

# Now is the Time to Evaluate Your Company. Your Competition is!

Posted May 6, 2020 by Rose Arck, SVP-Partner

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As we came out of the recession businesses were forced to reinvent themselves. Oh, sure companies made minor or maybe even major tweaks in the early days of the recovery. Some forward looking companies made efforts to become vertically integrated to gain more control over their destiny and grew rapidly.

However this shelter in place pandemic event presents us all with the opportunity to look at our company structure, to look at the key people we have put in place and evaluate what can be done better, more efficiently and more cost effectively. What tools do we need to upgrade? Because the economy was soaring prior to this sudden shutdown, what people were placed in the wrong position or have now become ineffective?

After more than 30 years of working for Fortune 100 Corporations and Entrepreneurial Fast-Growing companies, I have learned that most successful companies take a breath and evaluate everything they do, every product they make and every function they perform at times like these.

These companies emerge lean, perform better and make more money! As explained in Jim Collins' book, Good to Great, and his observation of the Fox and the Hedgehog. Foxes pursue many ends at the same time, and they are "scattered or diffused" on many levels. On the other hand, Hedgehogs simplify a complex world into a single organizing idea, a basic principle or concept that unifies and guides everything. The Great companies were led by Hedgehogs and the Good companies were led by Foxes being scattered, diffused, and inconsistent.

What is your company structure, did it evolve, or did you plan it? More than likely it evolved. Now you are looking at a disjointed or possibly disrupted business. One thing you may have "accidentally" discovered during the hard decision to lay off staff is that your processes became more efficient. Prior to the shutdown, your operating staff may have thrown "more people at the production process" instead of evaluating how to keep up with the demand by improving the process.

Many years ago, I was asked to assist with the evaluation and restructuring of a multibillion-dollar company with thousands of employees and thousands of assets. The objective was to obtain a 15% return on equity. The strategies were to reduce costs by improving operating efficiencies, reduce capital investments and concurrently pursue more off-balance sheet leasing of new facilities and, of course, increase sales. Off-balance sheet strategies will no longer be considered due to the new Federal Accounting rules, now supposedly to be effective 2021. Leases over 12 months must be reflected on the balance sheet.

Guided by these strategies our tactics included:

- Decentralization to the regional levels.
- Product profitability analysis.
- Franchising selected products.
- Cost plus utilization of certain facilities by outside companies.

- Joint facility utilization when feasible.
- Regionalized marketing programs.

The hypothesis was that if each region or product line truly had control of their costs, they would be in a better position to make cost effective decisions.

Basically, look at your company from the outside in. Ask yourself these questions:

- How many products do you make; or better yet how many versions of your product do you make? If some of your products are not profitable evaluate 1) do they absorb overhead or 2) do they need to be discontinued.
- Can the materials that you manufacture for your products also be manufactured for 3<sup>rd</sup> Parties at a profit?
- Should the process of these manufactured materials be structured into their own company. Can they stand-alone and be profitable? Can you distribute overhead to this new company?
- Do I have the right facilities to efficiently perform and grow my company?
- Can I consolidate facilities' productions?

Today more than ever there are opportunities to transform your company. Due to the COVID-19 Great Lockdown, interest rates are very low and talented people are looking for a company that will allow them to make a difference. I have participated in several "catastrophes" over my career and one thing that seems to always be a good investment is structure evaluation and real estate. Whether you need to downsize, consolidate or triple your size there will be opportunities. The Pandemic has posed a new challenge, one not caused by lack of or too much regulation, or greedy untrustworthy people. For the first time in my lifetime, a global catastrophe put us quarantined in our homes, closed our retail, and disproportionately affected our society. For the first time since the Great Depression advanced economies, emerging markets, and developing economies are in a Global Recession.

Prayers and the right evaluation of your company will bring you out of this a better person with a better company. I am really looking forward to seeing that firsthand with our clients and hearing about other successes over the coming year.

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