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Ten Caution Signals



The best defenses against business crises are heeding caution signals of potential problems and taking positive action.

SUPPOSE YOU ARE DRIVING down a scenic country road on a beautiful summer day. Suddenly, you see a round yellow sign, indicating a railroad crossing. You would likely, respond to this caution signal by slowing down, and looking up and down the track.

In business, a caution signal does not mean serious trouble. But it should alert you to the potential for problems.

Many business crises or downturns can be avoided at an early stage by recognizing 10 caution signals.

1. Management arrogance vs. confidence. Whereas confidence involves an exploration of how to satisfy needs of others, arrogance tries to substitute force of personality for substance. Too often, it amounts to bravado before the fall. Arrogant managers are slow to act, not open to constructive criticism, and fail to provide necessary information or services to customers, employees, lenders, and suppliers.

2. Old equipment vs. state-of-the-art technology. Equipment that is antiquated or in poor repair usually indicates that the company can be out-produced by its competitors.

3. New facilities vs. strong operating margins. New facilities commonly destroy operating margins. Managers tend to follow a long learning curve to become experts in the new facility, while spending less time running the business and attending to customer needs. New and better facilities are only worth the investment if they are meaningful to customers.

4. Commodity orientation vs. proprietary products or services. Selling commodity products is a cautionary signal from the start. Companies that sell commodities or "me-too" products or services must be vigilant about changes in market preferences and tastes—alert for ways to improve customer service and product quality, while keeping prices low.

5. Buyout leverage vs. operating leverage. Buyout leverage on the balance sheet is always a cautionary indicator. In a buyout, assets and cashflow are used solely to support an acquisition price, unlike operating leverage, which is debt generally reinvested in the business. Buyout debt does not improve the company's operation one iota.

6. Traditional focus vs. current business environment. If executives are not open to new ideas about products, services, manufacturing techniques or distribution methods—then their markets will pass them by. Consistent analysis-backed change maintains the cutting edge.

7. Staff tenure vs. industry change rate. There certainly is nothing wrong with having people who have been in the business for decades. However, people with long tenure at one firm do not bring the benefits of different methods and styles of doing business at another.



8. Inventory intensity vs. total assets. Companies whose assets consist mainly of inventory are constantly at risk of poor earning performance. Their asset value can rise and fall, based on events over which management has no control.

9. Bean counters vs. financial advisors. Be wary if the company has many employees who spend their days making debits equal credits without knowing or caring what the data means. Such companies tend to have large MIS staffs, but few people out talking to customers. Reports are meaningful only if they are relevant and can be analyzed by those able to use them to develop new ideas, promote customer satisfaction, and generate revenue.

10. Sense of urgency vs. laid-back culture. Are employees driven to get jobs done and find new ways to meet customer needs—or do they put off projects and make excuses? How effectively can the staff respond to changing markets, deadlines, and business problems? Without a company-wide sense of urgency, decisions made *mañana* frequently are a day too late **EE**

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