



## Don't Panic!

How to React to an Economic Slowdown

Industry: Articles Franchise

Issue No.

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The current credit squeeze and looming economic recession (perhaps the most severe in twenty five years) present both franchisors and franchisees with substantial challenges. A list of those challenges would be very long indeed. However, from a macro standpoint, the current economic condition presents just one very basic question everyone needs to address: How do you manage through this rough patch? Following are my thoughts regarding what you should do to assure your business survives this current situation. I've developed these thoughts based on my thirty plus years in all aspects of franchising. During those years I've worked my way through at least three major economic dislocations. My thoughts are based on working with successful franchisors and their franchisees. I think they apply equally to both franchisors and franchisees.

**1. Don't panic!** Rudyard Kipling had it correct when he said, "If you can keep your head when all about you Are losing theirs...If you can trust yourself when all men doubt you, But make allowance for their doubting too; . . . If you can meet with Triumph and Disaster And treat those two impostors just the same . . . Yours is the Earth and everything that's in it." This is not the time to make panic driven decisions.

As you study your business and contemplate how you make decisions in this environment, make sure you have the facts you need to make informed decisions. Don't be reluctant to seek thoughts and advice from people that are knowledgeable about tough decisions you are facing. Seek out expert advice and don't rush when making important decisions.

**2. Redouble your focus on customers.** Retaining customers is always important and in rough economic times customer retention is even more important. Now is the time to refocus your company on providing the absolute best customer experience possible. If you are a franchisee extra time spent on service training will be time very well spent. If you are franchisor now is the time to make sure you are supporting your franchisees in every way possible. Make sure your organization knows that supporting franchisees is "Job Number 1".

**3. Leverage your system.** One of the wonderful things about franchise systems is that the saying about franchising, "You are in business for yourself, but not by yourself", is largely true. Your system can be a real strength when times get rough. If you are a franchisee, look to your franchisor, and fellow franchisees, for ideas about how to weather the storm. If you are a franchisor, seek input from your franchisees about what successes they are having and then share the successes with your system; find and share best practices. Importantly, seek ways to unleash the creativity within your system. There is wisdom and magic in franchise systems, focus on leveraging them.

**4. Review your Business Model.** Every business is based on a model that includes the source and amount of revenue, investment requirements, operating procedures and a how profits are generated. Your business model is based on certain assumptions and now is the time to revisit those assumptions. Look at your business model and understand how it will perform with lower revenue, changing investment and revised operating procedures. Your goal here is to understand what will happen to your cash flow as you respond to the new economic environment.

**5. Review your Business Strategy.** As a general rule business strategy should seldom change. However, now is the time to revisit your overall business strategy. If your strategy has been working it probably doesn't need to change much; perhaps a tweak

here or there is all you need. On the other hand, if your overall business strategy has shown any sign of weakness now is the time for a complete evaluation. Reviewing your overall business strategy, along with a review of your business model, can open your eyes to new opportunities.

**6. Ease employees fear.** Panic is in the air and your people need to know that you are doing all you can to manage successfully in this new environment. Your employees know times are tough and seeing you take a proactive approach to managing the business will ease some of the fear they feel.

**7. Manage your cash.** Cash is KING! As obvious as this sounds my experience has shown me that many businesses never really pay close enough attention to the expense side of the business, especially the smaller expense items. You need to put every expense item under the microscope; you may be surprised what you may find.

Just yesterday I spent some time with a very successful fast food franchisee; he operates seven restaurants. He told me that for the first time in several years he went to his restaurants and reviewed every expense item on the P & L with the restaurant manager. He didn't find any fat in the big numbers like food, labor, etc. But as he reviewed the real detail stuff he found almost two hundred dollars per store per month in unnecessary phone expenses. He is making some changes and taking advantage of an AT&T deal and he estimates he will save almost twenty thousand dollars per year in his seven restaurants. To put that in perspective, he said he would have to increase his sales by slightly over two hundred thousand dollars per year to achieve the same increase in free cash flow. The message here is take time to look at the small stuff, all the small stuff!

**8. Keep your bankers and investors updated.** These people have shown faith in you and you owe it to them to tell them what's going on in the business, even if the news is not good. They know the environment is tough but they want two things from you. First, they don't want any surprises. Second, they want to know what you will be doing to keep the business afloat until the economy recovers. Now is the perfect time to update your business and financial plans and then use those as communications vehicles to will build confidence in you as a manager and in your business.

Well, there you have it-Professor Jones's eight tips for managing your way through this mess. I hope these resonate with you and they help you come out of this even stronger than before. There is really nothing new in these eight tips. But in times like these, I think there is great value in looking back at some of the management practices that have worked well in previous times of economic weakness. Actually, I think these eight tips are appropriate for managing any business, at any time, not just in periods of economic weakness. Unfortunately, many franchisors and franchisees never feel the need to do some of these things until they see a recession staring them in the eye. Success can make us complacent and we get complacent at our own peril!

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*Last Updated: November 5th, 2008*