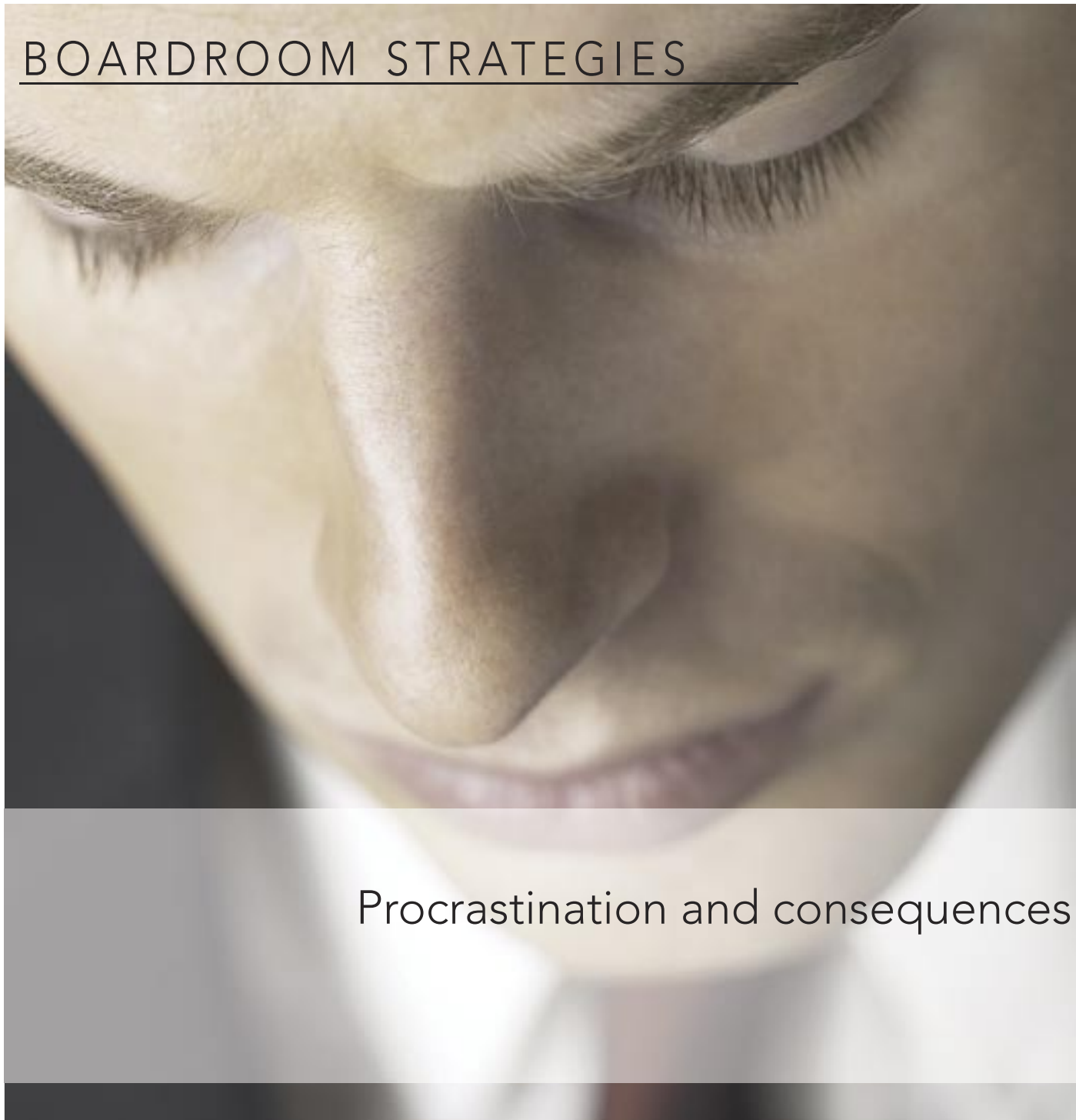


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Procrastination and consequences

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Procrastination and consequences

BY RONALD A. NORELLI

“Owing to past neglect, in the face of the plainest warnings, we have now entered upon a period of danger greater than has befallen Britain since the U-Boat campaign was crushed... The era of procrastination, of half-measures, of soothing and baffling expedients, of delays, is coming to a close. In its place we are entering a period of consequences...”

Winston Churchill, November 1936

Churchill spoke to the House of Commons in the aftermath of Germany’s reoccupation of the Rhineland. All it would have taken at the time to force an immediate German retreat was a commitment by Britain to provide diplomatic support for a French counterattack. That commitment never came. The consequences would prove catastrophic.

How does it happen?

Churchill’s warning following Germany’s march into the Rhineland may be an extreme example for an editorial commentary about strategic management. Though perhaps small in comparison, the consequences of a failed business are serious to particular owners, employees, and communities.

Business crises can result from prolonged periods of deteriorating performance, denial, wishful thinking and indecision. Such businesses must eventually confront the consequences of inaction, which can be severe. The reasons for a company’s inertia can be many.

- Refusal to rethink cherished beliefs, such as quality “costs too much” or that the only route to prosperity is to get bigger
- Failure to see dramatic changes in customers’ perception of value
- Underestimating a renegade competitor that isn’t playing by the rules
- Unwillingness to restructure or discontinue some major activity
- An ageing chief executive or family patriarch who won’t let go and facilitate the transition to a new generation

- Paralysis caused by dysfunctional relationships among executives and/or shareholders

“In the face of the plainest warnings”

Britain’s procrastination could not be blamed on any lack of clear and timely data.

Intelligence reports were available, comprehensive, accurate and known at the highest levels of government. Sadly, the same is true of many troubled businesses. In fact, the quantitative symptoms are very recognisable and usually unmistakable.

Loss of market share without a credible and justifiable reason. While market share decreases, profitability and cash flow can still look good, leading to a dangerously false sense of security. ‘Half-measures’ and ‘soothing expedients’ result instead of decisive action. In several more years the consequences always hit in force, and by then, the price to be paid usually is painfully high.

Sales growth without profit growth. Increasing sales co-existing with decreasing gross profits is a classic characteristic of businesses in trouble. Whether because of price cutting or rising costs, the sales growth actually makes things worse if the added volume doesn’t earn the cost of the incremental capital required. Alas, strategies to ‘grow our way out’ often fail, and yet are typically the only alternative considered by managements mired in procrastination.

Decreasing gross profit margin – weakened competitiveness and eroding value proposition. Small year-to-year declines can accumulate into something more threatening. Typical responses are again ‘half-measures’ – cutting costs rather than addressing the fundamental causes of what will ultimately lead to a serious erosion of competitiveness.

Declining asset productivity – a serious warning sign often unnoticed. Declining

sales per dollar of investment coupled with a precipitous drop in return on investment indicate an unmistakable era of procrastination. Such a business is in a downward, self-liquidating spiral – not earning the cost of capital, and thus no longer able to afford the investments needed to stay competitive – an impact totally missed by fixating on EBITDA as a performance measure. Consequences always include deteriorating net operating cash flow, rising debt and an eventual liquidity crisis.

The intangible signs are equally as important

Intangible warning signals are usually more difficult to see, but equally crucial.

Repeated failures to meet sales and profit targets. This symptom is especially insidious when shortfalls in one year are followed by ratcheted-down expectations for the next, and so forth. Willingness to lower performance expectations and then tolerate failure in meeting reduced standards prolong the agony.

Lack of accountability radiating from the front office. Procrastination can only be broken when management accepts responsibility for performance and stops blaming the economy, the competition, the government, the customers, the minority shareholders, the directors, the lawyers, the accountants, or the weather.

The ‘Deadly Ds’ at the top – denial, distractions, and delay. A company’s physical environment can provide clues, but the best insights come from the employees themselves. They usually see the true problems. They are usually eager to talk to someone – anyone who will listen.

Management stalemates, no succession, key positions filled with mediocre or weak performers. In such cases, a company’s ability to act is extremely limited, and the era of ▶▶

procrastination will not end until issues are resolved.

Disruptive influences and hidden agendas. These forces can perpetuate organisational paralysis, sometimes deliberately. They must be identified and confronted as part of a plan to bring an era of procrastination to a close.

Lack of respect for the financial function. Procrastinating top managements often do not listen to their chief financial officers and can even turn on them for not being 'team' players as the numbers deteriorate. Beware CFO turnover.

Executives are human

Anticipating, even initiating change is the essence of good strategic management. Thus, it shouldn't take the threat or reality of a crisis to bring about positive change in a business. But people aren't perfect. When too close to a situation, individuals are unfortunately very susceptible to hanging on too long to past successes in vain attempts to avoid the uncertain pain of change.

The good news is that it is possible to cut short these destructive eras by taking timely, decisive action. The case of ARGO Foods provides an example of a middle market company successful in cutting short the unfortunate consequences of procrastination.

'The case of the suspicious strategy': ARGO Foods

ARGO Foods, a regional manufacturer of consumer products, was a well-regarded force in its industry. It was suffering from several consecutive years of unsatisfactory financial performance. However, the company appeared to have been reasonably effective at executing a defined strategy. It turns out the problem was the strategy itself.

Management at ARGO Foods was at a loss to explain the company's lacklustre financial performance. Sales were growing, the

plant was operating at full capacity, and a major competitor's exit from the market had all created opportunities to capture market share with the industry's giant chain stores. ARGO's sales force was superb and had a seasoned and cohesive management team. The 'right answer' seemed obvious – accelerate execution of the strategy already in place by doubling capacity to meet the exploding needs of the major strategic customers.

But something wasn't right. Morale was slowly but steadily deteriorating. Employee turnover was increasing. While operations were marginally profitable, the company had failed to meet its financial targets for three straight years, resulting in no bonuses for anyone. With increasing debt and higher interest costs, ARGO had lost money in its most recent fiscal year and the current ESOP valuation reported a decline in share value.

Despite technical violations of its existing loan covenants, the bank was ready to finance ARGO's expansion. Fortunately, one outspoken outside director insisted upon an independent assessment, which produced several revelations:

- Price erosion on those products with the highest growth rates had been far greater than previously realised.
- Fully costed, the gross margins on these 'high growth' products were either non-existent or so low as to make acceptable returns on investment impossible.
- An increasing percentage of capital, labour and organisational talent was devoted to manufacturing these low margin products at the expense of higher value-added specialties.
- ARGO's market image had become clouded. In the words of one leading customer, "They're in no-man's land – not competitive on volume products and no longer distinctive in the specialty niches."

ARGO's procrastination came to an abrupt end with the adoption of a new strategy which:

- Pursued a strategic alliance with a focused commodity producer that needed ARGO's account relationships and sales force. This alliance permitted ARGO to devote its internal resources to higher value branded products while still satisfying customers' full-line requirements.
- Strengthened internal capabilities to develop specialty products and targeted two categories where there was opportunity to dominate the market.
- Recruited additional marketing management talent with a track record in the specialty products.

The results were dramatic. ARGO exceeded its financial forecast the next year, reduced its debt, improved its relationships with its best customers, and rekindled management's unity of purpose. Bonuses were paid, the stock value rose, and smiles quietly returned to employees' faces.

Conclusion & reflection

Churchill would later reflect on World War II, "There was never a war in all history easier to prevent by timely action." All too often, the same can be said about business crises that careen out of control. The 'plainest warnings' are the numbers themselves – declining gross margins, unprofitable growth, and insufficient asset productivity. Intangible human signs – no accountability, shrinking expectations, defections, denial – are often more telling.

When procrastination gives way to action, the damage of delay can still be minor. Consequences surrender to opportunities – growth, greater competitive success, renewed spirit and sense of mission, and increased value for shareholders.

Ron Norelli is founder and chairman of THE NORELLI GROUP, LLC.

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