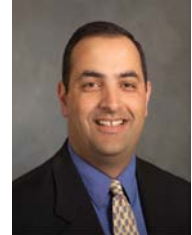


Things may never be the same again – the “new normal”

By Ronen Shefer, CEO ROCG Americas



Recently several economic experts have begun predicting an economic recovery, some even as early as this summer. Why this optimism you ask? My guess it's a bit of “no news is good news”: with fewer bad news reported lately, some are thinking we've hit rock bottom and there's likely no way to go but up.

Certainly things will get better, but you need to keep in mind that while the economy will recover one day, things may never be the same again. This is not a pessimistic statement rather an acknowledgement that, at least for a while, people will not repeat the mistakes of the past. This recession, unlike previous ones, has served as a loud wakeup call to large businesses, small businesses and consumers at large.

The party is over; you can no longer leverage yourself to success betting on inflated values and unlimited growth. Instead you must build an efficient business model predicated on sound financial principals and clear strategy.

A new business environment

If you emerge from this recession intact, you will probably do so with less competition than you had 18 months ago, credit availability will remain tight and government will play a larger role for several years by driving demand and imposing regulation. It is likely that the world will become even flatter, as customers extend their reach globally in order to satisfy their raw materials, supplies and energy needs, and this could present an opportunity to some North American businesses.

As a business owner, you must also recognize that the “age of aggregation” is coming on the other side of this recession: where companies will look to maintain their core competencies and intellectual capital and outsource the rest. It will no longer be sustainable to own all the processes (sales, customer service, bookkeeping, transportation, service, etc) and companies will continue to increase their need to outsource non-essential elements of their business to stay competitive.

Changes to how you run your business

Successful businesses that are able to survive this economic downturn are likely to reconsider their business model now and come out of this recession leaner, flexible, financially focused and somewhat risk adverse. In other words, they will not make their strategic decisions based on the availability of credit but on the merits of clear strategic decisions and sound financial management. What this recession taught us is that “cash is king”, and those who run their businesses with financially sound

principals (low debt, maximizing return on assets, etc.) are the ones who are thriving now. In recent seminars sponsored by ROCG, we continuously encouraged business owners to rethink their old model of financing business operations and to focus on creating cash and strong balance sheets.

Consumer demand may never be the same for a while

Over the past 18 months over 12 million people have lost their jobs in North America or had their compensation or hours reduced to meet the slowing demands for products. While financial markets may recover over the next year, it is almost certain that the majority of displaced employees will not return to their previous jobs. In some cases their previous employer may no longer be in business but in the majority of cases, as discussed above, companies will likely adopt a more efficient business model which no longer requires the need for the same labor force as a year ago.

While these displaced employees take the time to retrain and enter the new growth economies of green energy and healthcare, we are likely to see continuing lowering consumer demands and discretionary spending. Furthermore, the average consumer's recent scars from this downturn and unemployment may last several years past the financial market recovery; some even predict a full recovery in confidence may not occur until the next generation, for those who did not experience this recession.

Thriving in the “new normal”

All of this may sound like more bad news, but this is the perfect time for you to review your business with the help of advisors since you probably have some free time on your hands. Preparing for the “new normal” will require you to redesign your business processes, validate your financial model and clearly define your value proposition (“why people should buy from you”). The last thing you want to do is rest on the fact that one day things will go back to the way they were, because they won't! They can't – the leverage model of 10 to 1 will surely lead to collapse again, right? So unless we hope for recent history to repeat itself, we should prepare for things to never be the same again.

Ronen Shefer is the CEO and co-founder of ROCG Americas – an international consultancy group focused on privately-owned businesses with knowledgeable experts ready to assist owners on how to transition through challenges, meet their strategic objectives, and maximize their business value. Ronen can be reached at 616-575-9210 or ronen.shefer@rocg.com

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