

Going Beyond Just Surviving a Difficult Economy

Difficult economy you ask? As you mumble, “Ernst, you’re the master of the understatement.” Difficult economy? They’re saying this is the deepest and worst economic situation since the Great Depression. It’s all consuming, it’s pervasive, it’s worldwide and it’s yet to see the bottom. That’s what “they” are saying and, if you held the stock of Lehman, Washington Mutual, Wachovia or Bear Stearns, I can see you nodding your head in agreement.

SAP convened a panel of well-known and respected financial experts who have been speaking on, writing about and living this downturn on a day-to-day basis. The panel appeared on an AICPA-produced webcast on Oct. 8, and their conversation proved to be very instructive if you are a C-suite executive of a small or midsize company, especially if you were or still are experiencing growth and don’t want to give up that momentum or if you are a CPA and advisor to clients so described. Their presentations and ensuing discussion were pointed toward those companies that can’t afford or, just maybe, whose board of directors and executives are too smart to offer Warren Buffet preferred stock paying a 10% dividend.

Cynthia Jamison, National Director of CFO Services at Tatum LLC; Edward Rand, COO and CFO of American Exteriors; and Doug Tatum, Chairman and CEO of The Co-Investment Partnership and author of *No Man’s Land*, provided insight and ground-level, basic advice to those who listened in. I want to touch on the key highlights of their comments and conversation with John Hudson, President of the Hudson Consulting Group LLC, who moderated the panel.

Jamison was emphatic that “it’s not the downturn that paralyzes people and the companies they drive; it’s the uncertainty surrounding any downturn, much less one this severe.” She also was concerned that the press was creating a self-fulfilling prophecy by ignoring some of the positive elements that go overlooked in such a bleary atmosphere. Rand said it’s easy for financial executives, especially the CFO to feel as if they are alone, on an island, during this storm with no one to reach out to or to consult with. Or, they hesitate to do so because they think they are feeling it more than others and would rather keep it to themselves. This is a big mistake. As Rand put it, “No one is alone in the financial situation we find ourselves today.”

The conversation quickly turned pragmatic and instructive for those businesses that survive the downturn. Of the companies that fail as a result of tough economic times, Tatum said that a high percentage do so on the way up on the other side of the downturn rather than on the way down. “Don’t manage your business out of the checkbook,” he warned. “It’s not a true indication of cash flow and your ability to support your business.” Substantial private equity funds are being amassed that will be in search of well-managed, profitable companies that will be available at a discount and other newly minted entrepreneurs with ideas they have been fermenting for years, Tatum said. He also pointed out that, cyclically, the layoffs and downsizing caused by the downturn leads to a natural progression of startups.

Hudson asked the panel how scared financial and operating executives leading those once fast-growing companies should be today. Rand said that it’s all about blocking and tackling the basics and that executives should certainly be cautious today but not scared. Jamison agreed, saying

companies that take this as an opportunity to rationalize and optimize their business and stick to their “Ps and Qs” will be the ones who will be well-positioned for the upturn we all know will be there again.

Jamison pointed out one silver lining for CEOs in a downturn is that “nothing inside the business is sacred.” Every facet is fair game for scrutiny, for improvement, for fine tuning and replacement. Tatum sees this as a time for companies to take a hard look at the under-performers, the “bottom 10% of a company’s employee base,” but not to view it as an opportunity to pare headcount and payroll but a chance to replace those who have not performed to standards with other well-trained, high-performers who invariably find themselves on the job market.

The panel members agreed that an economic downturn is the time when you need to know your business intimately. Every facet of a company and its operations, front office, shop floor, distribution facilities and the back office has to be coordinated. And the data underlying and produced by the ongoing operations need to be consistent in character and reachable in real time in order to navigate and make the decisions critical to survival. Companies that are well positioned with today’s technology available to those small and midsize growing businesses — the ERP systems described by Jamison and the “command and control systems” described by Tatum — will be the ones who can make the decisions that will position them to take advantage of the upturn.

All of the panelists agreed that banks accept disappointment but they don’t accept surprises. The panel noted that one result of the downturn will be the banks’ focus on debt covenants as no-exception granite roadblocks. From now on, there will be “no free passes issued by banks on debt covenants,” Jamison said, and you need to have systems in place that not only allow you to look forward but help you focus on what’s in front of you. For growing mid-market companies, integrated systems are a requirement today, not an option.

In their wrap-up, the panelists pointed toward the impact of the key executives, especially the CFO, in going beyond just surviving but taking advantage of the opportunities and competitive edge that a downturn can offer. Jamison said that careers are made in times of difficulty and that the reward will go to the company that minimizes the risk. A good leader, especially the CEO and CFO, Tatum said, will expose the real risks during a downturn and formulate a plan and create the optimism to get through it. Rand indicated that this is the time for the business plans to be honed and converted into cash flow plans, which you can’t do without current, fresh, real-time data.

The panel was also in agreement that the downturn was not the result of a business slowdown but an interruption of the normal flow of banking processes and funds. Nonetheless, small and midsize companies are caught in the same dilemma, but this could be an opportunity if handled and used in the right manner with the right leadership.

Steve Ernst, CPA, leads the SAP CPA Advisor and other influencer programs for SAP America, Inc. Prior to joining SAP, Steve provided consulting services to boards and executive staff on accounting, auditing, business processes and internal control systems, as well as sales, marketing and business development initiatives. He has more than 30 years of experience,

including 10 years with PricewaterhouseCoopers LLP and more than 20 years in international finance and operations in the consumer product and technology markets. You can contact him at steve.ernst@sap.com.