

The Upside of a Downturn

How the strong get stronger

Economic downturns separate the wheat from the chaff. To succeed, many business leaders believe they have to buckle up, batten down the hatches, cut the fat, tighten their belts and reigns and pull up their socks. And they tell their employees that they'll do everything they have to for the company to survive. But what does that really mean? "Generalities aren't much use," says Scott McLean, Partner in Performance Management, Private Company Services at PwC in Vancouver.

McLean works with businesses to help them get specific and set up very clear and precise measures—or performance metrics—which they can use to have a snapshot of exactly how they are doing and what they need to do to hit their goals. In essence, he helps them achieve the self-awareness and tools to succeed in good times and bad. So they don't have to wait for a downturn to find out if they have what it takes.

When the downturn comes, they're ready and know what they have to do. Companies can have literally thousands of performance metrics, and in fact, some do, says McLean. "We sometimes start with clients who have metrics and more metrics—you could fill binders with all their metrics—

but that's just confusing," he says. "Identifying the key performance metrics is critical. What you want is a handful that can tell you how your company is executing against its strategy."

There are a few key metrics that can help just about any business monitor its health and vital signs. A lot of companies rely heavily on financial metrics. "We call these trailing indicators, because they're in the past—they're a bit like looking out the rear-view mirror when you're driving a car," says McLean. You want to keep your eye on the road ahead so you can navigate safely. In contrast to trailing indicators, leading indicators give you an idea of what's in front of you.

“It’s ‘I see a pothole up ahead,’ as opposed to looking through your rear-view mirror and saying ‘Oh, now I know why my head hit the roof. I hit a pothole,” he says.

McLean’s advice is that top leading indicators should include:

- **Customer feedback and satisfaction:** If your customers are satisfied with your service and product, there’s a high probability that they’re going to use you again.
- **Inventory accuracy and health:** If you’re sitting on a whole bunch of product that’s not moving, something’s not right.
- **Safety:** If your employees are coming to work and they’re feeling stressed and unhappy, they are probably not going to be alert and functioning in a safe manner.
- **Employee engagement:** Some companies go through really hard times, and they grow as a team. Others go through really lousy times, and it destroys their team.
- **Business processes productivity:** For example, how many orders do you fill in a day? Having metrics for this would highlight how effective your processes are. You want people to do things once, and do it right as opposed to having people do things again and again.
- **Sales activity:** How healthy are your sales, and how do your actual sales compare to the sales needed to achieve your strategy?
- **Metrics are no good unless you act on them:** As important as it is to have metrics in place, knowing how to use them is paramount. “We worked with

an organization that had a department dedicated to generating metrics and metrics,” says McLean. “Nobody looked at them.”

In order for metrics to actually help companies navigate through the potholes as well as the wide open stretches, says McLean, they need to understand strategically what the business is trying to achieve and have metrics that indicate whether they’re executing well against the strategy. “If you have a really clear strategy—one all employees understand—you’re going to be able to execute it far better than your competitors, especially during a downturn.”

Often in the case of private companies, there’s a great strategy and vision in place but it remains in the mind of the owner or leadership team. “To me, it’s always intriguing that some companies think, ‘Well our strategy is so top secret that we’re not going to share it with our employees,’” says McLean. “If you have really good strategy, maybe you don’t share the whole strategy with employees but you share the portion of the strategy that each employee needs to know in order to come to work and execute really well.”

This is especially key during a downturn, when businesses have to be that much more effective. “When you hit a downturn, you’re probably going to have to cut costs. What happens if an employee, thinking they’re doing the right thing, cuts in an area that is essential to your customers?” says McLean. “Employees will naturally try to do the right thing. Take advantage of this by providing them with a clear vision of what they’re trying to accomplish and know their role in the overall strategy.”

This type of employee awareness and commitment is exactly what PwC worked to achieve with Surrey, BC-based A & A Contract Customs Brokers Ltd. last year. “Our company now has clear direction. Employees throughout the company understand how their daily efforts help the company achieve its goals,” says A & A’s president, Graham Robins Jr.

The truth is, says McLean, that downturns are an important part of the business cycle for a healthy company. They can ultimately make the business stronger and give it a competitive edge. If a business has the confidence of knowing who they are, how they’re doing, where they’re going and how their entire team is going to get them there, a downturn is really just one big pothole—one they’re fully equipped to navigate around.

Contact

Scott McLean
Partner, Performance Management,
Private Company Services
604 806 7113
scott.mclean@ca.pwc.com

Eric Andrew
National Private Company Services
Leader
604 806 7500
eric.s.andrew@ca.pwc.com

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