

Never waste a good crisis ...

Sometimes opportunity knocks ... and sometimes it sits silently on your doorstep. You've got to step outside to find it.

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These are extraordinary times. It certainly appears that we are facing a global recession. Yes, Canada too. How deep and how long is unpredictable at the moment. What we do know is that we will all likely have to work harder to find opportunity. And who better to lead the way than entrepreneurs...

We reached out to our network of entrepreneurs to ask a few of those who've successfully weathered past recessions to share their 'lessons learned'. Below, we offer their perspectives, and ours, on how to manage your business and your life through a recession:

Your Business

1. Cash is king.

Newport Partners' Don Lenz, who has seen the cycles over nearly 40 years, had this to say: "The companies and the individuals who manage through these periods successfully are the ones who stay close to shore." Until greater certainty returns to the economy, we suggest building your cash position. If your balance sheet is weak, do everything you can to shore it up. Look at every expense line item to determine whether areas can be trimmed. Manage payments on your payables. In the words of one entrepreneur who managed a structural steel business through a serious recession in 1981-82, "It's not the time to be the best payer. It's not the time for vision. It's a time for managing cash." Consider what incentives you can put in place to encourage faster payment on your receivables – like discounts for early payments, for example. If your balance sheet is already strong, building your cash position will allow you to be opportunistic. There may be acquisition prospects down the road as competitors or suppliers struggle (though it's likely too early in the cycle now to take advantage).

2. Communicate.

Communicate to your employees, your customers, your suppliers and your bankers. Especially when things are tough. Says Lenz, "Sunshine is the best disinfectant. It's better to have people aware of the challenges you're experiencing and what you're doing about them than to deliver negative surprises." At a time when you need to get the most out of your people, you don't want employees to be distracted and less productive as they work themselves into a lather about what *might* happen next. Keep communicating, even when it feels repetitive.

During recessions, it is imperative to stay in constant touch with your lending sources. This is truer today than ever as it is not realistic that you can easily find other financing sources. Clare Winterbottom built Anchor Lamina into Canada's largest die-set manufacturer over twenty years, including two very difficult recessions. He recalls, "I'd call the bankers and advise them that Anchor was aware of the difficult times ahead. I would ask them to defer all principal payments on loans and mortgages, and offered to pay interest only for two years; the bankers really appreciated that. Because we stayed in constant communication with them, and kept them up to date, they were willing to cooperate with us – as long as their security was not at risk."

3. Help your customers through their tough times.

Gus Gougoulis of Gusgo Transport (in which Newport Partners has a private equity interest) has been in business since 1969 and has managed to avoid recessionary effects by being rabid about cost control and staying very close to customers. Gus's advice: "Sometimes people drop their pricing because they think that's what's expected. But you win more by providing extraordinary service and staying close to your best customers. When they go through tough times share with them in the best way possible. If they need you to stay open seven days a week, do it, just make sure it works from a cost point of view. When the good times return, your customers will continue their loyalty to your business relationship."

4. Lead by example.

If you are asking employees to work more, or suppliers to wait longer for payment, it behooves you to be subdued

in your personal spending. Driving a new model luxury car, extravagant spending or lavish Christmas parties might not send the right message.

5. Consider strategic moves that don't involve capital.

Consider mergers, joint ventures or even informal partnerships. Mergers can reduce overhead and sometimes provide strategic opportunities while partnerships can reduce risk and open up new opportunities.

6. Get more from your corporate benefits.

If you find you can't afford much in the way of staff raises this year, one way to put more money in employee pockets is to restructure your corporate benefit program. Says Newport Partners' insurance specialist, Bob Clark, "By simply re-arranging your benefit program so that it is tax effective, you can deliver a small after-tax increase to your employees without costing the company a dime."

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So embrace the uncertainty.**

And finally,

7. Look for the opportunities.

All recessions create opportunities. You can strengthen your business during such times. Innovate. It's what entrepreneurs do best. Jeremy Miller, a partner in LEAPJob, a recruitment firm for sales professionals, says it best: "As a business owner you have a choice. You can get caught up in the hype and turtle. Or, you can look for opportunities to innovate and create competitive advantage. I would rather find opportunities to create value, because as we come out of this recession the innovators will be the clear market leaders. I think a recession is a wonderful time for innovation. You can't keep doing the same old thing. So embrace the uncertainty."

Your Personal Affairs

On the personal front, much of the same advice applies:

1. Take stock of your entire financial picture.

The dramatic change in economic and financial market environments from a year ago, heck from a *month* ago, should prompt a 'check-up' on your total net worth. Talk to your financial advisors. Are there new risks in your business today? How solid are your personal investments? What is the relative value of your business versus your personal wealth? Is this a balance you're comfortable with? This is a good time to have some additional liquidity to meet unexpected needs – both personal and business. If you have cash, where are the best opportunities in the next couple of years? Inside or outside your business? "We have a financial modeling tool that we have been using with our clients to crash-test their objectives using recessionary assumptions," says Newport Partners' David Lloyd. "It is providing a lot of peace of mind." Taking stock doesn't have to be a major project. You'd be surprised how even a couple of thoughtful conversations with trusted advisors will help you to clarify your thinking and make conscious choices about your future direction.

2. Communicate.

Talk to your family members about what is going on in the world and its potential impact on your lifestyle over the next couple of years. Where appropriate, you may want to host a family meeting to let everyone know the uncertainty we face, to reassure and get alignment on belt tightening. Lloyd adds, "You may be surprised by the level of interest and knowledge of family members. It can be a wonderfully unifying family experience."

3. Build cash.

Defer major expenditures. Review your discretionary spending and see what you can eliminate. Make projections using realistic assumptions about risks to your income level and asset values. How much do you need to live on and where will this come from? If you have debt, look at how you could simplify your balance sheet. Credit is now more expensive and harder to come by.

4. Look for found money.

Now is a good time to make sure you are taking advantage of all of the tax savings opportunities available to you – personally and in your business. "It is often surprising to us how many people are leaving money on the table by

not properly structuring their affairs,” says Lloyd, a CA. “In this environment, there will be some tax loss selling opportunities for those who have realized capital gains in the last few years. As interest rates decline, there are also income splitting opportunities using prescribed rate loans to tax-effectively transfer income into the hands of family members with lower tax rates.” Make a point of talking to your tax advisor before year end.

5. Revisit your investment strategy.

While it may be tempting to leave your account statement envelopes unopened, what you don't know *can* hurt you. Newport Partners' Peter Churchill-Smith advises, “This is not the time to do nothing. The market environment has changed. It's imperative to ask yourself, ‘does my investment strategy need to change?’” We are anticipating negative to modest returns from equity markets in the foreseeable future. So if in the past you've taken an index approach to making money, you might want to consider a more selective investment strategy. Stocks that offer current income will provide you with some consistency of return. Review your positions. Are they quality? And look to add diversification with your cash. At Newport Partners, we have a 10-20% cash weighting in our portfolios, a low (30-35%) weighting in equities

and the balance held in a very diverse range of investments that are not tied to global stock markets (e.g. real estate, private equities, high-yield bonds, etc.). This strategy has mitigated losses from the market meltdown and we're sticking with it going forward.

6. Don't lose your head.

When fear sets in, it can grip you and cause you to do dumb things. Panic is never a good strategy in any situation. So turn off the news. Hug your kids. Go for a walk. And resolve to deal with what you can when you can and to stop worrying about the rest.

7. Look after your health.

You may be working longer and under more pressure. Staying healthy in mind and body is critical to succeeding in a tougher environment. Among items we would encourage you not to cut from your budget or your schedule are fitness and de-stressing activities.

Maybe you're not seeing any signs of a recession yet in your business. And maybe, if you're fortunate, you won't. But as the financial planning adage goes, it's best to “plan for the worst, hope for the best”.

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Newport Partners creates wealth and opportunity with more than 350 successful entrepreneurs. We provide money management and financial advice to enhance your personal wealth and corporate financial advice and access to capital for your business interests.

If you would like an independent opinion on your personal investments and/or your business financial plan, we would be happy to meet with you, at no obligation and at no cost.

