



Three Elements of Success

Strong management teams distinguish themselves in an economic downturn with vision, precision, and urgency.

by Mark D. Working

In times of plenty, most privately held companies do well, or at least well enough. It seems that the rising tide of economic growth raises all boats, often with little discrimination between mediocre, good, and great firms. This has been the environment in which businesses have operated for the last decade. But now the tide has turned—revenues and margins are under pressure, and capital availability has tightened. Some of the cushion is gone. Fundamentally, an economic downturn cleanses investment mistakes and overindulgences that are the product of a long expansion. It is at these times that the best

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management teams distinguish themselves. In our experience, there are three traits that characterize strong management: vision, precision, and urgency.

VISION

Vision, as displayed by great economic revolutionaries such as Bill Gates, Jack Welch, and/or Warren Buffet, is not required. Prescience about the evolving order of the economic universe is not necessarily a critical ingredient of success in a medium size, privately held business. However, it is necessary that managers have a clear sense of the factors that drive growth within their particular market and the forces that potentially could alter the current pattern. Managers should understand who their competitors are, and how and why their company fits into the market. It is this perspective of the economic environment that is typically the basis for a well-formed vision of how the market works

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and the business model that is likely to lead to a competitive edge.

A good example of such vision was demonstrated by one of our clients in the flexible packaging industry. This \$50 million company's managers had a strong grasp of the dynamics of the market in which they competed and recognized that the competitive environment was changing as major consumer products companies consolidated. They believed that their company either needed to be smaller with a regional or niche focus, or much larger with scale and national coverage. The issue was not a matter of potential lost opportunity, but rather

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survival. They acted on this knowledge and secured a major international partner who could assist with capital and global business relationships. The clarity of this vision was rewarded by an eventual sale to a multi-national company that valued the strategic

position that had been created.

PRECISION

A frequent weakness in privately held businesses is the absence of detailed attention to business metrics. As a result, important decisions are predicated on gut instinct and/or industry rules of thumb, rather than hard data and careful analysis. Management teams who know the profitability of business lines, products, plants, and customers, and are aware of how their capital is employed and how effi-

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ciently it is being used, are better positioned to react intelligently to changing conditions.

We've seen companies that really stand out in this area, such as one Alaskan seafood processor and a major regional solid-waste company. Both of these firms are obsessed with the "numbers" of their business and have a keen appreciation of the "math" associated with creating value. In the first case, seafood processing is a highly competitive, low-margin business. Accordingly, the ability to know real-time costs in a dynamic market environment has provided an edge. In the latter case, business value is largely a function of negotiating profitable long-term service contracts. Detailed knowledge of, and the ability to monitor, operating costs and service levels are critical to success. When this company changed ownership, it was viewed within the industry as a jewel, for both its financial and service performance, as the result of an unwavering attention to detail.

URGENCY

In contrast to the penchant for orderliness, an ever-present element of controlled chaos often is part of the culture of a well-managed business. The best managers know when to take risks and aren't afraid to make a bit of a mess. They approach opportunities

with energy and a sense of urgency, confident that it will get cleaned up later. They realize that a business cannot move forward without growing and changing, and that opportunities rarely present themselves at exactly the right moment.

Management teams who have a well-

defined vision and a good handle on the business metrics can afford to energetically pursue improvements in their businesses. These managers build corporate cultures that are focused on the creation of value and, when faced with economic challenges, are better able to weather the storm. ♦



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Zachary Scott is an investment banking and financial advisory firm founded in 1991 to serve the needs of privately held, middle-market companies. The firm offers a unique combination of in-depth knowledge of the capital markets and industry competitive dynamics, sophisticated analytical capabilities, and proven expertise in structuring and negotiating complex transactions. For more information on Zachary Scott, please go to ZacharyScott.com.

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