



By Ted Rose

How Can I Strengthen My Company's Financials in Challenging Times?

Companies around the country and world are taking the necessary steps to realign their business models with the changing market environment. It is during these times of change that companies must take dramatic steps to strengthen their balance sheets and extend their runways. To effectively navigate these challenging times, companies need to ensure that their financial and management systems are providing them with accurate and relevant financial and non-financial information on a timely basis. This information needs to be evaluated routinely to ensure that management is fully informed as to the financial condition of the company and to assist management in making informed decisions on how to correct downward trends on a timely basis. While it is important that management not overreact to bad news, it is critical that they factor in this information into decision making to avoid larger losses downstream.

While a strong top line and bottom line are important, during tough markets the strength of a firm's balance sheet will determine how much adversity a firm can withstand before it is forced to close its doors. This is why many firms have begun the process of strengthening their balance sheets by limiting or eliminating their dividends and distributions. This allows the firm to build up cash reserves while enhancing working capital and reducing their debt to equity ratios. While some shareholders may have come to depend on these payments, this type of reduction generally does not have a significant impact on the intrinsic value of an organization. Companies have also begun to divest themselves of non-core, non-productive,

long term assets. These transactions have a similar impact of increasing cash reserves while enhancing working capital and reducing debt to equity ratios.

The best time for a company to enter into new or expanded equity or debt arrangement is while their financial trends are still positive. Having accurate and complete annual financial projections will help companies predict their expected cash requirements for a given year and provide them time to attract the necessary capital. During uncertain times, it is critical to consider expanding the round of financing to cover unexpected events or potential gaps in a plan. In today's environment, much of an entity's intangible assets are tied up in their staff's know-how and experience. To protect intangible assets, companies need to ensure they can keep their key employees retained and engaged. Without this continuity, a company will lose valuable time during the economic recovery period.

Strengthen Your Balance Sheet

- Reducing dividends and distributions
- Liquidating non-productive, long-term assets
- Expand equity and access to debt to extend runway
- Ensure continuity of intangibles by keeping your best people engaged

During tough times, companies need to work harder to maintain and grow their top lines. A steady flow of new business is essential in maintaining market share. While all activities need

to be evaluated for effectiveness, it is essential that your organization continue to invest in marketing. Without continued investment, your customers will not be able to find you. In downward economic cycles, it is likely that your marketing message will need to be adjusted to one of cost savings and value. Finally, to ensure stability, take time to improve and enhance your relationships with existing clients.

A stable or growing top line will allow you to make meaningful changes to your company's total cost structure to improve profitability. It is likely that your company's largest cost is related to its most valuable asset, its people. By understanding your company's operating metrics, you will be able to make the necessary changes to "right-size" your staff. Once the necessary adjustments have been made, it may be necessary to make further adjustments related to non-core benefits programs, salary increases, and bonuses.

As part of any "right-sizing" effort, it is important that an organization review its processes and procedures to identify and eliminate waste. Waste is simply defined as anything you are currently doing that your customers would not want to pay for. Organizations that do not eliminate waste routinely and systematically will find that waste grows as the company grows.

Manage Your Income Statement

- Improve your top line
 - o Keep investing in cost effective marketing

- o Focus on cost savings for prospects
- o Improve relationships with current clients
- Reduce costs to improve profitability
 - o Manage staff costs
 - Right-size staff
 - Scale back non-core, lower value benefits programs
 - Reduce or eliminate bonus programs and salary increases
 - o Implement a LEAN program to eliminate waste
 - Eliminate tasks that do not add value
 - Reengineer and streamline wasteful processes
 - Convert non-core fixed costs to variable costs through outsourcing initiatives

The changing markets require that you change with them. Companies that understand their financial and non-financial metrics, strengthening their balance sheets and managing their income statements, will find a path through these difficult times and position themselves for growth during the recovery.

Ted Rose is the President of Rose Financial Services, based in Rockville, MD. If you have any comments or questions, he can be reached at info@rosefinancial or 301.527.1130.