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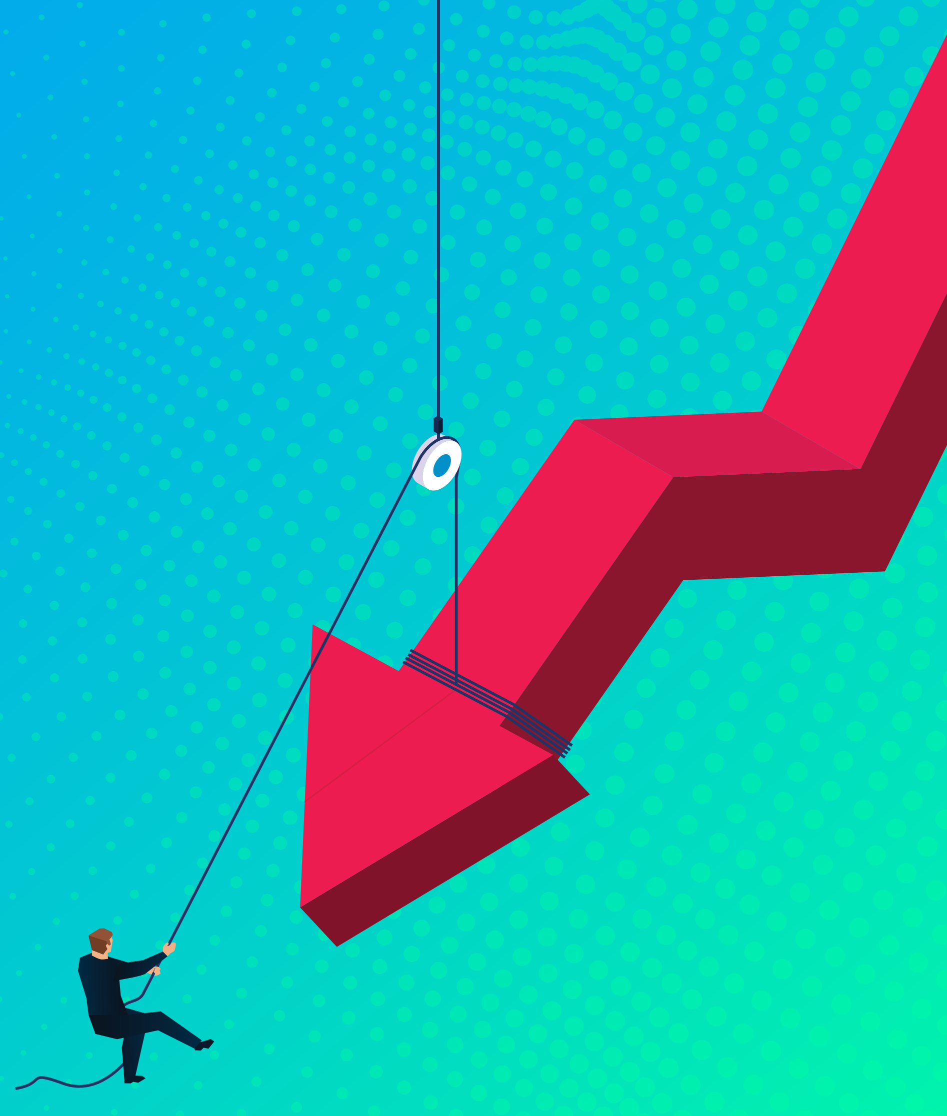
The 7 Steps to Riding out Economic Turmoil in the Microsoft Eco System

Let’s face it—the current pandemic and market gyrations have probably already triggered a recession, even though the economists won’t know for sure for another three months or so. We were overdue, after all.



Based on our experience helping Microsoft Partners manage through 9/11 and the 2008 global financial crisis, here are the seven most important things we advise the owner of a Microsoft VAR or ISV do to ride out a recessionary period:

Assess your current operational and financial readiness and performance levels.

Identify what you have to work with, where you are underperforming, and what resources you can free up. Contact **dana@partnereconomics.com** for more information on our free benchmarking service to help with this. Benchmarking will assess your current liquidity and identify the operational leverage you have by comparing you to the partner ecosystem at large.

Identify and mitigate any customer concentration risk.

If a significant portion of your revenue comes from a limited number of customers, you'll need to be fanatically proactive about preventing project delays to avoid major revenue declines. A single large project being postponed can significantly impair profitability since it is hard to rapidly re-deploy services professionals in a recessionary climate. So, identify those customers that expose you to this risk and put an action plan in place to give you as much lead time as possible to mitigate possible project delays. If you are prepared for delays, even one month in advance, you can address it, but if it surprises you, you will be in trouble. If you have multiple large projects, this risk is exacerbated and absolutely requires immediate attention.

Manage your cash.

Correctly align your days sales outstanding (DSO) relative to days payables outstanding (DPO). In a recession, you can almost always improve your cash flow by extending payables. As long as you are talking to your suppliers, they will accept waiting a bit longer to receive payment. Also, our experience in the Microsoft ecosystem is that DPO is typically shorter than DSO, and therefore extending payables is "low hanging fruit" that can provide needed cash flow relief.

You also have to expect in a recession that each customer will want to extend their time to pay you, so the following tactics to manage receivables are advised:

- **a** Weekly invoicing (or as frequent as possible) for projects to shorten DSO
- **b** Follow-up upon any invoices *after 7 days*, asking if there are any issues with the invoice to ensure there is not a more significant problem lurking below the surface, and also asking when the invoice will be paid
- **c** Follow-up every 7 days until the invoice is paid

Yes, this is a lot of work, but healthy cash flow is essential to surviving a recession unless you have bottomless pockets, which in our experience is rarely the case for a Partner.

Mine existing accounts.

If ever there was a time to aggressively ramp up conversations with your customer base, this is it. In particular, your account management team should be actively recommending tools and strategies that preserve your customers' bottom lines.

For instance, reporting solutions that allow customers to identify areas of cost savings, risk and revenue opportunities are particularly useful in times of economic turmoil, because they assist management in making the decisions that have the most significant financial impact. For that matter, make sure you're using those tools yourself.

Another way to increase billable hours from existing accounts is to offer a "health check" of sorts on their ERP system. Once a familiar consultant or project manager is on-site with an existing customer, work will naturally surface. It's not a substitute for losing a large project, but it is far better than having billable resources sitting on the bench. Every un-utilized hour is like an empty airplane seat after takeoff—potential revenue lost forever.

Trim the fat.

It goes without saying that any unnecessary overhead should be shed. But not cut to the bone. You want to come out of recession stronger, leaner, and more efficient. This is the time to make any needed structural changes to every aspect of your business, including under-performing staff. Obviously, you must weigh severance implications and your obligations as a good corporate citizen but make the needed tough decisions quickly. It's better for everyone.

Keep the core team intact.

It will be challenging to replace quality resources when the economy rebounds, so retaining your best players is critical. The good news is there is reduced partner-to-partner resource poaching in a recession. The bad news is you also need to keep utilization as high as possible. We have found bi-weekly meetings that keep everyone informed are particularly helpful and make it easier to manage workloads. It also makes it easier to reduce hours for everyone if that's needed to keep the business afloat. Reducing the work month by one week will immediately improve your cash flow and sustain the team.

Don't stop marketing.

Almost by definition, a recession is a time when market share moves from the weaker to the stronger. To reap long-term benefits, you need to make sure your message is out there when others go silent. Over several business cycles now, we have tracked the impact of Partners doubling down on marketing in a downturn versus those cutting back, and the verdict is clear—those who continue or ramp their marketing come out of recession more robust and grow much faster than those who don't. Remember, a marketing engine must keep running to generate continuous funnel pressure—if you turn marketing off, it will take 24 months or more to get real sales momentum again once the recession is over. By that time, your competitors will be way ahead of you.

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Above all, remember recessions don't last forever, and they only mean fewer people buy. Recessions are typically 18–24 month storms at most. Business activity doesn't stop during that time, it just slows down. And things eventually rebound.

The bottom line, if you take the 7 steps above, your business will actually be strengthened by a recession.

For more detail on executing these 7 steps, contact either **dana@partnereconomics.com** or **george@partnereconomics.com**.