Strategies During an Economic Downturn

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Economic downturns happen periodically in most industries. For example, the automotive supply industry had major downturns in 1982, 1991 and is in the midst of one now. Economic downturns eliminate weak and un-adaptable companies. During a downturn, strong companies can gain market share and get stronger.

A company does not have to be good at everything to be successful. Companies that become distressed during a downturn may be failing at only one critical function or may be mediocre to dismal at many different things. Unfortunately, many companies wait until a downturn has already begun to solve their problems. By this time, it is often too late.

Most people involved in the turnaround business can quickly construct a list of 20 or more characteristics of companies that will do poorly during a downturn. Each of these characteristics could make a long article or in some cases an entire book by themselves. Before a company can work to correct its problems, it must recognize and acknowledge that those problems exist.

Unfortunately, many struggling companies are unable to see or acknowledge that they need help. Owners and company managers are often too close to the everyday activities of the company to recognize where they need to improve. The driver of an old automobile may know that the car is hard to steer, but may not realize what everyone else can see, that the root of the problem is a bent rim on the left rear tire. A sure sign of a company that is going nowhere desirable is the lack of a list of active improvement projects showing effort to improve known weaknesses.

Company owners and managers can get a more realistic assessment of company performance by frequently asking for feedback. Opportunities to get feedback from customers should be sought-out and encouraged. Employees should be asked; "How am I doing as a boss and what suggestions can you give for improving the company?"

A company's financial statements are a good indicator of its overall health. Failure to have a positive cash flow, earn an adequate profit, or pay bills on time are all signs that a company is in trouble or is well on its way there. Frequent and candid discussions with the company's bank loan officer and CPA can help management stay grounded in reality.

Acknowledging that a company needs to improve is only the first step in the challenge. Often a lack of trust and truthfulness is a major obstacle to actually making a change. Everyone or nearly everyone may know what the company has to do, but no one may be willing to break the comfortable status quo. This problem bears a close resemblance to the children's story, ***The Emperor's New Clothes***. In the story, two frauds tell the king that they can make him a garment of the most wondrous cloth ever made which has the most splendid and dazzling colors. The clothing will also be very useful, because the cloth cannot be seen by any man who is unfit for his job and thus the king may use it to evaluate his advisors. As the frauds "make" the clothing, the story of the fabulous cloth spreads and the day that the king will have his new garments is awaited with great anticipation. No one, of course can see the king's garments, including the king himself. Each person keeps to himself that he is unfit for his job. Only when a child cries out "The king isn't wearing any clothes!" does the king and his subjects realize that each has fallen victim to their own insecurities and that they have been defrauded. Once someone dares to speak the truth, the lie that everyone has silently lived with is quickly acknowledged as a falsehood.

Many small companies suffer from a lack of financial sophistication. Someone once asked industrialist Andrew Carnegie whether the most important function of business was sales, manufacturing or finance? Carnegie replied; "What is the most important leg of a three-legged stool?" Companies whose skills are unbalanced are vulnerable to better-rounded competitors. Lacking sufficient financial skill, many small companies are unable to manage to a budget or produce readable, accurate financial statements. While small companies often need someone with high-level financial skills, they often do not need (nor can they afford) those skills on a full-time basis. Today, some former Chief Financial Officers work on a part-time basis for several different companies.

There are many sources of help for struggling companies. Your banker can probably recommend professionals who specialize in profit improvement and may know of people who could be your company's part-time Chief Financial Officer. Recognizing that there are problems to be solved and seeking help are the first steps to a better way of life for everyone at your company.

Mr. Daly is President of Executive Education, Inc. a Chelsea, Michigan management-consulting firm. Executive Education provides consulting services in business turnarounds, pricing strategy, and part-time/temporary Chief Financial Officers. He is the author of ***Pricing for Profitability: Activity-Based Pricing for Competitive Advantage***. His company also produces continuing professional education for financial officers. In Michigan, these seminars are offered through the Michigan Association of CPAs.