



Hitting the PANIC BUTTON: How business owners should deal with the downturn

Determine if you are a Strangler, Victim, Kamikaze or Balance Leader

As a business owner, you have a responsibility to remain calm in troubled times, but these times are unprecedented. A year ago, if someone said General Motors, Ford, Citicorp, Merrill Lynch, Bear Stearns, Lehman Brothers and other legendary names would fail or threaten to turn into penny stocks, you would have called them crazy.



Yet it has happened right before our blinking, unbelieving eyes. The world is changing. Whether this economic downturn lasts 6 or 36 months, as a business person you need a plan to survive it.

First, avoid panic. Panic will create fear inside your organization and a productivity crisis. When people are fearful, they are not productive. They become risk-averse and indecisive, fearful of making a mistake that will get them laid off.

Second, check your optimism and do not plunge ahead with stubborn commitment to your growth goals. It takes improved market knowledge and out-of-the-box thinking to strike a careful balance between panic and recklessness.

Figure out who you are as a leader. Generalizations are simplistic, but every business owner has tendencies toward one of the following management types:

The Victim, who wastes energy on things that can't be controlled and focuses on blame rather than action.

The Strangler, who survives down markets but chokes off growth by refusing to invest.

Kamikazes, who in their optimism, wait too long to cut costs and bleed their balance sheets. This positions them poorly for the recovery. Finally, the **Balance Leader**, who knows when to hunker down and when to expand. The key to survival and prospering in these times is to be the Balance Leader.



Understand your micro-economy

Forget the headlines and network coverage about the national economy. Every business operates in its own micro-economy and the key to success is to make bold decisions in response to the reality of this micro-economy.

For example, if you provide services to hospitals, don't assume your business will slow down because the national economy is bad. Your micro-economy, which is hospitals within a specific geography, might be fine. Or parts of it might be good and other parts bad. It's up to you as an owner to shift resources to the more promising areas and away from the bloody ones.

Commit to a strategy: are you going to hunker down and survive, or change the rules by thinking differently about business as usual?

In order to decide which strategy to employ, challenge your assumptions about your market. When the world is changing as fast as it is today, your intuition may be less reliable. Get disciplined about knowing the facts. Learn true customer demand, what's going on with pricing in the market and customer backlogs.

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When to hunker down and when to change the rules

Hunkering down means cutting costs now, not later when you've burned through too much cash. When the rebound is not in sight and everything is constricting, you may need to face the reality that your growth objectives are not achievable.

Hunkering down is about preserving your cash. You're going to need cash when the economy turns around to take advantage and make the big move. Part of the hunker down strategy is to buy bargains – cheap inventories, competitors and fire sale equipment. Most of all, earn customer loyalty. Focus on better service and when necessary, lower prices. Remember, it's better to keep a good customer than to attract a new one with lower prices.

Change the rules by breaking into new markets, expanding product lines or by challenging industry norms. If the facts show you a real opportunity, be the one to make it happen. Remember you must have enough capital to make it happen, even if you mis-time the rebound.

Here's how to change the rules: test every assumption about your business. This may require outside help. Years ago, we had a client who believed every order should be taken in person because of the relationship nature of their business. As outsiders, we challenged this industry norm. The facts showed us a telephone sales rep could cover six times as many customers as a field rep. Why not sell over the phone? At first we were told we didn't understand the business. But thanks to a client who had the guts to change the rules,

Forward Thinking

The Go-Giver: A Little Story About a Powerful Business Idea

By Bob Burg and John David Mann

A business parable about the laws of value, compensation, influence, authenticity and receptivity. What happens when the business focus is shifted from getting to giving, and putting the other person first.

Food for Thought

Believe and act as if it were impossible to fail.

-Charles F. Kettering

within a few years the entire industry had adopted telephone selling as the primary business model.

Every industry has unwritten rules that no one would think to break, but a down market is the ideal time to change the rules and adopt more radical options.

When entering a new market, make sure it isn't overrun with competition. You are looking for the "blue ocean*," of opportunity, a niche or business that you are uniquely qualified to fulfill. Diversification efforts have a high failure rate and you're usually better off staying as close as possible to what you know—existing markets and services.

Whether you choose to hunker down or change the rules, remember that when armed with the right information, you can strike a balance between impulsive optimism and too much caution. Fortunes are made in times such as these.

**courtesy of the Blue Ocean Strategy*

About the Author

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EKS&H is pleased to announce that Bruce M. Nelson, has joined our tax service area as a State and Local Tax (SALT) Expert. Bruce is a Colorado CPA, with over 25 years of experience. Prior to joining EKS&H, Bruce was with a law firm specializing in state tax audit defense and litigation. In addition to his SALT expertise, Bruce is an adjunct faculty member, seminar speaker, teacher and author.