

TRI-CITIES

KANE COUNTY CHRONICLE

#1 SELLING DAILY NEWSPAPER IN CENTRAL KANE COUNTY — SINCE 1881

Heart attack analogy helps businesses get to bottom of woes

Several years ago, I was asked to help a 100-year-old manufacturing company that was having a “heart attack” — and didn’t even know it.

Its banker had refused to loan the company any more money. Paying the payroll was becoming more difficult every week, and some key suppliers had become very nervous.

The owner felt the company’s only serious problem was the lender’s poor attitude about his business’ temporary difficulties. He told me while the company wasn’t perfect, it was obviously “healthy” because it had been around for 100 years.

After some investigation, the cause of this company’s problems became clear. It had changed its “exercise” routine a few years earlier.

Several key managers apparently had lost interest in the business and were no longer doing the things that had made this company successful. As a result, manufacturing had suffered, with quality going down and costs going up. At the same time, a major competitor had come out with new, innovative products and packaging that were being well received in the marketplace. Sales and market share had fallen, while operating profits had turned into losses.



Borrowing more money would be simply a Band Aid. What this company really needed was major surgery.

Fortunately, we were able to help the owner to quickly transplant several of the key managers, amputate some unnecessary expenses and resuscitate the product line before these problems could prove fatal to the business. Other companies aren’t so fortunate.

Thanks to the American Heart Association, many of us know the warning signs for a heart attack in a person. But how many of us ever really think about the chances of a heart attack in our business? While no list could ever be complete, a partial listing of business warning signs should include:

- Management doesn’t understand why profits have been shrinking for the last several years and is uncertain how to reverse the trend.
- Competitors are consolidating or making major changes in products and distribution channels while management sits still.

- Suppliers are threatening to stop shipping critical items because of slow payment.
- Investment in new equipment and R&D has been declining, while the amount of slow-moving inventory and hard-to-collect receivables have been increasing.
- Key employees seem to be losing faith in the business or already have left the company for better opportunities.
- The business always is short of cash.
- Failing to make loan payments on time and not meeting promises of improved operating results have strained relations with the company’s bank.
- The company has thought about filing a Chapter 11 or Chapter 7 bankruptcy petition.

What should you do if you think your business might be suffering a heart attack?

The first step is to react quickly. Paramedics use ambulances and sirens for a reason. Time is important. Further, even minor illnesses, if left unattended, can lead to major health concerns down the road.

Help *(continued from page 1)*

Secondly, you need to make sure you're treating the cause and not just the symptoms. In some situations, such as when a business is experiencing strong, profitable growth, more bank financing might be all that is needed.

However as the above example shows, that's not always the case. Sometimes this can be relatively easy to determine, while in other cases, this might require investigation by a specialist.

The third step is to make sure you follow the doctor's orders and take all the medicine. Like a human patient, a business that suffers a heart attack needs to complete its entire rehabilitation program before it can say it truly has recovered.

Finally, the business needs to develop and follow an ongoing program of exercise and monitoring, to ensure a "heart healthy" future.

James E. Rudnicki *is the president of Rudnicki & Associates LLC, a consulting firm in Sugar Grove that specializes in helping the owners of financially troubled companies turn their businesses around by making the right strategic decisions. He can be reached at (630) 466-0284 or JERudnicki@RudnickiAssoc.com*