

How to Manage Company Finances in 2009

Earlier this year, I posted a list of top ten tragic mistakes and top 10 best practices in current economic conditions, created by the members of the Society for the Advancement of Consulting®, a group of us who've been in business for several years with demonstrated records of excellent results.

To dive deeper into two of these which stretch a bit beyond my area of expertise, I asked Vinnie Zinck, former global banker and top-notch business finance and banking consultant at Tatum, LLC, for his advice.

I've personally worked with Vinnie on several projects, so I know firsthand his incredible breadth and depth of knowledge. Vinnie is a partner at largest executive services firm in the US with a single focus on the office of the CFO.

Even if you don't work in finance, it's essential for leaders to understand the business side of their organizations, now more than ever, because the problems in the credit industry and the economy in general impact your department, too. It helps build your strategic competency to understand the CFO's perspective as well.

Vinnie and I talked about two items:

- The best practice of creating banking relationships, credit lines, and financial reserves
- The mistake of making poor use of existing credit and financial reserves

What follows is an excerpt from our enlightening conversation:

TL: So, Vinnie, let's cut right to the chase. What should executives do to successfully manage their business finances in these very strange and challenging times?

VZ: First, focus on your core business. Get customer intimate – understand their economic climate and use it. Do profitability by product/customer and eliminate as necessary, review your customers' credit worthiness, cancel ancillary activities, review loss-leaders with a critical eye, and develop an EVA mentality.

Secondly, scour your balance sheet. Cash is king so focus on accelerating working capital velocity (collections, collections, collections), convert assets to cash, consider supplier financing, sell unneeded fixed assets such as old machinery or plants, and evaluate your real estate assets.

Thirdly, make your workforce flexible. Augment staff and outsource functions. Use overtime and flexible scheduling. Use external advisors to your benefit – let them be the bad cops sometimes, erase boundaries – cross functional and workforce and job descriptions, make sure to preserve or document tribal knowledge, and be aware of system security.

TL: Ah, now you've entered my territory. I've increased workforce flexibility, been the bad cop, built cross-functional collaboration, and ensured that tribal knowledge was documented.

The big difference I see between these initiatives during stable periods vs. now is in tough times you can get the workforce moving on these initiatives with somewhat less resistance, as long as you have the right advice, the right process, and the right support.

Even if your company is stable with excellent cash flow, now is still an excellent time to consider making these improvements in your organization. They virtually always improve long-term productivity if done well, and there's little hard cost to execute them.

VZ: This is also the time to pull your audit committee in. Increase communication. Partner with them to decrease audit fees, have external auditors meet with you, use them to advocate for needed resources, check all insurance coverage, and depending on your governance structure, think about benefit plan fiduciary duties. Talk to your auditors, too. Is there any chance for a going concern option? Can you pick up more work internally to minimize fees this year?

TL: You're singing my song, Vinnie. Even though communication adds more to a leader's overflowing plate, you almost can't overdo it with your key constituencies.

VZ: And now for a key item: obsess about your liquidity. Keep and continually update a 13-week cash flow. Check and keep checking debt covenants and keep in touch with lenders. If you are in Finance, read ALL financial documents with an eye for now-sensitive spots: cross defaults? Debt ceilings? Rating triggers? Attempt to re-negotiate debt terms and loosen covenants. Keep in touch with major customers and key vendors – and anyone else whose support is critical.

TL: What are your thoughts on incentive plans? Employees in some sectors (financial services comes to mind) are stinging from receiving no bonuses or raises this year, despite hitting their personal and team objectives, because their companies tanked due to reasons they could not control or even influence. A lot of these employees worked hard and delivered on their goals, but watched their incomes go down.

VZ: This is the year to de-couple your incentive plans. While internal performance metrics have been a good measure historically to drive incentive dollars, this is very risky for 2009 and made more complicated if the budget changes throughout the year (as is likely).

In this climate, it may make more sense to measure performance against peer company metrics or industry indices. Especially for public companies, such information is often readily available and can serve as a fair and transparent yardstick to measure your management team's execution amid the same head winds your competitors are facing.

TL: Vinnie, I can see how much of your advice applies to the senior finance team, but what about our readers who are in general management or mid-management, or are influential individual contributors? What should they be doing?

VZ: There are several things every key person can do, whether an executive or not. The first is to remember to lead. Your people need to hear the truth. Closed doors are evil. Show the flag. Despair breeds despair – focus on what needs to be done and the opportunity set. Make tough calls. Lead communication to whoever is in your area of responsibility: major customers, key suppliers, bankers, auditors. Get out there.

The second is to think outside the box. Talk with and read journals from external constituents looking at your industry. How are they thinking? What are they recommending? Get out and about; talk to others facing similar challenges.

If you have responsibility for capital investment, develop a capital plan but wait to actually commit to purchases until later.

Choose variable expenses over fixed expenses. Outsource and use consultants, for example.

Look for opportunities and alert your boss to them. Now might be the perfect time to buy a competitor or change the supply chain.

Build strong relationships with your counterparts at other companies so you can be clued in on what's going on. For example, an accounts receivable clerk who's on excellent terms with a customer's accounts payable clerk can flag a late payment, place a call, and ask what's going on. If it looks like there's a problem at the customer's company, alert your supervisor.

Budget conservatively. Look at your budget and test every assumption. Do you need a name brand firm to supply services, or would a smaller firm with lower fees be able to deliver the results you need?

TL: Oh, Vinnie, I didn't pay you say that, but thanks. During the last recession, we successfully helped a manufacturer and distributor implement an ERP system that was many months behind after two global name-brand firms had utterly failed. Our fees were a fraction of theirs, and our commitment to the project was 110%, because we valued them so much, but to the global firms, these guys were just pocket change. To us, they were rock stars. And our fees were considerably lower because we carry low overhead.

Thanks for helping us all to better understand how to manage in these times, Vinnie.

VZ: My pleasure.