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FINANCIAL FOCUS



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Your Accounting for a New Economy

Economics 101: Perception is Reality

“Posit: People think a bank might be financially shaky.”

“Consequence: People start to withdraw their money.”

“Result: Pretty soon it is financially shaky.”

“Conclusion: You can make banks fail.”

“Bzzt. I’ve already done that. Maybe you’ve heard about a few? Think bigger.”

“Stock market?”

“Yes.”

“Currency market?”

“Yes.”

“Commodities market?”

“Yes.”

“Small countries?”

“With luck, I might even be able to crash the whole system.”

Sneakers, 1992

Phil Alden Robinson, Director

The above exchange from the 1992 Phil Alden Robinson movie “Sneakers” is a chilling depiction of the power of perception over the economy. We are all familiar with the old adage, “perception is reality”, but never is this more true than in reference to the Economy. It seems like everywhere we turn lately we are bombarded by politicians, analysts, and reporters all declaring messages of doom and gloom that “the end is nigh” in turn scaring companies away from spending, even if they have the ability. If not kept in check, all this negativity can reinforce our current downward economic spiral.

This is nothing new. People have always used fear and negativity as a means to accomplish their own agendas, but it's important to remember that it works the other way as well. For example, when Fed Chairman Ben Bernanke publicly speculated that the economy could turn around by the last quarter of this year the stock market rallied, signifying their optimism for the future and their desire for good news. The truth is the same as it always was: opportunity does exist for those companies willing to take risks.

What Should Your Company Be Doing to Weather This Economic Storm?

1. **Focus Your Efforts** – Now is the time to focus on what your company does best. When times are good companies spend a lot of time and money diversifying their products and services, however, now is the time to focus on your core competencies. Cut back in those areas that have become unprofitable. Solidify your company's identity.
2. **Form Strategic Alliances** – Strategic alliances are vital in good times as well as bad, but in a climate such as this they gain even more importance, and may require some original thinking. In good times you may never consider forming an alliance with a competitor, but the reality is this could provide a very successful, mutually beneficial relationship. For example, let's say you're a small manufacturer that produces personalized golf balls, and you have a competitor that mass produces huge quantities of golf balls. An option you could explore is offering the larger competitor an opportunity to personalize some of their product. Because of the scale of their operation this isn't something they would normally be able to do, but now through your company, they're able to offer it as an option to their customers. They win, by expanding their product options without retooling, and you win by discovering a new source of revenue that was previously untapped. Remember it's always better to make friends in a marketplace rather than enemies.
3. **Focus on Sales and Marketing** – When companies fall on tough times the first response is often to trim advertising and cut sales and marketing. Just as your first instinct is to run, when you're set on fire, this initial thought is prompted by panic and can lead to making a bad situation worse. In hard times it's important to maintain your company's visibility. If anything you want to become more visible. Explore lower cost advertising options. Work your current client relationships. Remain in contact through email communications. With the digital revolution there are numerous low-cost ways to keep your company front and center in your client's and prospect's minds.

If you have any questions on how to pursue the unique opportunities this economy presents, do not hesitate to contact Scott Cote, Director of Practice Growth at (214) 461-1467 or by email at scote@lgt-cpa.com.

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