

# CEO TO CEO

Assisting business leaders as they navigate critical passages

May 13, 2009

Being a good CEO requires us to be both positive and paranoid. This message is on the paranoid side. My gut tells me that a recovery is nearing, which is the big event we're all waiting for. But big events require preparation. You train for a marathon, right? You memorize a speech before you deliver it, right? You ship the show booth and get it set up before the trade show opens, right? But in this case, we don't know when the recovery for each of us will arrive. So I'm paranoid that not enough preparation has been done. My column this month talks about liquidity preparation, but there's lots of other preparation required. What would you do now (that won't drain cash reserves) if you knew the recovery would start in one month? Once the horse race begins in your industry, you won't have a lot of time to ponder, or build foundations.



## The INSOMNIA Factor

What keeps CEOs **AWAKE AT NIGHT**  
—and what to do about it.

### Curve Ahead!

**By Robert Sher**

*Riding through the night, he sounded the alarm. The Recovery is Coming! The Recovery is Coming! Yes, the alarm. He had seen what was coming. With the recovery would come demands on liquidity like increased inventory, CAPEX, receivables, swelling payrolls and other ramp-up costs. He knew his compatriots' cash stores and access to capital were depleted, and would not last long. They needed all the warning he could give.*

**It's true. The highest percentage of businesses fail at the end of downturns** as demand begins to rise. During the early parts of the downturn, they often live off the free cash flow that shrinking businesses (and their shrinking assets) provide. They make pay-

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#### *Some Current Client Engagements*

##### **Revenue from Web Community**

This client makes a consumer product for hobbyists and develops rich how-to content for the web, and has a thriving web community. We're working together to profit from all that traffic without provoking too much channel conflict.

##### **Business Planning**

Turning the corner from running a business in reactive mode to a planned process is hard work. This one product company has been a success for over ten years, and I'm helping the owner lay the foundation for expansion. We're working on processes, people and plans.

##### **Targeting and Messaging**

In several cases, I'm working to help gain clarity on who exactly is the ideal client or customer, and leading discussions about how to reach them. For most of my clients, direct marketing and sales campaigns are both more affordable, effective and

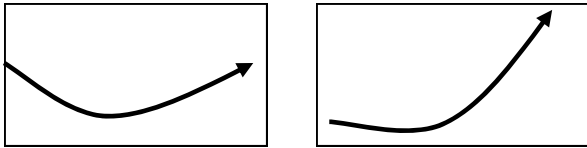
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roll and feel like they're doing well. But their fundamentals are sinking. When they begin growing again, their access to capital is limited and they can't get the cash they need. The big challenge is liquidity—being able to fund the demands of our balance sheets as our receivables swell, capital expenses rise, inventory requirements rise, and in the case of many internet businesses, the environment for heavy online ad campaigns becomes favorable.

So the recovery for some will mean an end to their company. For others, the pressure will intensify and they won't be able to participate fully in the recovery, losing market share. **I don't want that to be your company.** I want you skillfully navigating your growth curve, wheels hugging the road.

I've drawn some curves below. The curve that is coming is the change from your current top line growth (or decline) to the growth rate you'll have as the downturn ends and the recover picks up steam. If you go from a 30% downtrend to a 30% uptrend, that is a 60% change, quite a curve. It's the same curve if you've been flat, and start growing at 60%.



know one firm that's down 95%, and when they recover, imagine their growth rate just to get back to wherever they were. Now that's a scary curve.



Many of us are running businesses that went from respectable growth down to flat/down trending. As the recovery arrives (who knows when, but it is clearly nine months closer than nine months ago) we'll need to navigate that curve, and draw upon some skills that are likely rusty for many of us.

Talking about rusty skills, I'm just returning from a two week vacation to England and France, and for the first four days, I rented a car to tool around the English countryside. They didn't have the automatic I had reserved, so I took the manual transmission instead. I learned to drive in a stick shift, and drove them for six

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measurable than many other methods.

### On Line Advertising

Pay per click advertising is a form of direct marketing, and as such, requires an understanding of known and proven tactics, and the discipline to follow those best practices. I'm guiding and training a client in this area.

### Facilitation Instruction

Top executives must know how to work together, and have a productive meeting, especially when there is conflict. This client has lots of conflict, and I'm facilitating a round of deep executive discussions around key issues both to create a better business plan (new revision is coming up) but also to teach them facilitation techniques so they can do it without me, and so everyone gets heard, everyone listens, and the best solution emerges.

### Upcoming Presentations

- ◆ May 16<sup>th</sup>: I'll be leading a 3.5 hour training session for the National Speaker's Association on the One Page Business Planning process.
- ◆ May 19<sup>th</sup>: A group of senior executives asked me to lead a workshop on creating traction and results for their personal brands.
- ◆ May 21<sup>st</sup>: I'm moderating a panel presentation and discussion for mid-sized CEOs and CFOs on liquidity issues. Panelists include experts from Expense Reduction Analysts, BDO Seidman, Wells Fargo, as well as Lt. Governor Garamendi. E-Mail me if interested.
- ◆ July 24<sup>th</sup>: I'm organizing a chief executive round table event in Santa Clara for the Alliance of Chief Executives focused on **buying and selling businesses as the economy recovers**. Sponsored by Hanson Bridgett and Bernstein. Chief Executives interested should e-

years, until 1983, then again in 1992 in Britain, on my honeymoon. Since then, *no manual transmission*.

I honestly *didn't* lurch the car forward out of the rental yard, but I can't claim I was a smooth, left handed shifter either. My 11 year old daughter began singing the Indiana Jones theme song whenever I would zip out from a stop onto the "wrong" side of the road (she was inspired by the Indiana Jones ride at Disneyland-the really jerky jeeps they have there), and it was confirmed that I was rusty on my stick shifting skills. Over the four days, I got used to roundabouts, shifting and navigating. My driving got smoother (my 13 year old said so-- a soon-to-be driving expert) and my old skills returned. Practice helps!

It's time for all us CEOs to begin practicing the skills of managing in a rebounding company. Not that all of us are out of practice; companies rebound in all sorts of economic conditions. And companies go through their own personal "downturns" all the time--even in a strong economy. The difference is that we have an environment of fear and conservatism that may mean that we have less support (think banks, investors) than in ordinary times.

### **Lay Your Plans Now**

Maybe it seems premature or even naïve to start laying plans for sales growth and recovery when many of us are still just trying to survive. It is not. Not unless you want to plan on turning away orders that you can't afford to produce and miss out on the recovery. It won't feel good to watch your competition will pass you by.

Now is the time to start forecasting various levels of future growth. You'll need multiple cases, varying the timing of the start of the recovery, along with the size of your business at the start of your recovery. What's critical is finding the gap between the cash you expect to have in the bank at the time of the turnaround plus the cash that your operations will generate, versus the liquidity you'll need to feed your growing business.

I'm talking some serious spreadsheet work. In just a few weeks, on the 21st of May, I'm moderating a panel of experts on liquidity. One of them is Mat Wood, a partner with BDO. He's going to be talking about what kind of accounting practices are critical for survival now and

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mail me.

- ◆ August 12<sup>th</sup>: I'm organizing a chief executive round table event in Sacramento for the Alliance of Chief Executives focused on **creating high functioning executive teams**. A joint event by the Alliance and River City Bank. Chief Executives interested should e-mail me.

### **Honor Roll of Referrers**

Thank you to those that have referred me to a chief executive or a speaking opportunity!

- ◆ **Ron Vyse**, Vice President Business Development for Wells Fargo Investments, [www.wellsfargo.com](http://www.wellsfargo.com), referred me to a chief executive.
- ◆ **Theresa Matacia**, [tmatacia@att.net](mailto:tmatacia@att.net), referred a CEO to me who became a member of the Alliance of Chief Executives.
- ◆ **Jim Horan**, President, One Page Business Plan Company, [www.onepagebusinessplan.com](http://www.onepagebusinessplan.com), referred me to a workshop opportunity with the National Speakers Association. *I sure hope I speak well!!!*
- ◆ **Stephen Goveia**, Partner at GROCO, [www.groco.com](http://www.groco.com), referred me to a chief executive.
- ◆ **Doug Crawford**, [doug@doug-crawford.com](mailto:doug@doug-crawford.com), referred me to a workshop opportunity.
- ◆ **Andrew Krone**, VP at Marble Bridge Funding Group, [www.marblebridge.com](http://www.marblebridge.com) referred me to a speaking opportunity.

*Please call, e-mail or let's get together.*

*The Insomnia Factor, continued*

for prospering in the recovery. I'll make sure we fire some hard, real-world questions to Mat during this event.

### **Stop the Waste**

Too many companies waste boatloads of cash every month. It gets dribbled away on unproductive employees, by paying too much for too many things, and by spending money on purchases that the business really doesn't need. When things are good, it's easy to say that the real growth of the business comes from new products or other strategic investments, but minimizing waste is important then too. Most businesses are valued on a multiple of EBITDA, and EBITDA goes down with every single expense. Every company should have, as part of their culture, a disdain for wasting the company's lifeblood; its cash.

At the same event on May 21st, John Reese, Managing Director of Expense Reduction Analysts will be revealing a survey of hundreds of CFOs with their thoughts on improving liquidity. And John will share some of his secrets of reducing indirect expenses -- which is what Expense Reduction Analysts do. Believe it or not, they typically find a 19.7% savings in indirect expense alone. I'm going to push John for some general do it yourself tips on reducing waste, not just on indirect expenses, but all expenses.

If you run say 200K per month in indirect expenses, and you reduced those costs 20% (without reducing the volume of goods or services), and you did that for just 12 months, you'd save almost a half a million dollars. Ben Franklin really was right. (A penny saved is a penny earned.)

### **Borrow the Cash you Really Need.**

Another way to manage the demands of a hungry balance sheet is to borrow money. This of course, requires an agreeable lender. The banks have been quite scared, and although many bankers love to say "We're lending money now!", the truth of it seems that they are lending money to ONLY those that are amazingly well qualified (gosh, just like in the 90's when I last drove a stick shift). Forget about it if you're in a "blighted" industry (like construction or real estate).

While we can't bend the bank's will to our desires, at the very least we should know what their standards are and when they'll likely say "no". If it's going to be a "no", we chief executives would always rather know quickly, so we can find investors or otherwise make appropriate decisions. At the May 21st event, another of the experts is Ron Vyse, VP from Wells. I'll be trying to get a sense from him for what businesses can expect from lenders in the next few months.

This is your chance to ask a banking expert some hard questions.

But I'll assure you that banks are going to be conservative, which means you're going to need strong financials, a solid business plan, and a low-risk profile. Remember, bankers need to make money too, and they are not allowed to loan money when there is even a reasonable chance of default. If you come to the bank when you're desperate and nearly out of money, most banks won't even look.

### **Here comes the Government**

John Garamendi, the Lieutenant Governor and candidate for the Governorship will be at the May 21 event too, speaking and answering questions. Nobody I'd admit to knowing is waiting for the government to solve their problems, but I bet it'll be interesting to hear his perspective.

### **Efficient Operations**

One big culprit when it comes to negotiating recovery curves is that the business can outgrow its team and its processes. So people start doing silly things and blow money on quick fixes (that don't fix anything). Some internet retailers are feeling smug (since they don't have a lot of assets which swell with growth) but

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*The Insomnia Factor, continued*

they can blow money like there's no tomorrow by ramping up on-line ad campaigns without careful testing (which can take months to do properly). Just like you'd train for a marathon, planning and training for a sharp uptick has to be done in advance of the need, so your team doesn't fumble badly when the upturn arrives.

### **Changing your Business Model to be Cash Efficient.**

I mean using less greenbacks per dollar of revenue. Less green is good. I've got a client who, after the October shock hit home, began to drive hard toward a new business model that would require less CAPEX as the business grew. It's put a strain on the engineering department, but this CEO knows that access to capital may be expensive and hard to come by. So he started really early to restructure his business to need less capital in the future. Another client normally has to fund inventory, then receivables, until the cash comes back. A five month wait! He's investing now in a web retail arm to increase sales in a marketplace where the customer pays up front with a credit card. Again, a shift in business models to decrease dependence on capital. I don't know how much of this we'll be able to talk about in the May 21 event, but business model adjustments are something you should explore and experiment with. They don't happen overnight, so starting it when the recovery arrives is likely too late.

### **Should you attend the May 21st Event?**

For all those CEOs and CFOs reading this, you're welcome to sign up for the May 21 event in San Francisco at the Banker's Club from 7:30 to 10 AM. Register at [www.expensereduction.com](http://www.expensereduction.com), by clicking on the "Optimizing Capital in Today's Economy" button. If you're not a CFO or CEO but would like to attend, please e-mail me. If there's room, I'll do my best to get you a seat (this event is organized by Expense Reduction Analysts.)

### **Key Takeaways:**

- ◆ Step up your forecasting work, to understand liquidity needs for several levels of business resurgence--several severities of "curves".
- ◆ Reduce expenses NOW, both indirect and others, so the savings can accumulate and help you when you'll really need cash—in the recovery.
- ◆ Keep your financials solid and in line with traditional banking norms to give you the best chance of borrowing during the recovery. If you're planning on borrowing, have a back-up plan and stay in touch with the banking world so you're not surprised about their standards.
- ◆ Put effort and diligence into thinking through the team and infrastructure you'll need in a recovery, lay your plans now and check them twice, to avoid blowing your precious cash on sloppy operations as your business scales back up.
- ◆ Think about ways to strategically change your business so that it is less capital intensive.
- ◆ Don't rely on the government to solve your problems. (I know you already knew this one.)
- ◆ Don't wait 17 years to practice on a stick shift car.

***Robert Sher is principal of CEO to CEO, consulting with and assisting CEOs and business leaders as they navigate critical passages. He is the author of *The Feel of the Deal; How I Built a Business through Acquisitions*. He may be reached at [Robert@ceotoceo.biz](mailto:Robert@ceotoceo.biz).***

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