

Don't make six common **mistakes** in a recession

Avoid six mistakes that other
business leaders have made

by: Kent McSparran
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Article Summary

Great leaders often emerge in the midst of challenges and adversity. They learn how to make the right decisions under a different set of assumptions and worsening economic conditions. One of the ways they learn to make the right decisions is by studying the wrong decisions. This article discusses six common mistakes that business leaders should avoid during a recession.

Many business owners can be good leaders in an up market, but in challenging times the great ones emerge.

The most important reality to accept is that a down market cycle plays against your most valuable instinct: optimism.

Optimism is what can make your business successful. When others see risk and ruin, you see opportunity. Indeed, fortunes can be made in trying times, provided you avoid the following common mistakes.

No 1: Failure to Face Reality

Optimism is a core trait of most successful entrepreneurs, but taken too far, optimism can become a weakness. Forget the national economic news and conduct a fact-based assessment of what is really happening in your specific market.

Reality might suggest your business will not meet your normal growth expectations. It's been a long time since we've seen an overall economy like this one, so buffer your normal optimism and stick to the facts.

No 2: Trying to Sell Through It

The second common mistake is trying to sell through a down market. Some owners who stubbornly refuse to accept anything less than the pre-determined growth goal will put unwarranted stress on their sales team to meet unachievable goals.

When you're worried about shrinking revenue, it feels counter-intuitive to cut selling expenses, but if you're not doing so in the face of a shrinking market, you are simply increasing the cost of an average sale.

Three years ago we met a distributor to the home building industry who saw all the signs of a declining market. He refused to accept this reality and put incredible pressure on his sales team to grow market share in the midst of a shrinking market.

After eight boom years, it was too hard for him to acknowledge that he had to trim. Because he refused to reduce his selling expenses, he lost over a million dollars in the first six months of the downturn.

No 3: Delayed Cost-Cutting

Cash is mandatory in a down market because profits are tougher to come by. Our distributor crippled himself by his stubborn refusal to make the tough decisions early. The million-dollar loss ate up valuable cash that could have seen him through the down market. Making the tough decisions early in the down cycle puts you in a stronger position for the rebound. Keep your powder dry for the recovery.

A strong balance sheet - particularly cash - translates into rebound resources. A weak balance sheet will send you into the first two years of a recovery trying to rebuild your financial health.

No 4: Decision Freeze

In this recession we have seen an unusual level of fear and panic. With the overwhelming negative national news, we're seeing some business operators simply frozen by uncertainty. It's possible you could be missing an opportunity for breakthrough success because the gloomy headlines can cause decision paralysis.

You can't control the market but you can change how we react to it. A successful business must always remain proactive.

No 5: Failure to Plan

A common misconception about business planning is that it requires predicting the future. In the past few weeks three different clients told us they have not completed a budget for 2009 because they can't predict revenue this year. I explained that budgeting is more about planning your actions and resources than it is about predicting the market. If necessary, make three budgets (best, worst and most likely scenarios) and then be prepared to quickly adjust your costs to the worst case budget.

Planning is allocating your limited resources to maximize results. Planning is about action—what action are we planning to take?

No 6: Failure to Lead

Great leaders know when to light a fire under the troops and when to calm them down. No matter how panicked you feel inside, today is the time to lead with steadiness and a calming attitude. When employees work in fear, productivity suffers. You need to be sure your best people feel secure and stay focused on their work.

Organizations that stay fact-based, proactive, and steady will do well in this market. Strong leaders will distinguish themselves by their success.

Kent McSparran is a principal with EKS&H Business Consulting, providing management consulting services in the areas of business strategy and financial performance improvement. He can be reached at kmcsparran@eksh.com or by calling 303.740.9400.

www.eksh.com/businessconsulting