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FINANCIAL FOCUS



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Your Accounting for a New Economy

Survival of the Fittest: Evolution of Surviving a Sluggish Economy

The sluggish economy of the last two years has been hard on most companies, and mid-size corporations are no exception. Many mid-size companies have the cost structure of an organization still growing, but lack the robust revenue of a larger corporation. If you're at the head of one of these besieged companies there are steps you can take today to ensure your companies survival for tomorrow.

Step 1: Understand the Economics of Your Business

Be honest with yourself. It may seem like a simple thing, but it's vitally important that you understand all aspects of your business' economics. You have to look at your company and recognize its place in the market, your industry, and the regional, national and even global economy.

Ask yourself the following questions:

- ***What is your core business?***

Dig deep. Discover where your revenue is coming from, which products or services are your most profitable, which haven't been performing of late. Uncover the areas of your business that have historically performed for you and examine how you can better invest and support those areas of your business.

- ***Where can you trim?***

After you've identified the profit centers for your company look to where you can cut. Where are your wasted assets (financial and human)? Eliminate all unnecessary spending. Investigate if the opportunity exists to shift fixed spending to variable. Take a closer look at all discretionary spending. Trim your company down to its "fighting weight".

- ***Are you doing everything you can to manage liquidity?***

Adjust your focus from the P&L (profit and loss) and balance sheets to the cash flow statement. Scrutinize your working capital to cash with the same attention to detail you apply to your other financial reports. Develop and maintain a solid 13-week cash flow forecast to identify any potential problems early. Keep the communication open with your lenders, suppliers and key customers.

Step 2: Examine your HR philosophy

Human capital is the most valuable resource your company has, but it is also very expensive. Look for creative ways to survive the tough times.

- ***Inspire loyalty***

No other retention tool is more effective than true loyalty. Do everything you can to stand by your employees in the tough times and they will remember it. Avoid lay-offs at all costs. There are many other alternative courses of action to take before eliminating your workforce. Shortened work weeks, unpaid vacations, wage and hiring freezes, pension and medical cuts, and reduced or eliminated 401(k) contributions are all viable options. Let your employees know that down-sizing them will be your absolute final resort.

- ***Keep your core activities “in house” and outsource everything else.***

Continue to do what you do best. Develop and maintain those “core” business services that differentiate you, while outsourcing anything noncore. By outsourcing those tasks that are not your company’s focus you can benefit from another service provider’s expertise and economics of scale while only paying for the services you need. This will help to keep your company’s focus on what you’ve identified as your core business.

- ***Scout Talent***

With the current strain in the job market there’s a lot of talent on the street, and there may never be a better time to hire than right now. As the competition for jobs has increased the demands made by potential employees has decreased and it’s possible to strengthen your resources at bargain prices. Perhaps you can consolidate two lower level positions into one higher level position staffed by a stronger candidate.

Step 3: Maintain Communication

One of the most important aspects of handling any crisis is communication. Most people take their cue about how to respond to a situation from the top. If there’s a lack of communication or, worse, a lack of leadership, many people’s first instinct is to panic. Remember to be a calm voice in the storm.

- ***Increase the frequency of internal meetings***

Employees are more focused and motivated when they feel like they are an important and active participant in a company. Pursue frequent open and honest communication with them. Establish a regularly occurring forum where you can listen to the concerns of your employees and update them on the current status of your company. When management isn't discussing the economic situation of a company, the watercooler gossip usually believes there's a reason.

- ***Communicate with your external contacts as well***

Identify your key external contacts and communicate openly about the tough times ahead, but at the same time paint a bright picture of what the future may hold. If your company has investors this may be the perfect time to manage expectations. Set realistic targets and communicate frequently with stakeholders and investors to build critical trust.

Step 4: Be Opportunistic

More millionaires were built during the Great Depression than any other time in American History. Recessions evolve industry faster than "prosperous" times and drastic change will always bring with it remarkable opportunity. Be on the lookout for new opportunity wherever it may exist. Form new strategic alliances. Move into new sections of the market. Adopt new pricing models. What made sense in a strong economy is not necessarily what makes sense in a struggling economy. Be ready to evolve with the changing landscape of business.

Step 5: Prepare Now!

Nothing lasts forever and that applies to a sluggish economy as well. You can't have a bear market without a bull, and the economy will recover. You should start planning now for its inevitable rise.

- ***Reexamine your assumptions***

All plans have one thing in common; they're all based upon a set of assumptions. Any strategic plans made last year will likely need to be reexamined and changed to account for slower than expected growth. Be sure to allow sufficient time to research plans for 2010 and beyond.

- ***Reward loyalty***

Once the economy starts heading in the right direction, reward the lenders, suppliers, customers and/or employees who have stood by you through the difficult times. It can be as simple as a 'thank you' phone call, client appreciation dinner, bonus, or even a preferred customer/supplier pricing program.

- ***Cautiously rebuild***

Even a period of sustained recovery will undoubtedly have the occasional down-turn. This can bring up old fears and give the perception of volatility in a time when the economy as a whole is doing well. Pay attention to the signals in the market place. Don't start spending irresponsibly at the first signs of improvement. Every recovery is different. Hesitation at the beginning is wise.

In the End...

Until our economy rebounds completely you will need to face the coming months (and years) with practical expectations, confident planning, and selective risk taking. Finding the proper balance of innovation and conservative spending can ensure your survival through the hard time and make your eventual emergence more triumphant than ever before.

For more strategies on how to help your company survive in this volatile economic environment call your trusted advisors at LGT or contact Scott Cote, Director of Practice Growth at 214-461-1467 or via email at scote@lgt-cpa.com.

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