

The **FLEXIBLE STANCE**

**Thriving in a
Boom/Bust Economy**



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The Flexible Stance: Thriving in a Boom/Bust Economy
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Sample Chapter

CHAPTER 11: FASTER IS SAFER

Boeing *white tails*—airplanes that have been manufactured but have no owner’s logo on the tail—are a testimony to how fast things can turn down. In every recession, firm orders are cancelled or delayed or the buyer is unable to pay. This problem is common, in one form or another, across most businesses and all continents. The white tail is a physical embodiment of a cancelled order.

You lay out money today, and earn money tomorrow. That is the essence of a capital investment. The risk is that you do not earn money tomorrow because your assumptions were incorrect at the start or because conditions have since changed. Getting your starting assumptions right is another topic. The Flexible Stance is about dealing with those pesky changes.

Charles is a real estate developer. He finds residential lots and builds houses that he sells at a profit—hopefully. He called me during the last recession and sounded troubled.

“Yes,” he said, “I know we’re overbuilt. I know the real estate market is down. But here’s the deal: this lot on the north side I can pick up cheap. I know what it would cost to build a nice house on it. And I know what similar houses have been selling for. I’ve got a good profit margin on this.”

His concern was that everyone was saying the residential real estate market was lousy yet he was seeing a profit opportunity building a new house. I was sympathetic because I know there truly are profit opportunities even in a weak economy. Still, I was scared by his idea—and I didn't even have any money at risk.

“Double-check your assumptions about costs and what houses are selling for,” I told him. “Then, if it still looks good, you need to build that house as fast as humanly possible. Your costs could go up, but more likely prices will fall, and your profit margin will evaporate. The longer the construction period is, the more time for something to go wrong.”

Charles took the advice, built the house, and spent a bit extra to speed up construction. The market did in fact deteriorate during the construction period, but he lined up a buyer early enough to make a decent return on this investment. That is the value of speed.

Speed is valuable everywhere but more in some areas than in others. Charles was looking at getting paid at a point in time, which he sped up. Other businesses look for returns over a long time period. A new store may figure on earning returns over 20 years or more, so there is not such a sharp end point in the repayment period. Nonetheless, the time spent setting up the store is wasted time from a revenue standpoint.

WHAT CAN SPEED UP

One valuable process to speed up is the sales cycle. While courting a prospect, the economy can turn down, technology can advance, or the prospect's own conditions can change. A faster sales cycle lowers the risk of external events sinking your sale.

Order fulfillment or product delivery can be sped up. If you are simply grabbing boxes off the shelf and shipping them to your customer, there's not much risk of falling into a recession before the UPS pickup. But for custom products or services time is important. The longer your typical project time, the more important it is to speed it up.

Even if your contract guarantees you payment and the customer does not have the option of backing out, you are at risk. The customer may go bankrupt and be unable to pay. More likely, if conditions go south your customer may ask for termination without full payment. Most businesses negotiate under these conditions, valuing good will with the client. Boeing typically does this with its white tails. However, anyone you had already delivered a product or service to and gotten paid for would have needed no negotiation.

How long does it take to develop a new product? If you have been selling a commodity for years, maybe this isn't important. Coal companies, for example, don't have many new products to offer. Almost everyone else can speed up their product development cycle. This applies not only to manufacturers but also professional services. When a new law is passed, attorneys must be able to counsel clients about it. When new construction technology is developed, contractors need to implement it. When a new fad engages teenagers, retailers need to stock the popular merchandise. Companies that are slow to catch on will be left behind by their competitors.

Capital spending can be sped up, as the example of the home builder showed. That applies to expanding factories, installing new computers, even setting up a website. There's a common speed for every activity, but it's not locked in stone. Speed comes to those who work for it.

Collections can also be sped up. As a child, I joined with my brother and sister in a business venture painting house numbers on curbs. We would paint a white background, then come back the next day to paint the black numbers. After my first day knocking on doors, I had a question for my father: "This guy asked if we wanted payment now or after the job was done. What should I have said?"

"Suppose he has a heart attack tonight," my father answered. "It's always better to get the cash up front."

Getting paid sooner is always better than later, even if the client is healthy.

HOW TO SPEED UP PROCESSES

Although every process is different, there are some commonalities to speed improvement.

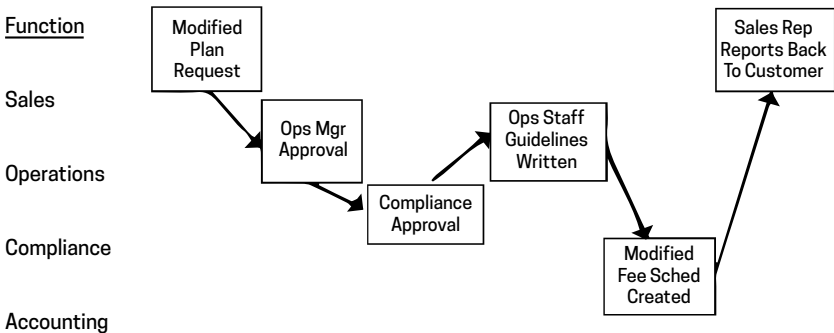
Measure

Measurement is the first step toward improvement. Measure speed for anything frequently repeated. Sales cycles can be measured. If you are opening many new stores, measure how long it takes between the decision to open the store and the store opening and also the time to attain profitability. Calculate average payment time for trade receivables.

Map Processes

Lay out a diagram of whatever process you are trying to speed up. Note the steps. Mark the possible paths events might take you. Note all interactions and handoffs between departments. Ask how every step can be sped up. You may find entire steps that can be eliminated. You'll probably also find steps that could be finished sooner if one department kept another department better informed of what's in the pipeline.

Process For Modified Retirement Plan



It's natural to run a process in a serial fashion: step one, step two, and then step three. Sometimes, though, a few steps can be run simultaneously. This doesn't reduce the total amount of work to be done. Depending on the process it may sometimes be a waste, as when the result of one step is to cancel the entire process. Usually, though, parallel processes speed up calendar time. This reduces the risk of changed circumstances terminating the sale.

Clarify Responsibility

Someone must take ownership of the entire process, while others will likely take ownership of specific steps. Make sure that you are talking about speed in the actual, not in the abstract—how fast Sally's team will win the order, how fast John's team will deliver the service, and how fast Jane's team will get payment deposited.

Benchmark

Determine the best possible speed for different functions based on how other organizations are doing. This will vary widely from process to process, but try to learn what the top performers are doing in every process.

Pay for Speed

A fast car usually costs more than a slow car. Similarly, some things will cost more to get done quickly than slowly. Rush orders may be expensive. One doesn't have to pay excessively, but look for the top, time-using processes, and ask how much it would cost to speed them up. Then compare that cost with the expected volatility of the external environment to determine whether speed is a good investment. It won't always be, but it should always be checked.

Go back to our suggestion to map the process in a flowchart. Identify how long each step takes. Then estimate for each step the cheapest way to speed up that step. Tabulate the days (or hours or weeks) saved, as well as the cost. Now you can pick the most cost-effective speed-up options.

A well-run operation will have some processes that cannot be sped up without inordinate cost. However, if you find that none of your processes can be sped up, then you're probably not being honest in your evaluation.

Go through this analysis for all of your critical functions, including sales, operations, and finance.

Using speed to reduce risk can be profitable. In a bank where I once worked, we spent a good deal of effort trying to improve the functioning of the asset-liability management committee (ALCO). Our thought was that we would improve decision-making by focusing more attention on the critical issues and less attention to those areas that were running well. What we learned is that the entire process could be sped up substantially while still devoting ample time to the critical issues. The committee included seven senior officers whose time was very valuable. By cutting their ALCO time by a couple of hours a month we reduced resource costs as well as speeding up the decision-making process.

Time-consuming processes usually involve money-consuming activities. Speeding up work sometimes costs money but more often reflects greater efficiency and thereby saves money.

KEEP IT SPEEDY

After your speed improvement efforts have borne fruit, other issues will come up and need your attention. But go back once a year and review opportunities to improve speed. Processes may change. New employees may have new insights. Old employees may have learned from past efforts and may be able to apply their experience to what had previously been unsolved problems. Without regular review your business functions will slow down. Don't let that happen.

Keeping your processes speedy will reduce risk, but it may not be enough. The next chapter examines how diversification can impact your company's risk.

WORKSHEET FOR CHAPTER 11

List the most critical processes in your company, then check the ones in which faster execution will give you the most benefit.

Book Summary

The Flexible Stance: Thriving in a Boom/Bust Economy

By Dr. Bill Conerly

Visualize a baseball game. A fast runner is on first base, looking to steal second. The runner takes a lead, then plants himself in a flexible stance. He's ready to run in either direction: to second base if he gets a chance to steal, or back to first base if the pitcher tries to pick him off. Using that stance in business is the subject of this book.

The economic outlook is uncertain—this year and in the future. Economists failed to predict the recessions of 2008, 2001, 1990 and 1982. Technology is changing faster than ever before, forcing businesses to confront different consumer demands as well as new production processes. Social attitudes also change faster in a more connected world. Gay marriage, marijuana and “pink slime” are all cases where public thinking changed rapidly. On top of these issues, government policy has moved in unprecedented directions, with highly uncertain results.

The flexible stance is hard for business leaders, who usually rose to top positions using the sprinter's stance: focus on the tape 100 meters away, looking neither left nor right. Traditional corporate planning tries to develop the one perfect forecast of the future, then optimizes the company for that scenario. Unfortunately, the future often does not cooperate.

Techniques for a more flexible stance include evaluating everyday decisions with an eye to whether they enable adjustment to change or inhibit adjustment. Contingency plans should be developed for both upside and downside possibilities. Faster execution reduces risk. Sometimes—but not always—diversification can increase flexibility. The successful business leaders of the future will be humble about their ability to predict the future, but aggressive in developing flexibility to thrive whatever the future brings.

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Connecting the dots between the economy . . . and business!

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