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trekking

a newsletter on practical strategic thinking and action
issue #46: be ready for the financial cycle

editor's message

Last month, we talked about preparing for an economic downturn. Since then, we have seen first hand more evidence of a downturn, especially in the financial sector.

This month, we'll help you think about the specific risks to your company of troubled financial markets. In Strategic Thinking, we tell you about the signs we see in the market. In Strategic Action, we give you some tips to manage your banking relationships. In the Industry Snapshot, we talk about the value of a good Business Plan, and our Reading List selection is *No Man's Land* by Doug Tatum.

strategic thinking

Financial Cycles

Both Michael and I started our careers as bankers. Over the years, we lived through a number of cycles, both in the U.S. and overseas. We were often frustrated by the fact that, while our institutions taught us to be very smart about our analysis of our clients' businesses, those same institutions had a blind spot about their own operations. Financial institutions as a whole are not managed as the cyclical businesses that they are. They generally go for the last bit of the up cycle which worsens the fall when the down cycle inevitably comes. That approach often leaves their clients holding the bag.

In the past few months, we have seen the tightening of the financial markets. M&A markets have slowed. Private equity deals are getting more conservative. Banks are tightening credit standards. And some banks have started calling loans that they were happy to have six or twelve months ago. Many financial players have overplayed their hands, and the pain of correction will be felt by many of their clients.

Whether or not you have trouble with your financial partners, this is a time to tread more carefully. Try to understand if your current deal is normal for your financial partner or "outside the box." If you are too far outside that box, there is a good chance that something will happen that will cause your partner to get uncomfortable. If that does happen, you'll need to move into an even more proactive mode.

Read Strategic Action for some ideas on how to manage through a troubled relationship with a financial partner.

-Mary Adams (adams@trekconsulting.com)

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strategic action

Keeping Your Bank at Bay

Having trouble with a bank or financial partner can cause any CFO or CEO to lose sleep. A line of credit or a loan can be the very lifeblood of liquidity to a business. However, a banker's job is to make prudent loans that generate a good return. When the risk of losing money on a credit outweighs the return, it is generally reflected in failure to meet agreed-to covenant levels. Or, if written as a demand note, causes the bank to demand repayment.

For this reason, it's always good to be ready for the worst with your bank. If the bank calls a loan or cancels a line of credit, do you have a "Plan B"? Do you know what you would do? Here are some points to consider:

1. Keep your current bank well-informed. Bankers hate surprises. For the relatively small spread over the cost of funds they get on commercial loans, they cannot take big risks. If they know how your business is doing and what your plans are for the future, you are in a better position, even if you have a hiccup.
2. Know your backups. Are there banks who have been trying to make appointments with you or your CFO for awhile? Take the time to see them! It will be much easier for them to have confidence lending to you if they know you already...especially in a down cycle.
3. Watch your cash position. Keep a close eye on your cash reserves and accumulate cash if you can. Postpone capital expenditures and reign in spending where possible. Conversely, if you are flush with cash, a downturn is the best time to pick up assets or companies/competitors at bargain basement prices.
4. Keep an eye on the credit markets. Find out if your bank is pressuring corporate borrowers to repay because they may have their own capital issues due to the sub-prime mortgage mess.
5. Know where you can go for liquidity. There are distressed lenders, receivables lenders, factors, and government programs that can help companies in a pickle.
6. Have a Business Plan ready in case you have to go to market. See the Industry Snapshot for more details.

- Michael Oleksak (oleksak@trekconsulting.com)

industry snapshot

The Value of a Good Business Plan

The phrase “Business Plan” gets used in many circumstances. Many people use the phrase to talk about a company’s plans or strategy. But in financial circles, the phrase refers to a very specific kind of presentation of a company and, yes, its plans and strategy.

A Business Plan is really a marketing document for a company as a whole. It is used to present the company to an external party such as a lender, investor or potential M&A partner. One client of ours used the plan to raise money and then updated it slightly a couple years later to sell the business.

A good Business Plan is exciting. It reflects what is unique about the company and helps the reader understand its future potential. That is not to say a Business Plan can ignore the weaknesses of a company—in fact, a good Plan will disclose the weaknesses together with context and a discussion of how the weakness is being addressed.

We always try to find a special “hook” for a plan, a memorable explanation of the company’s business model or offering. A graphic is the ideal way to make an intangible like strategy more tangible to the reader.

The creation of a good Business Plan takes time. We would never advise a company to invest in this document just in case they have a need for it. But if there is a pretty good chance that you will need to raise money or attract partners in the future, start preparing now by keeping a file of stories that express who you are as a company, data that gives perspective on your market, and documents that will help paint a picture of the great opportunities that await your company—and, by extension, your potential partners.

reading list

No Man’s Land:

What to Do When Your Company is too Big to be Small and Too Small to be Big

By Doug Tatum

This book focuses on the “gazelles” of our economy—the rapidly growing companies that are an engine for U.S. economic and employment growth. Tatum makes the case that every company hits rough patches at between \$10 and \$50 million of revenues. He asserts that the rough patches threaten their very existence for four major reasons: 1) trouble keeping its market focus as it puts out more and more fires in its growing customer base, 2) the management team that got them there



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may not be the right managers to get them through No Man's Land 3) the firm's business model may no longer look toward the future and what's coming, simply where they've been and 4) that they may have outgrown their financial structure.

This is a very helpful book for owners and advisors to "gazelles". To read more about this book, visit the author's web site (http://www.tatumllc.com/no_mans_land.aspx).

announcements

"Financial issues are symptoms, not causes," was just one of the quotes by Trek in an article entitled, "Four Financial Fairy Tales You Shouldn't Believe." by Phil Perry in a recent issue of Self-Employed, a member publication of the National Association of the Self Employed (NASE). The fairy tales include:

- My bank will bail me out in a cash-flow crunch
- More capital will solve all of my financial problems
- If I raise my prices, I'll lose customers
- My personal credit doesn't affect my business credit

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about trek consulting

Trek Consulting LLC helps companies to face the challenges of growth, building value and dealing with change. Since 1999, we have been a valued partner to business owners and leaders on their arduous journey to business success. We know that we cannot make this journey for our clients, but we can make it easier and more successful. We focus on getting you the best information available, facilitating sound planning and decision-making, making sure you have the right skills and resources to face your challenge, and coaching you through the roadblocks that invariably arise along the way.

Our clients report improved market focus, greater revenues, better margins and increased profits. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at www.trekconsulting.com or call us at 781-729-1008.



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