How Do You Take Advantage of a Resurgent Economy?

(Editor Note: While we believe our guidance is ageless, some articles written in very relevant times may not be so relevant when you read them months or years later. But one day they will be right on point again. This is one of those.)

The Issue: More weak companies will fail once an economic recovery has started than will have failed during the preceding downturn. This is a statistical certainty, if you believe the history, and while they are failing, many of their competitors will miss key opportunities to gain market share because they’re too busy being protective.

How does this happen? Should you be concerned? Please read on.

All companies struggle at some level during a downturn. All, or most, pull in spending, cancel commitments, slow down payments to suppliers, try harder to collect customer accounts, delay hiring, initiate layoffs, and so on. Some companies fail during this period because they do not have the resources to survive a drop-off in sales, but many other weak companies continue to survive because their stronger competitors are too busy protecting themselves to take advantage of the weakness they could find if they were aggressive instead. Creditors might even back off aggressive collection hoping their customer will survive, and get themselves in trouble as an indirect result.

Once a recovery begins, however, things change.

The strong company begins to assert itself, launching new initiatives, increasing marketing spending, hiring into positions previously deferred, and generally flexing its muscles.

The weak company that was just holding on earlier now must compete against an apparently resurgent competitor, when it was barely holding its own on the way down. Because it does not have the resources in reserve, there is now for all to see a clear distinction between it and the stronger competitor –

1. In the eyes of suppliers who see even further delays in payments,
2. In the eyes of customers who see the stronger providers being ever more visible while their own supplier struggles to deliver on its promises,
3. In this scenario, customers of the weak competitor are easier to win over to the stronger competitor. Suppliers lose patience and are no longer willing to ship and wait for delayed payment, particularly as their business from strong companies is now growing again. The weak company’s troubles worsen as a result, and their thin fingernail grip on survival is no longer enough. They fail with greater frequency as the economy improves. Result: more companies fail on the way up than the way down.

If you have the resources, the time to act is as soon as you perceive the bottom in your industry has been reached.

If you are unsure of your next steps when that bottom arrives, either because (1) you are concerned that your financial position may have dangerously weakened your company, or (2) you may not be making the right strategic moves to assert your position as a stronger company, we should talk, 310-645-1091 or 888-788-6534.

Contact me for more information.

Gene Siciliano, Your CFO for Rent®

Gene Siciliano is the founder and president of Western Management Associates, source of Your CFO for Rent® services for over 25 years. The firm provides interim and part-time CFO/Controller services, executive coaching and guidance in operational finance and exit strategy. Gene and his team of seasoned CFOs and controllers have a clear mission in their work with CEOs and owner/operators of privately owned companies. Our value proposition:

• Increase the company’s net worth and profitability by improving the management team’s financial proficiency and bottom line results, and
• Develop and execute strategies that will make your company more appealing to a buyer or investor, if and when the time comes for an ownership transition.

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