

# Planning During Uncertain Times

In terms of market fluctuations, is this recession a “V,” a “W,” or an “L”? The world’s greatest economic minds cannot seem to agree. Unless you possess a crystal ball that sees more than the experts, you’re as much in the dark as everyone else. It’s time then for CFOs to accept these uncertainties and get down to the business of planning for 2010.

Fall is “planning season.” With so much instability in the business environment, every objective you set will take longer to achieve, not to mention to gain consensus on internally. Consider just a few: revenue growth, cost cutting continuations, hiring, obtaining financing, attracting new investors and locking in longer-term supplier contracts. Strategies that once worked to reach these goals may no longer be effective. It’s a situation that can paralyze the most confident financial leaders.

Regaining some level of control requires being receptive to new approaches and different points of view. Despite the speed of change and complexity of the environment, it’s important to look beyond the headlines and consider all of the facts. Look at your liquidity, your industry and the health of your income stream, then take a stand about where you think your business is going and create an operating plan for next year.

## FORMULATE ASSUMPTIONS

By its very nature, our economy is full of surprises, both pleasant and unpleasant. In order to succeed, businesses are forced to adapt. Those who have adapted to the recent downturn and made tough choices are still in the game, watching for signs of recovery.

There have been some positive signs of late, particularly in the stock market, but caution remains the operating word. While the 1% contraction in GDP for the second quarter marks a less severe decline than the first quarter’s 5.5% figure, there is no guarantee that the economy has bottomed out. Consider the bubble years of 1995-2005 when Baby Boomers were responsible for 78% of GDP. Many of them must now pay down debt. According to consulting firm McKinsey, if boomers become thrifty, it could stifle the economy’s hoped-for rebound and knock U.S. growth down from the 3.2% it has averaged since 1965 to 2.4% over the next 30 years.

What does this all mean for your organization? Reduced revenue growth could be the “new normal,” which speaks to the need for a longer term outlook. There is no certainty about the economic context of your business. What you need to do is to formulate assumptions for your business – while building in enough flexibility to adapt to upside and downside surprises.

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## MAKE PLANS BASED ON ASSUMPTIONS

As you begin planning, focus on cash flows rather than accounting profits, emphasizing financing decisions, capital expenditures and working-capital changes. Then prepare two or three scenarios built on different assumptions – from the best case to worst case. These scenarios should reflect company-specific risks, such as the sudden unavailability of short-term funding, bankruptcies of major customers or suppliers, or a loss of access to working capital. It is also critical to develop detailed plans in the event that these scenarios actually come to pass.

Find the right balance between biding your time indefinitely and taking actions that depend on a near-term comeback. For example, you might decide that the recovery will be slow in coming and you could downsize to a smaller scale version of your business, with less capacity and less capital. Or you might decide that if the lull continues, it’s a good time to reshape your business by outsourcing non-core functions, which makes your cost structure more flexible when good times return. You might also decide, given the talent levels on the street, to start hiring again.

Be creative. Consider joint ventures and other kinds of partnerships with customers, vendors and even competitors. These strategies will help you spread the risk while allowing you to test new products and ideas. Regardless of your macro outlook, don’t neglect the basics. That translates to getting ahead of the shifts your industry is experiencing and positioning your business in the most appropriate, highest-value place.

## ASSESS THE COMPETITIVE LANDSCAPE MORE THAN EVER

The underlying economics of most industries are shifting with unprecedented speed. In the day-to-day press of business, it's easy to lose track of what's happening in your industry and ignore your competitors. Are they struggling with the same changing conditions? Will the structural changes in your business persist beyond the recession? Exploring questions like these is critical, which is why your top priority must be tailoring your plans to the industry you are in. Keep your options open and perform a sensitivity analysis to fine tune your assumptions and create a "fairway" to begin planning.

Clearly, this is a time to be keenly focused on the market, not looking inward. It's also a time to face realities. Be aware of any tendencies to resist hearing bad news from your staff. You need a good grasp of the unpleasant realities. It's too easy to say, "Don't give me more bad news. Just go fix it." Instead, create an atmosphere where people feel they can talk about the forecasts incorporated into their plans – how they can improve it, and what resources they might need. You'll know this is working when you start to reveal problems earlier.

Remember that recessions disrupt and reshape industries, creating new threats to the unwary and opportunities for the bold and agile. Studies have shown that compared to growth times, companies have twice the opportunity to improve their position relative to competitors during a recession. So take a fresh look at your competitors and assess their strengths and vulnerabilities. Who is gaining market share? Which have pricing power or are creating "buzz"? Determine what the recession has revealed about your strength. How will capacity be rationalized in your industry? Who is the marginal player – is it you? Or can you leap frog your competitors while they are troubled?

If you're still doing business exactly as you were before the recession, you have probably not adjusted adequately. Make sure you have monitoring systems in place to pick up warning signs. Then foster an environment where people aren't afraid to speak up with alternative interpretations of those signs. The recession has more than likely crippled your original strategy; you must revisit your strategic plan and adjust annual goals.

## LOOK FOR NEW FUNDING

Recessions reshape industries faster than good times do. If you are in need of funding, ask yourself some important questions, namely when do you think funders will jump in? And Will more funding be available this year? To better position yourself to secure those funds, start courting lenders and investors now – before you are certain you need them.

There are some hopeful signs for companies seeking funds. For example, banks are looking for business again, so it could be a good time to try to renegotiate lines of credit and fees. It is important to consider a full range of options including bank credit, asset-based lending and private equity. An upturn in private equity could be faster than anticipated, which could bid up valuations. If you are interested in PE funding, start networking to meet private investors. Be ready by assembling a compelling investment profile and a formal business plan.

## TAKE ON PEOPLE ISSUES

One of the most challenging aspects of recession-time planning is the human element. As the lull drags on, employee morale becomes a big issue as issues like layoffs, cost cutting and loss of retirement remain in the forefront. The key is keeping employees hopeful, focused and on task.

Remember, there are some changes you can only make once, like restoring salaries after an across the board cut. If you mishandle such a situation, you may not be able to cut again. At the start of the recession and during the financial crisis in '08, you likely had everyone's attention. You could make the case that everyone had to sacrifice to help pull the company through. Later on, that becomes harder to do. If you did initiate pay cuts, set a realistic trigger to return to former salary levels.

Chances are you will lose people who get tired of waiting for an upturn in your business. Decide who you absolutely want to keep if business remains flat, and take a fresh approach to incentives. Tread carefully with last year's incentives, especially if you made compensation more performance-based. Maybe you defined an EBITDA target to be shared with employees – but you didn't attain the target. Don't roll incentives forward to the point where employees think it's unrealistic that they'll get them.

Think of ways to provide your key employees on-the-job training and/or job enrichment at minimal out-of-pocket cost. Remember, this is not a substitute for a raise (and it can backfire if it's perceived as more work for no pay), but in the right situation it can make employees feel they have gotten new capabilities they'll be able to monetize in the future (hopefully with your company). You can also consider additional time off or flexible schedules.

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## COMMUNICATE EARLY AND OFTEN

In tough times, difficult decisions must be made quickly, requiring more regular communication with your board to keep it abreast of developments. Supplement full board meetings with e-mails, intranet postings, informal discussions and conference calls. You may even consider “board updates” (not meetings) via conference calls as an efficient way to address individual concerns and increase confidence in the management team.

Given the pace of change and the number of variables that come into play, discussions of strategy should not be left to a once-a-year off-site meeting. More frequent and open communication does pay off when difficult decisions must be made. If your directors are up to speed, they are better placed to offer both support and advice. In fact, there are indications that companies with directors sitting on multiple boards are faring better in the downturn. Why? These board members offer greater insight based on perspective they receive from serving with other companies.

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## HIGHLIGHT PERFORMANCE METRICS AND LIQUIDITY

Use this planning process as a forcing mechanism to help you refine models of the relationships between your revenues and costs. When you encourage what-if modeling, this helps you prepare to deal with a range of scenarios.

Make liquidity a focal point of your planning. When you understand what you will do in 2010 to turn over every balance sheet dollar faster, you contribute to working capital. Build WORKING capital by matching inventories to sales, reducing safety stocks and improving production planning. Bill earlier, enforce payment terms and collect from customers faster, while using as much leverage as you have to get your suppliers to share risk and provide favorable terms.

Take advantage of your knowledge of your suppliers’ credit risk. Some suppliers may be fundamentally healthy but still face a cash squeeze, so you might extract better price terms from them by paying more quickly. On the customer side, consider steps to deal with a possible increase in nonpayment, such as changing credit terms for riskier customers. Continue to assess customer profitability and consider walking away from business that is unprofitable and likely to remain so.

## KEEP THE FUTURE IN SIGHT

Despite the near-term pressures your business may face, your entire leadership team must remain forward looking. Reaching that goal requires strategies for higher productivity and competitive advantage such as acquiring a footprint in a new market, ramping up innovation and not squandering your company’s brand and reputation in a reckless pursuit of lower costs.

In tough times, risk runs rampant, and leadership becomes even more important. As your leaders focus on adapting to current realities and generating short-term profits, it’s still crucial to strike the right balance between the present and the future. When you weigh all the facts and plan creatively, your organization can emerge from this recession stronger than you entered it.

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