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“Growing Your Business in a Recession” ©

By Dennis J. Gerschick, CPA, Attorney, CFA

I. Preliminary Points

A. Basic Points

1. The value of a business is determined by a number of factors including its revenue, net profits, cash flow, and the growth rate of each
2. The challenge is to grow but to grow in a “smart way” and to grow despite bad economic conditions
3. Each company is unique; there is no single right answer for every company. Strategies must be tailored to the company based upon its business, size, location, people, financial position, and other factors.
4. Is being in an economic recession as an excuse for poor performance?
5. Can your company grow as competitors decline?

B. To increase the value of a company, growth is generally needed

1. Growth often leads to value creation; stagnant companies are generally not as valuable as growing companies

C. Six Step Plan

1. Honest assessment of where the business is currently
2. Consider the company’s options
3. Create a plan
4. Execute the plan

5. Monitor the results
6. Adjust

II. Step One: Make an Honest Assessment

- A. Where is the company today?
 1. What are its competitive strengths? Does it have a “moat”?
 - a. Patents, trade secrets, know-how
 - b. Cost advantage; lower expenses
 - c. Employees
 - d. Intangible assets – brand, reputation, image
 - e. Switching costs
 2. What are its weaknesses?
 3. Who are its primary competitors and what are their strengths and weaknesses?
 4. How is the company different from its competitors?
 - a. Why do customers do business with the company rather than a competitor?
 - b. Learn from your competitors and other companies!
- B. What are the company’s core competencies?
 1. Can they be applied elsewhere to solve customer’s problems?
 2. Any technical expertise?
 3. Know-how regarding logistics, inventory management, technology, etc.
- C. Review the current business environment and trends
 1. What are the current economic conditions?
 2. Consider the legal, regulatory, and tax environment and expected changes

3. Consider technology, political, social, and demographic trends
 4. What will the world look like in a year? 5 years? 10 years?
 5. How does the company fit into that changing world?
 6. What are the opportunities available to the company?
 7. What can go wrong? Risk factors?
- D. Where does the company want to be in a year? 5 years? 10 years?
1. Can the goals be quantified?
 2. Do the employees know the company's plan and its goals?
 3. Does the company have what it needs to achieve its goals?

III. Growth as an Ingredient

- A. What are the Company's Options?
1. Mergers and acquisitions
 2. Joint ventures and alliances
 3. Franchising
 4. Internal or Organic Growth
 - a. Raise the company's prices of its widgets
 - b. Sell more existing widgets to existing customers
 - c. Sell existing widgets to new customers
 - d. Sell new widgets to existing customers
 - e. Sell new widgets to new customers
 - f. Sell ancillary services or products
 - g. Increase the amount of the average sale
- B. Which option should be pursued?
1. What are the pros and cons of each option?

2. Does the company have the resources to support the growth or pursue an option?
 - a. People
 - b. Cash
 - c. Hard assets including infrastructure
 - d. Time
 - d. What is the company's current capacity?
 - e. What will be needed to expand capacity?
3. Information is needed
 - a. Do the customers want/need more widgets?
 - b. Can we find new customers? What will it take in terms of money and time? What is the "sales cycle"?
 - c. Can we develop new widgets? Will customers want the new widgets? What is the expected demand for the new widget?
 - d. Can we develop new markets? Ever done it before?
 - e. Is a price increase feasible? Commodity vs. specialty item. How do we persuade customers to pay more?
4. What opportunities does the company have?
 - a. Rank the opportunities
 - b. Is the opportunity within the company's core competency or "one-off"?
 - c. How much time, people, and money will it take to pursue each opportunity?
 - d. What is the potential payoff?
 - (i) Amount?
 - (ii) Probability?
 - (iii) Likely timing?
 - e. Quick, easy low-lying fruit vs. Delayed and risky big-bang

C. Monitor the Results

1. Will the growth be properly managed?
 - a. Will quality standards be maintained both as to the widgets and new employees hired?
2. Will the desire for growth lead to bad decisions such as poor mergers and acquisitions?
3. In what area is the growth taking place?
 - a. Is the company losing focus?
 - b. Are there really synergies between units?
4. What benchmarks should be used to measure progress?
5. What will the impact of growth be on the company's:
 - a. Culture
 - (i) Is the company hiring people who do not fit in with the culture?
 - (ii) Are the new hires being trained properly?
 - b. Image/reputation/brand
 - c. Employee morale
 - d. Is there synergy or is the company diluting its core competencies?
 - e. Financial position – how much cash and time will be needed?

D. Evaluate the Growth - Not all growth is good

1. It may be better to “fire” customers who are more trouble than they are worth
2. Is the growth in desired areas?
3. Can a company get too big?
4. Is the real issue: grow or die?

IV. Consider the Financial Implications

- A. Analyze the company's current financial statements in-depth
 - 1. Where is the revenue coming from?
 - a. Break revenue down by various categories, segments, and/or product lines
 - b. Consider developing new revenue streams
 - 2. Where is the money being spent?
 - a. Review every expenditure
 - b. Can any expenditures be reduced or deferred?
 - 3. What is the company's capital structure?
 - 4. Evaluate the company's cash balance, cash flow, and liquidity
- B. For each possibility or opportunity, consider:
 - 1. What will be its impact on the company's revenue? Expenses? Cash flow?
 - 2. How much capital is needed to fuel the growth?
 - a. How will it be financed?
 - b. Impact on the company's capital structure?
 - c. What will the pay-back period be?
 - d. Return on assets?
 - 3. Does the "growth" come with reasonable profit margins?
 - 4. How can the company increase its profit margins?
 - a. Increase prices
 - b. Decrease expenses
 - 5. Be careful of the impact of increased revenue on expenses and cash flow
 - a. People often get complacent, lazy

V. Possible Restraints on Growth

- A. What are the obstacles to future profits and cash flow?
 1. Competition
 - a. Who are the company's primary competitors?
 - b. What does each competitor do well?
 - c. What can the company learn and incorporate from its competitors?
 - d. How does the company monitor its competition?
 2. Fundamental problems with the company's products/services
 - a. The product or service does not meet the customer's need or desire
 - b. Less than excellent quality
 - c. Delivery is not timely
 - d. Pricing is not competitive
 3. Various problems with the company's employees
 - a. Incompetent - they don't know what they are doing
 - b. Rude, don't care, unmotivated, no pride etc.
 - c. Lazy, slow, unproductive, no initiative
 4. Various problems with the company's suppliers
 5. Various problems with the company's customers
 6. Financial restraints
 - a. Lack of access to capital
 - b. Declining profit margins
 - c. Debt load
 - d. Cash flow problems

7. Problems with the company's information technology, internal controls, and/or financial reporting system
 8. Changes in technology
 9. Changes in the legal environment
 - a. New laws or regulations
 - b. Lawsuits
 - c. Regulatory compliance
 - d. Investigations
 10. Adverse political or economic developments
- B. Other factors that inhibit growth
1. The corporate culture
 - a. That's not what we do!
 - b. That's not our core competency!
 - c. People like the status quo and resist change.
 - d. Defeatist attitude – it's tough out there!
 2. Lack of leadership and commitment
 - a. Company gives up too soon.
 - b. New opportunities are not funded and/or staffed properly.
 - c. The company keeps doing what always does – in good economic conditions or bad
 3. The organizational structure
 - a. Lack of cross-selling
 - b. Compensation structure does not reward cross-selling
 - c. Management is too detached and does not see trends developing quickly enough

VI. The Company's Customers

- A. How well does the company know its customers?
1. What are the customer's problems or concerns?
 2. How does the company's product or service address them?
 3. What factors are causing the customer to buy or not buy?
 4. How urgent is the customer's problem?
 5. Who makes the "buy decision"?
 6. How does the company get to the decision maker?
 7. **Why do the customers do business with the company?**
 - a. Prior experiences with the company?
 - b. A friend's recommendation
 - c. Price?
 - d. Quality?
 - e. Convenient location or convenience of use
 - f. Quality of service?
 - g. Timeliness of service?
 - h. Warranty?
 - i. Trust and creditability
 - j. What factors affect the customer's "buy decision" the most?
 - k. There is a long standing relationship - maintain the status quo
- B. Know the company's customers!
1. Who are the customers? What are their demographics?
 2. What are the characteristics of the "typical customer"?
 - a. Individuals – sex, age, income bracket, cutting-edge vs. traditional

- b. Small companies
 - c. Large corporations
 - d. Government
3. Where are the customers located?
- a. Can the company's geographical reach be extended?
 - b. Impact on expenses?
 - c. Diversification vs. less focus
4. How does the company contact the customer?
- a. How often does the company communicate with its customers?
 - b. For how long?
5. Does the company know how and why it is getting its customers?
- a. Advertising – which medium is most effective?
 - b. Walk-by traffic
 - c. Referrals
6. Does the customer also do business with a competitor? If yes, why? How can the company get a greater percentage of the customer's business?

C. Understand the Economics

- 1. How long is the "sales cycle"?
- 2. How much does it cost to obtain a customer?
- 3. Is the customer "one-shot" or a repeat customer?
- 4. Number of customers? Amount of revenue from each?
 - a. Does a small percentage of customers account for a large percentage of the revenue?
 - b. Many small customers?

D. Cementing the Relationship

1. How can the company entrench itself with each customer?
 - a. Any add-on products or services?
 - b. Warranties given?
2. How can the company get more of the customer's business?
3. How can the company gain the customer's trust?
4. How can the company establish multiple relationships with the customers?
 - a. Are they a "company customer" or the "salesman's customer"?

E. Importance of Customer Service

1. Does the company make it easy for customers to complain?
2. How are customer's complaints addressed promptly and fairly?
3. Do the company's top executives meet with customers?
4. Is the importance of customer service stressed throughout the company?
5. If the company loses a customer, does it know why?

F. Customer Surveys

1. Think about the questions that are asked
2. How do the customers respond?
3. Reward customers for responding
4. Don't alienate customers

G. "The customer is always right" vs. "Some clients need to be fired"!

H. It's not the employer who pays the wages. Employers only handle the money. It's the customer who pays the wages. – Henry Ford

I. Being Sticky

1. What is being "sticky"? Customers are stuck to the company;

leading to future, repeat business

2. How do you create “stickiness”?
 - a. Customer Service
 - b. Going the extra mile
 - c. Providing customers with something the competitors do not
 - d. User Communities - conferences
 - e. Customer networks

VII. Focusing on Employees

- A. Key: Do the employees fit in with the company’s culture?
 1. Does the employee share the company’s values?
 2. What are the employee’s goals?
 3. How does the company determine if there is a “good fit”?
- B. What kind of employees does the company have?
 1. Do they have high energy? Enthusiasm?
 2. Do they have initiative? Offer good suggestions?
 3. Make things happen or offer excuses?
 4. What is their attitude? Personality?
 5. Are they team players or solo stars?
 6. Is there any passion or “fire in the belly”?
- C. Importance of Attracting and Retaining Qualified Employees
 1. How do you find competent employees?
 - a. Executive recruiters
 - (i) Consider their fee vs. the benefit they provide
 - b. Ads online/targeted periodicals

- c. Bonuses to employees who refer new employees to the company
 - d. Consider the expense vs. the quality of the candidates
- 2. A growing company with a bright future is an attraction. Stagnation or slow growth may cause people to leave.
 - a. What is the level of turnover?
- 3. What do employees really want?
 - a. The Golden Rule!
 - b. The importance of clear and regular communication
 - c. Money is a short-term incentive
 - d. Opportunity to improve and diversify their skills
 - e. Opportunity to work on exciting/rewarding projects
 - f. Recognition of their contribution
- 4. Fringe Benefits
 - a. Good work environment
 - b. Opportunity for new challenges
 - c. Continuing education or training programs
 - d. Flexible work hours
 - e. Cafeteria plan for fringe benefits
 - f. Sabbaticals
 - g. Unusual perks? Pets in the office?
 - h. Health club
 - i. Which perks are most valued by the employees? Ask them.
- 5. Before hiring an employee
 - a. Have several people interview them
 - b. Check their references; verify credentials

- c. Consider having a background check done; can have civil, criminal, bankruptcy and driving records searched
 - d. Ask tough questions and consider how they respond; ask open-ended questions
 - e. Manage the potential employee's expectations
 - f. Does the individual fit in with the culture?
 - g. What are their technical abilities? Focus on what they have done. What specific accomplishments are they responsible for?
6. Common hiring mistakes
- a. Hiring just warm bodies
 - b. Failure to evaluate the company's needs
 - c. Failure to match the employee's skills to the job
 - d. Hiring too many people; plan for the space needed for the expected number of employees
 - e. Who has authority to hire employees? Will they hire better people or less capable people than themselves?
 - f. How do you know the company made a hiring mistake?
 - g. President Truman once said "When you feel there is something you need to do and you know in your gut you have to do it, the sooner you get it over with, the better off everybody is."
7. If you make a mistake, admit it, terminate the bad employee, and move on
- a. Especially important with small companies
 - b. Consider paying a severance payment as consideration for a release of any claims the employee may have against the company and its employees and agents
 - c. Evaluate the level of employee turnover
 - (i) Need to retrain new employees

- (ii) Effect of layoffs/terminations on morale
 - d. Conduct an exit interview. Find out why an employee left voluntarily
- 8. Practical Tips
 - a. Set compensation policies that are consistent with the business strategy
 - b. Consider the importance of each employee to the business and compensate consistently
 - c. Importance of reducing employee turnover
 - (i) Cost of training new employees
 - (ii) Administrative costs of hiring new employees
 - d. Is the compensation level in line with the market?
- D. Training Employees
 - 1. What training do employees receive?
 - a. On the job training
 - b. Classroom on company facilities
 - c. Offsite location
 - d. Internet
 - 2. What does the training focus on?
 - a. Specific job skills
 - b. Company Orientation
 - c. Specific topics like:
 - (i) Fraud awareness
 - (i) Compliance with laws and regulations
 - a. General Education
 - b. Cost of training vs. benefits

1. Key: Do the employees know the company's business strategy? Do they know how their job fits into the big picture?
 2. What is their job description?
- E. How is the employee's performance evaluated?
1. Employees should know specifically what is expected of them
 - a. Set specific objectives and deadlines
 2. Performance reviews should be regular and as objective as possible
 3. Compensation increases should be based on performance
 4. Consider moving poor-performing employees to a new area or terminating them
 5. Are employees being used in the most effective manner?
 6. Are employees being "groomed"? Is there a plan?
- F. How productive are the employees?
1. Can productivity be measured objectively?
 2. Does increased output adversely affect quality?
 3. Consider how technology can increase their productivity
 - a. Can robots be used?
 - b. Use of software?
 - c. Use of the Internet?
 4. Can additional training help?
- G. Key employees
1. Who are the key employees?
 2. What would happen if they left the company?
 3. Are they bound by restrictive covenants?
 4. How do you keep key employees motivated and tied to the company?

5. What is the plan to develop the key employees?
6. What skills are needed to execute the company's strategy?
7. Conduct exit interviews
8. How are leadership skills developed?

H. Key Points

1. First step is to hire talented people
2. Develop them
3. Deploy them in the right place at the right time

I. Employee Morale

1. What is the overall employee morale?
2. Signs of bad or deteriorating morale?
 - a. Number of sick days increases
 - b. Decrease in quality and amount of output
 - c. Complaints increase.
3. Does the CEO communicate with all the employees? How often?
4. Are decisions explained clearly?
 - a. How the decision was made
 - b. The reasons for the decisions
 - c. The alternatives that were considered and rejected
 - d. How the decision fits into the company's strategy
 - e. How the decision will affect the company and the employees.
5. Ask employees for their input. Do employees speak-up and note problems and offer suggestions?
6. How do employees communicate with the company?

- a. Employee hot-line
 - b. Employee evaluations
 - c. Are 360 evaluations used?
 - d. Email
 - e. Face-to-face meetings
7. How can you motivate employees?
- a. Each employee is an individual
 - b. How well does the manager know the employee?
 - c. Recognize their effort and contribution
 - d. Celebrate successes
 - e. Have goals that are articulated clearly
 - f. Challenge people

VIII. Expense Reduction

A. General Points

- 1. Ways to increase profits: increase revenue, and/or decrease expenses, or a combination
- 2. Overwhelming focus is on increasing revenue. There are several reasons for this focus.
 - a. Wall Street's focus on revenue.
 - b. "A rising ocean lifts all boats."
- 3. There is a limit on how much you can decrease expenses; it is hard to save your way to prosperity
 - a. It takes money, to make money
- 4. Operational efficiencies reduce expenses
 - a. Reducing expenses through productivity improvements – more is done with less resources
 - b. More effective use of technology

- B. Decreasing expenses
 - 1. General Points
 - a. Focus on “cutting out the fat”
 - b. But don’t cut muscle with the fat
 - c. Some companies spend \$1 to save a nickel
 - d. Think! What expenses need to be increased?
 - e. **Don’t** use across the board cuts!
 - 2. Use the downturn to fire unproductive and troublesome employees
 - 3. Shop around – can you get multiple bids?
- C. Adages to Consider:
 - 1. “A penny saved is a penny earned.”
 - 2. “You can’t save your way to prosperity”
 - 3. “It takes money to make money”
- D. Lack of focus on expenses leads to waste, excessive expenses, and wrong attitudes, complacency
 - 1. Travel expenses - What is the company’s policy? What procedures are in place to make sure it is followed?
 - 2. Who has a company credit card? Are the charges reviewed?
- E. Focus on each expense
 - 1. Is it necessary?
 - 2. Does the benefit exceed the cost?
 - 3. Can it be reduced without adversely affecting the company?
 - 4. What is the company’s culture?

IX. Pitfalls to Avoid

- A. Doing Nothing!
- B. Plan your work and work your plan
 - 1. Many companies do not have a plan
 - 2. Review your plan, monitor results, and revise your plan periodically
- C. Being complacent; assuming business must fall in a depressed economy
- D. Making assumptions that are false or misleading; question your assumptions
- E. Question everything you do
- F. The adage: If it ain't broke, don't fix it
 - 1. Every aspect of a business should be reviewed periodically. Consider how it can be improved.
 - 2. If you want different results, you must do things differently.
- G. No financial discipline

X. Key Metrics to Monitor

- A. General Points
 - 1. Clearly, both the top line and the bottom line should be closely monitored throughout the year.
 - 2. Don't consider just the absolute numbers, but also the trends and the composition or make-up of the key numbers.
 - a. What is happening and why?
 - 3. Monitor cash flow closely.
 - 4. Be pro active – anticipate problems; don't just react to them
- B. Other Points
 - 1. What metrics will help management anticipate future events?
 - 2. Tailor the metrics to the company

3. Use horizontal and vertical analysis
4. Use ratio analysis

C. Key Points

1. If you want different results, you must do things differently
2. Albert Einstein defined insanity as doing the same thing but expecting a different result
3. Does the business owner or CEO really want to grow? Are they willing to pay the price?

Dennis J. Gerschick, JD, CPA, CFA

Dennis Gerschick has a unique background. He is the only individual who is an Attorney, CPA, Chartered Financial Analyst, and Venture Capitalist and has work experience in each field.

Mr. Gerschick graduated Florida Atlantic University in 1978 (major in accounting). He passed the May, 1978 CPA exam on his first attempt. He then worked as a CPA with Ernst & Young, one of the Big 4 accounting firms, before graduating from Drake Law School in 1983.

After law school, Mr. Gerschick worked in the tax department of one of Atlanta's largest law firms, Powell, Goldstein. Later, Mr. Gerschick opened his own law firm. His practice focused on representing closely-held businesses and their owners. For many clients, he also acts as a business and financial advisor.

Mr. Gerschick is the President of VenCap Advisory Group, Inc. which is the sole general partner of VenCap Opportunities Fund, L.P., a venture capital fund. Mr. Gerschick's duties include finding companies in which to invest, reviewing and evaluating hundreds of business plans, as well as negotiating, structuring, documenting, and monitoring the fund's investments. He has also served on several boards of directors and audit committees.

Mr. Gerschick served on the American Institute of CPA's Business Valuation Subcommittee.

Mr. Gerschick also provides a variety of legal and consulting services. He provides tax, investment, financial and business advice to a variety of companies and investors. He consults with other CPAs and attorneys to help them better serve their clients, or he provides a second opinion. See www.Gerschick.com

Mr. Gerschick speaks frequently at seminars and conferences throughout the country regarding a variety of investment, legal, and tax topics. He has spoken about the purchase or sale of a business, real estate, corporate governance, financing businesses, financial statement analysis, and many other topics. See www.RegalSeminars.com

Mr. Gerschick has written many articles, relating to growing and financing businesses that have been published by the Technology Law Section of the Georgia Bar and the Michigan Association of CPAs. Mr. Gerschick has authored two monographs, Raising Capital and Attracting Investors to Your Start-Up, both of which are offered by the Capital Formation Finance Institute in Washington DC. See www.cfi-institute.org. An interview with Mr. Gerschick was also published in American Venture, a magazine targeted at entrepreneurs and accredited investors.