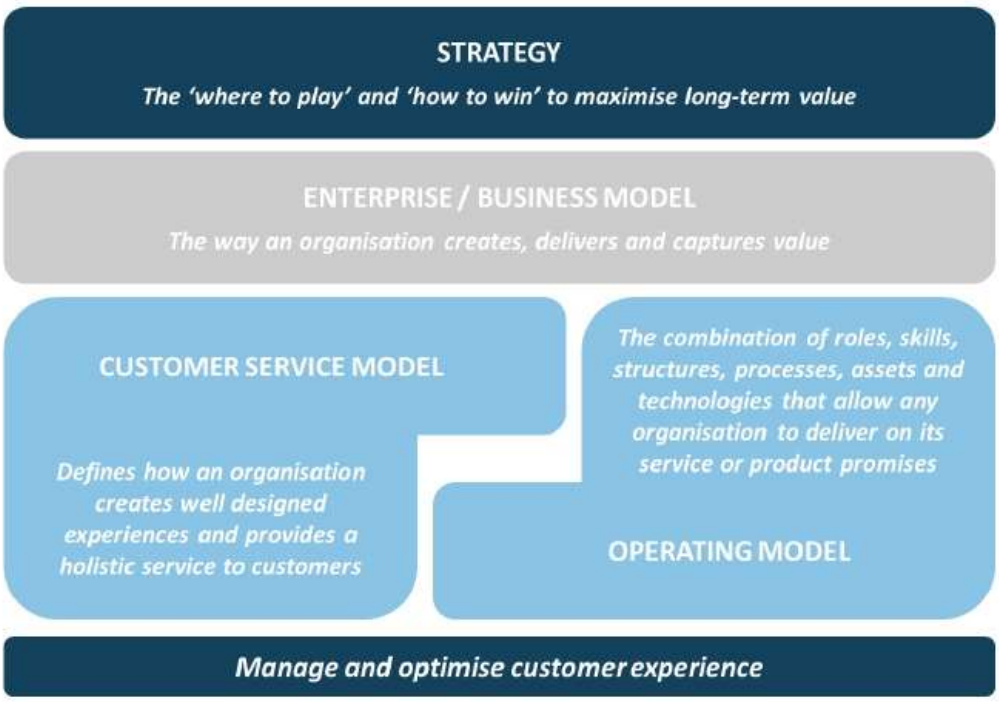
Restructuring can support an efficient and customer centric operating model, e.g. structure your model based on value streams

Keep investing in efficient infrastructure

Finding and executing on growth opportunities is also an important part of the response (but probably not right now!)

- This requires taking the ***time to think***. Great companies responded to the GFC by stepping back and seriously ***examining their strategy and business model*** (or the way you are organised to make money)

3. Finding growth opportunities in existing and new markets



Delivering on all this potential change requires three disciplines

Of these three points, it is "distributed management" that is the most contentious because we tend to think that a crisis demands central command and control

4. Prioritising growth and productivity opportunities in ways that don't lose sight of changing customer needs

So, the key elements of a Balanced Response are:

- Early cost action YES, but move quickly to a productivity stance
- Consider the four different levels of productivity
- Keep an eye on changing customer needs (and they will change)
- Design the growth model you want soon (because this might mean business model changes – including what you sell, how you sell it, to whom and with what differentiation)

The rise of 'Barbell' thinking (Taleb)

Barbell thinking presumes that in a rapidly changing world, organisations with options for different models will be those that survive. Those organisations that don't have the right balance and focus too much on today's business are those that go into accelerated decline when the environment changes rapidly.

Government & Other Grants - Criteria Explained

All grant funding programs have criteria against which your application is judged. There are two types of criteria – eligibility criteria and assessment criteria (sometimes called selection or qualitative criteria).

Eligibility Criteria

Every grant program has eligibility criteria. These are the ones that are a Yes/No – you are either eligible or you are not.
Eligibility criteria can be based on a number of things such as:

- **Entity Type:** This means what kind of an organisation you are. Grants are rarely for individuals (with the exception being some arts and sports grants). The type of organisation you are – local government, incorporated not for profit association, trust etc will be part of the eligibility criteria.
- **Entity Details:** Sometimes eligibility criteria includes things like your annual revenue or the number of staff your organisation employs and only if you have the correct number are you eligible for the grant.
- **Location:** Grants may be for the entire of Australia, just for one State or for regional areas or limited to one local government area. Location is always part of the eligibility criteria.

The important thing to know about eligibility criteria is that you can't talk your way around it – you are either eligible or not. Assessors will not read the rest of your application if you are not eligible. If you are in any doubt about your eligibility for a grant ALWAYS contact the funding body to ask them before you start the work of applying for the grant.

Non-Competitive Grants

With grant programs that are non-competitive, eligibility criteria is the only criteria included in the application – they will give the money to all eligible projects (for example: grants for COVID impacted businesses that can prove at least a 50% drop in income over a certain period).

Competitive Grants

For competitive grant programs (i.e. ones that you have to compete with other projects for a limited pool of funding), once you've completed the eligibility criteria responses, you also need to address the assessment criteria.

Assessment Criteria

Some grants are very clear and after all the eligibility and organisational questions, they label a section "Assessment Criteria". Others just ask a list of both eligibility questions and those designed to compare you against other projects without it being clear which are the assessment criteria. Either way, you need to be aware that you will be scored.

Assessment criteria are how the assessors rank your project; how they score your application and compare you to other applications to determine who gets the money. They are therefore VERY important. These questions are trying to determine whether your project will give the funding body the outcomes they are trying to achieve and whether your organisation is capable of delivering the project.

In relation to assessment criteria, you need to make sure your answers are:

- Not one or two sentences long when you are given a word limit of 500 words;
- Answering the question that is asked;
- Detailed enough for the assessor to understand what you are doing, why, how and what the benefits will be;
- Aligned to the reason the grant money is being given away (i.e. the outcomes the grant funding is paying for); and
- Backed up by evidence – provide evidence in the form of research, quotes or attachments to support your claims.

Business Essential Briefs:
(1) Business Smart Energy Management

The cost of energy usage will vary from business industry, sector and size- however regardless it is now more than ever a vital management consideration for all business owners due to at least the following factors:

- Oil and petrol prices at long term highs;
- Ongoing global geo-political instability and war;
- Inflationary forces;

- Impact of rising base interest rates as announced by the Reserve Bank;
- Change of the Federal Government and potential taxation and other policy impacts in the short term; and
- Increased capital infrastructure costs mainly as a consequence of the flow on effects from the above.

Fortunately there are some significant tax incentives and related measures in place that business may consider. This could include taking advantage to access the on-going cost savings from making specific energy efficiency capital expenditure in the near future. Some of the potential energy savings are shown in the figure below.

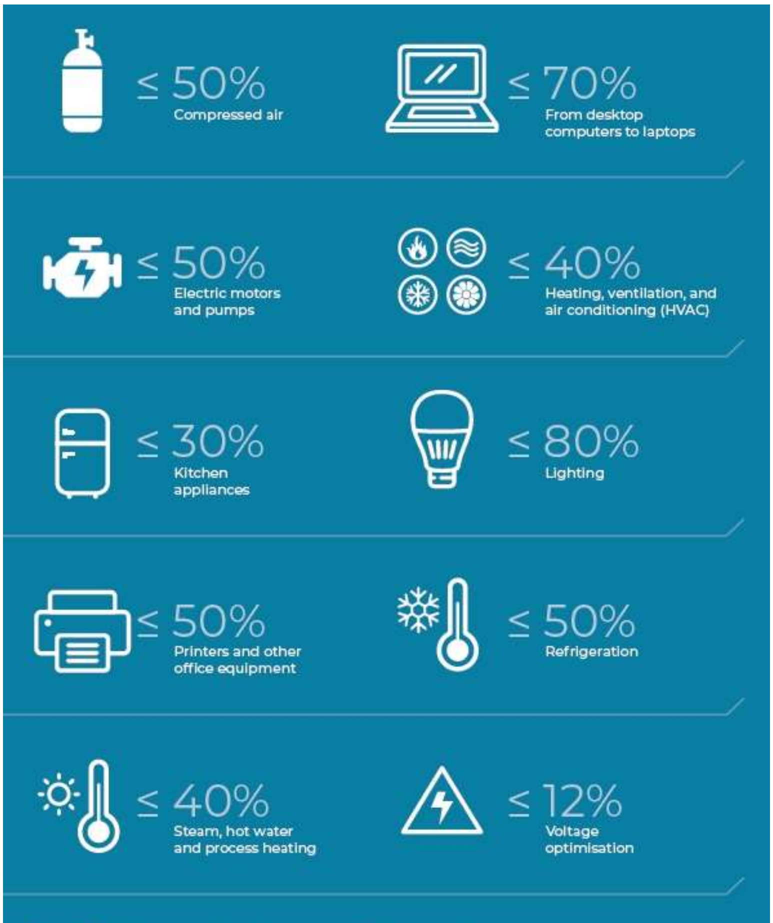


Figure 3: Typical energy savings from energy efficiency upgrades.

Smart energy management means taking a holistic approach to managing how energy is used by leveraging data to make investments in on-site energy upgrades and optimising energy procurement to best meet your business' needs. Importantly, smart energy management starts with understanding and adjusting what is firmly within a business' control – that is, everything that a business does behind the meter, or simply put, on their site.

Businesses have many opportunities to decrease how much energy they are using, how much energy they require from the grid, and to be flexible with when they use energy. This includes:

- Upgrading to more efficient equipment and processes;
- Installing on-site generation like solar PV; and
- Reaping the financial rewards of demand response and lower tariffs.

Through smart energy management, businesses can slash energy costs, support the reliability and affordability of the electricity grid, reduce their emissions, and, perhaps most importantly, increase their productivity and competitiveness.

For further information on this important topic, we recommend you access the guide produced by the Energy Efficiency Council of Australia titled "***Leveraging Tax Incentives to Improve Energy Performance"*** that was released in May 2022.

The complete guide can be obtained by clicking on the link HERE.

Business Essential Briefs:
(2) **Key Takeaways from the Pricing Strategy World Summit 2022**

Hello Darkness, My Old Friend

Leaders are thinking differently about their businesses given a possible recession. Many are going on a spending freeze. It's easy to get pricing wrong right now, especially with inflation continuing to surge. But customers are smart—they know everyone is increasing prices. The game becomes who can increase prices the least, while gaining market share. In some cases this could look like implementing a temporary fee or surcharge instead of a price increase (e.g. for freight or energy costs).

Recommendation: In times of volatility, focus on providing predictability for the customer. Increase transparency wherever possible to make it clear you are not price gouging your customers.

Remember Your Business Purpose

Look at the business from the bigger picture of profitability. Maybe valuable resources can be saved from accounts that are draining time and energy without much return. Perhaps there's an opportunity for your business to start providing services in addition to their products. You have a massive opportunity to contribute to the success of the company - for some pricing decisions this may mean stepping out of your analyst box and influencing the sales team to make difficult decisions.

Recommendation: Make a 2x2 matrix and plot customers based on profitability and company resources spent on that account. Bring the insights to leadership. Firing unprofitable customers often needs to come from the top, and these insights prompt critical action to help save company time when you need it most.

The Bottom Line

One thing is clear: Between inflation, labour challenges, and supply chain issues most businesses are in the same boat. Now is the time to make your dollars count and contribute insights to the business when it needs you most. Keep the outcome in the foreground: profitability or bust.

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