

## He Who Hesitates Is Lost (Crisis Warning Signs)

By Steve Hancox and Leonard Eppel, Winter, 2015

If you own, manage, lend to or invest in a company, or serve as a director, you have a responsibility to be alert to the warning signs of trouble. It didn't take our thirty-five years of experience at FRA to learn that Crisis Management yields far better results when deployed early rather than late.

The recently discovered embezzlement at Frisch's is not expected to destroy the business, but it has the potential to cause a shake-up of senior management and the Board of Directors. Theft is not the only potential cause of a crisis. Any deterioration in the profit or net worth of a business (fast or slow) reduces shareholder value and can be a warning sign of impending doom.

The risk is not just internal. Customers tend to share their illiquidity with their suppliers. That is not a form of sharing that anyone wants to be a part of. It is important that managers, owners, bankers, investors, and even key vendors pay attention to Accounts Receivable collections, so that someone else's problems do not become your own.

Time is the single most important variable in addressing a crisis situation. The longer a problem festers and grows, the greater the damage. Every company has a finite ability to withstand damage, beyond which a correction is no longer possible.

We have noticed that business cycles and even differences among bankers' processes can lead to significant delays in recognition of significant problems, which reduces the pool of potential corrective actions. Senior Management and business owners should be in the best position to spot trouble early. However, they often fail to do so. Sometimes they see the problem, but action is delayed due to denial, fear, optimism or other factors.

This is no time to be indecisive. Nor does it tend to be a forgiving time. Companies facing a liquidity crisis cannot afford to make mistakes with their creditors, bankers, vendors, customers, or investors. If there isn't enough money to pay all of the bills, the worst thing one can do is to pretend there is. Crisis Management requires a specific strategy that is separate and distinct from business as usual. Failure to realize this, or failure to get professional help on a timely basis, can only increase the damage the crisis will cause.