

Recessions – voluntary not compulsory

The outlook for 2009 and beyond certainly looks challenging -- at least on this side of the Tasman. For some this is simply history repeating itself (albeit with turbochargers) as the gloom and doom merchants forecast a substantial decline in economic fortunes.

While it would be foolish to ignore their warnings, it is important to keep a balanced perspective and remember lessons from previous downturns so your business is ready to capture opportunity when the trend inevitably turns upwards.

In some ways this revives memories of like periods such as the post-1987 crash. That along with droughts, the so called 'Asian crisis' and the ups and downs of market trends has taught a number of lessons about managing volatility.

First and most important is to realise that recessions are strictly voluntary - not compulsory. Much of the sentiment around economic outlook is driven by perception and confidence as we respond to economic forecasts. Commentators with a seemingly insatiable hunger for negativity do little to reverse the trend. Protecting your business from this is heavily dependent on who you mix with, who you talk to and what you read. Strategies should be based on credible information and the credentials of those providing it.

Stock sales, the dairy co-op meetings or political forums are unlikely to be the place to find such energy. Selective exposure to economic thinking is vital.

Second priority must be to recognize there is never opportunity without change. Concealed amongst the pressures of declining markets will be opportunities to adapt farming policies, grow business performance and capitalise on farm inputs and assets at more competitive rates.

Support networks are key to this. I recall previous "downturns" where groups of clients got together to encourage each other and ensure they and their businesses were in the best possible shape for the upturn.

None of this will entirely eliminate the impact of volatility -- especially its capacity to fuel your imagination and cause worry about what lies ahead. Focus must be to work with facts not fiction. In the current environment it is sensible to work with multiple budgets forecasting best and worst scenarios. Knowing your gross margins and break even points will help decision-making and trigger early response. This will also enable assessment of combined impacts from changes in product prices and how much these are offset by favourable trends in costs.

A unique characteristic of this downturn is the combination of "drivers" influencing business prospects. While product prices (especially for dairy) are under pressure there are compensating changes in feed, fertiliser fuel and interest costs. Knowing the relativities between these is critical to maintaining perspective. On my calculations, a typical New Zealand dairy operation that achieves a 0.6% drop in average interest rates makes a saving equivalent to \$0.10 per kilogram milk solids. Its never all bad news!

Businesses that survive (if not thrive) in challenging times put a heavy emphasis on knowing the short and medium-term outlook. They communicate this to those who

can influence their prospects -- especially their financiers. Proactive, timely and accurate analysis combined with the best thinking available from competent professionals will accelerate strategies to move forward.

Finally, given the looming financial storm priority must be to try as much to assess how deep it will be as how long it last. It is vital to recognise the drivers of previous optimism remain unchanged. Food shortages, population growth and maturing economies still underpin world food demand. Prospects for more open trading relationships remain strong even though they may be temporarily delayed by larger countries wishing to protect their own economies short term. While these may be subject to a temporary pause, they are unlikely to go away. In my view there remains a strong case for optimism.

Making the best of 2009 and beyond is about being in the best possible shape when recovery comes. It's about protecting resources while sharpening management skills and knowledge. Encouraging your people, upskilling your technical expertise and maintaining an informed view are critical to strategic management based on opportunity orientation.

If your attitude determines your altitude – this is the time to sprout wings! Lets welcome what lies ahead. I'm looking forward to sleeves rolled up for my clients in 2009!

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