



Recession-Proof Your Company: Financial Best Practices

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In the last quarter of 2008, the global economy has been turned upside down, leaving many to wonder if they are prepared for the coming year. However, this is not the first hardship to hit travel and tourism and, as much as we might all wish differently, it likely won't be the last.

The events of September 2001 in many ways helped to create stronger, leaner and more resilient tour and travel companies and travelers. Because of that, many companies are better positioned today to see their way through this economic downturn. However, this white paper contains some best practices that companies can utilize to help navigate this most recent crisis and create a stronger company in the end.

What is a Recession?

To start, let's look at what exactly defines a recession. The U.S. Federal Government considers the country to be in a recession when it experiences two consecutive quarters of negative Gross Domestic Product growth. However, on a more practical basis, a recession more generally refers to a slowdown in business activity and consumer spending.

So, while during the spring and summer months of 2008 government representatives and economists declined to state that the U.S. had actually entered into a recession, many companies and consumers were starting to feel the effects of what was to come.

Core Areas to Consider

There are three areas in which companies should focus to create a more recession-proof company—operations, sales and marketing, and advocacy. This white paper will examine each and provide some advice and/or best practices that can be adopted.

Operations

Taking a look at your company's overall operations and where you can cut back to create a more efficient company is the first place to start. Below are some best practices that your company can implement that will help on the operational side of the business:

Secure your lending relationships—for any business, you want to know that your relationship with your lenders is secure. In a normal recession this is good advice. When the immediate onset of this collapse resulted in a freeze on lending between banks—ultimately causing the borrowers to feel the crunch—this advice might be more difficult to heed. However, having a solid understanding of your relationship with any lenders should be at the top of any business' "to do" list.

Improve your supply chain—make sure you're getting the best price on supplies and equipment. Look around and shake up the vendors you're currently working with to get the best deal.

Clean up your financials—while you shouldn't wait for an economic crisis, cleaning up your financials is important in many ways, including securing credit. Presenting a transparent, strong financial statement will put your company in a better overall position today and tomorrow. This part may also include cleaning up some of the "fat" that has found its way into your account payables over the years. While many businesses did this immediately following 9/11, there are probably some things that have slipped back in or deserve a second look to find added cost savings and efficiencies. Review your business expenses on a daily basis and reduce costs whenever and wherever appropriate.

Keep inventory lean and monitor cash flow—look to decrease the amount of supplies you purchase in the short-term. Don't spend your cash, which is critical, on things you can't liquidate. Don't buy capital equipment you don't need right now and buy a lesser supply of goods in the short-term.

Monitor your cost structure—there is never a better time than during a situation like an economic recession to get a handle on what it really costs to deliver your product or service and which products make money and which ones don't. In economic downturns, it is often best to focus on efficient products that require less labor intensity and offer solid margins rather than those that require a lot of resources and offer questionable margins.

Utilize your employees for ideas—often management will not discuss finances with employees during a time of economic downturn for fear of creating panic and low morale. However, employees are often your greatest assets to finding ways to save or make more money, particularly front-line employees and sales teams. Engage them, tell them what the company faces and have them offer ways to help the bottom line.

Develop an economic security team—Dr. Peter Tarlow of Tourism & More offers the idea of developing an economic security team. Times like this are not when you should pretend to know everything. Call upon as many experts in your area and develop a team to monitor the situation. Bring in local business leaders, tour operators, hoteliers and attraction owners for a local summit and then follow that up with regular meetings. This crisis is likely to be very fluid with a lot of ups and downs so pulling together a team of leaders to monitor the situation will keep your company in the know and better prepared.

Additionally on the human resources front, many times a hiring freeze or freeze on overtime hours can help prevent layoffs and get you through a downturn without losing any employees. Another possible outcome is an increased pool of qualified job-seekers. Often times this can give your company the opportunity to obtain a great new salesperson or front-line employee at reduced wages that could help significantly add to your bottom line.

Sales & Marketing

With all of the cost-cutting that is mentioned above, one area where many agree that you should increase spending during an economic downturn is in sales and marketing. So, what are some of the things you can do from a sales and marketing standpoint that can see your company through? Below are some suggestions:

Don't stop marketing—while you must scrutinize your budget and make sure you're spending it wisely, you should never stop marketing. Look at advertising and marketing vehicles that have produced good ROI for you in the past and continue to invest in them.

Renewed focus on your customers and products—to make sure the customers that are still spending continue to spend with you, you must focus on providing the best product with the best service. You know that old adage—it is always easier to keep a customer than find a new one. That is particularly true when money is tight.

Develop new partnerships—NTA has always helped to foster partnerships. Whether it is operator to supplier, operator to operator, or supplier to supplier, economic downturns call for creativity in developing new and profitable partnerships. Think outside of the box and look for new partnerships that will be mutually beneficial and help keep people traveling by creating an interesting and marketable new product.

Retool your products—renewing your focus and identifying your most profitable customers will help you retool your products and put forth something they still wish to purchase. During times of recession, particularly with travel, many customers still want and need to travel. However, they might be seeking lower-cost options. Look at what your most popular products are and see if you can retool them slightly to create a similar experience at a lower cost. And, while you should consider carefully before starting a price-slashing strategy, if you can make the math work offering deals and special incentives to good customers can create an added loyalty for both the tough times and the good.

As mentioned in the last bullet above, sale- and price-related promotions are an area in which travel marketers should proceed with caution. By focusing on price, you're training customers to wait for the next sale and could result in permanently reduced margins.

However, a recent article in ClickZ gave marketers four types of non-price-related communications to use with customers to help build relationships during tough economic times. They include:

- For budget stretchers, think creatively about how to help your customers extend their purchasing power. Give them more for their money.
- For time savers, tell them how your product can help them save time without incremental cost. In a good economy, time-impooverished customers will pay for services that save time. They still want to save time but they just can't pay for it now.
- Look for affordable treats. People need something to brighten their day, especially when they're increasingly worried about money. Travel is always something that makes people happy so look to add little extras that are affordable and fun.

- Humor is always good, especially when folks really need to take their minds off of their troubles. Using humor in your marketing and making people smile will help them remember you and what you're selling.

Advocacy

Travel and tourism is a huge economic driver for the overall economy. Many learned that lesson after 9/11 when travel ceased and the true impact of what our industry brings to this economy was demonstrated. During a time of economic stagnation, getting people to travel can be a stimulus for the economy. It helps keep millions of people in jobs and can help jumpstart consumer spending and the economy.

That message needs to get through to your elected leaders. Let your representatives know what you and your business mean to the overall health of the economy. NTA has many ways to help you get that message through, which will be discussed in the next section. However, the message here is clear, advocate for your industry with your elected officials and you will not only help yourself, but the big picture as well.

How NTA Can Help

There are a number of ways NTA can help you strengthen your company during a recession:

- **Tour20**—for tour operators, NTA offers a financial benchmarking program called the Tour20. The Tour20 allows you to share financial information anonymously with a third-party facilitator and financial expert. As a group, Tour20 participants look at this information and learn ways to operate leaner, seeing more clearly where expenditures go and what it truly costs to produce their products. The expert facilitation and feedback from peers helps operators look at their business in a new light and see areas for improvement that had otherwise gone unnoticed.
- **Grassroots Action Network**—if you want to advocate on behalf of travel and tourism with your elected officials, GAN is the answer. It is your opportunity to work year-round with officials ranging from local to Federal. The GAN has a number of volunteer opportunities, from being a state chair to a congressional district chair, with NTA providing the training and tools to make sure all GAN members are successful in getting their points across and having their voices heard.
- **The Grassroots Symposium**—NTA's annual march on D.C., the Symposium is filled with educational sessions and visits to Capitol Hill. It gives all NTA members, particularly those involved in GAN, the chance to present a collective voice to leaders in D.C.
- **Research**—white papers like this one, and ones set to be released later in 2008 on the future of tourism and how you can position your company for the

challenges and opportunities that travel and tourism will face in the next 10 or 15 years, all help strengthen your company. NTA also has research on consumer trends, a monthly e-newsletter in *The Trend* and other vehicles that will help you target the consumers that will guide your company through any kind of economy.

- **Membership**—in economic recessions your membership in NTA is even more valuable. It is a low cost way to create new alliances, find new partners, share and receive information and education, and continue to market your product to a lot of buyers at one time.

Summary

Dr. Peter Tarlow of Tourism & More had this advice to offer travel and tourism companies during this current economic situation—be realistic; neither panic nor have a sense of false security. As Tarlow offered in a recent newsletter, travel businesses should take a deep breath. Think about which challenges your company or destination may be facing and the possible solutions to overcoming those challenges. The bottom line is, the travel and tourism industry is not going away and your business is not going to fold tomorrow.

Tarlow also advises travel and tourism professionals to be upbeat and positive. When leaders demonstrate positive and cheerful attitudes, creative juices start flowing and good things can happen. That may be easier said than done in the weeks that lie ahead. But, like the best practices offered in this white paper, it is useful advice to help your company through the current economic situation and come out on the other side stronger and better for the experience. That is what many of the businesses in travel and tourism that survived the aftermath of 9/11 learned and it is serving them well during this current situation.

However, as Tarlow also advises, don't get caught in a false sense of security. In a business like tourism where cash is often paid for services before they are delivered, it can be a lagging economic indicator. What does that mean? It means it is the last to feel the effects of an economic downturn and one of the slowest to recover. So, be mindful of the trends. Watch your consumers, see where your best bets lie in the immediate future for travel spending, and focus on shoring up your finances and making sure you're ready for what is still to come.