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Grow Stronger During the Economic Downturn

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Reposition Your Business To Survive Now and Thrive in the Future

In this economic downturn, it's an unfortunate reality that many companies are failing, unloading assets and trimming staff. But there could be a silver lining; it might be the perfect time to take advantage of opportunities such as acquiring a struggling rival, hiring fresh talent, or building market share.

If your business is financially healthy, focus on opportunities like these that will help your enterprise pursue its strategic agenda and bolster its competitive position:

Making Acquisitions

As companies close up shop, restructure, and pare back operations, your business may find acquisition opportunities at fire-sale prices.

If you find a business attractive and find out it is having problems, you might want to make an unsolicited offer after some due diligence. Don't be surprised if it is initially rejected. Be prepared to negotiate, even in this economy. But in many cases, a struggling enterprise may welcome a bid as a preferable alternative to foreclosure and being left with nothing. In fact, companies may even approach you with offers to sell.



Changing Strategy

In a recession, companies often need to be more flexible by adding products and services -- or even re-inventing themselves. Examples include:

- A company that normally accepts only high-end remodeling jobs may begin doing repair work.
- A business that finds its exports to one country drying up might look to other international markets.
- A home-building contractor with shrinking jobs could begin refurbishing foreclosed homes in disrepair that banks are looking to sell.
- A gourmet restaurant could reinvent itself as an informal, less expensive family eatery.
- A metal manufacturer, faced with an industry-side slump, could switch its emphasis toward bidding for government infrastructure projects.



"We are managing the operating and competitive fundamentals of the company not only to get through these challenging economic times, but to emerge as a better and more fit competitor."

-- 3M CEO George Buckley at the company's annual meeting. At the meeting, 3M eliminated free lunches and goodie bags. On the plus side, the company raised its quarterly dividend for the 51st consecutive year.

Bankruptcy proceedings can also open opportunities. The problems of bankrupt companies not only make them potential acquisition targets, they may open avenues for competing suppliers if a court-ordered restructuring forces customers to find new sources of goods and services.

When considering takeovers, keep in mind that you might be able to take over only *part* of a company. Businesses trying to stay afloat may be willing to sell distribution systems, factories, machinery, product lines, and other assets at prices you wouldn't normally expect.

To beef up its fleet, one large moving and storage company sent an employee to bid at auctions for large trucks that were in good condition or needed only slight repairs. After

acquiring the vehicles cheaply, the company painted them with its colors and logo.

Another alternative is to move into vacated outlets. In the restaurant and retail industries, for example, taking over a closed site with the basic infrastructure already in place may be a way to quickly and inexpensively expand. The current surplus of vacant space provides unique opportunities for expansion.

For example, restaurants can convert a competitor's closed site to their own brands for at least 20 per cent to 50 per cent less than building from scratch, analysts say. One restaurant chain even created a "SWAT Team" of construction, operations and other professionals who complete changeovers in about six months.

An added benefit is the potential to negotiate lower-than-typical rental terms. As landlords struggle to fill real estate that isn't generating income, your company has a bargaining advantage.

Another asset to consider acquiring is a failing company's intellectual property. After receiving court approval, Systemax Inc. recently agreed to buy the trademarks, brand and Web site of bankrupt Circuit City for approximately \$14 million.

A customer list with contact information, acquired from a failed competitor, can be used in marketing e-mail blasts, direct mail and sales calls.

In addition, some companies may want to shed some accounts so they can focus on their core businesses. A printer with 400 accounts may want to concentrate on large commercial accounts and look for an enterprise to take over 175 smaller jobs. In turn, those customers may be just what another printer needs to grow.

Of course, not every closed outlet, asset or failing competitor is suitable and mistakes can be costly. Your business advisers can help determine if an acquisition or location complements your business goals and can guide you on how to maximize and integrate new assets.

Gaining Market Share

When competitors fail, your business could be ready to fill the void their customers feel. The closing of Circuit City is providing rivals with added business at a time when consumers are looking for electronics to use at home and cutting back on other forms of entertainment.

Spend your marketing dollars wisely to promote your business as the best alternative to an out-of-business rival.

Consumer dynamics were also in play when retailer Linens 'n Things closed. Competitors in the housewares market gained customers as demand increased for cookware, small appliances and other household items people were buying to enhance the experience of spending more time at home.

Tapping The Jobless Rolls

The current number of unemployed workers make up a pool of talent waiting to be tapped. The skills available these days run the gamut from warehouse workers to top level managers. Unemployed people are visiting job fairs and inundating businesses with resumes. Thousands of employees of Chrysler and GM will soon join their ranks after the recent news that nearly 1,800 dealerships are closing.


Take a look around your enterprise to gauge whether there are any weak spots you can plug with new, skilled employees. Your company may even be able to save money when negotiating salaries with individuals desperate for work.

One note of caution is to take extra time to screen resumes and pay close attention to applicants' career goal. Avoid hiring someone who is simply looking for a paycheck until the economy recovers.



For more information or to discuss your business strategy, contact Jim Dunn at jdunn@lumsden CPA.com.

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