

How to Survive in the Current Economy

By: Gary G. Wackerlin
Director
Verdant Partners LLC

April 30, 2009



The current economic conditions are unlike anything I have witnessed since beginning a career in the banking industry in 1972. Over the span of my career, I have seen the prime rate hit 13 percent (mid-1980s); the failure of nearly 750 savings and loan institutions at an estimated cost of \$160 billion (late 1980s – early 1990s); the DJIA hit a low of 600 (January 1975) and a high of 14,000 (October 2007); and the tremendous consolidation of the banking industry (1980s and 1990s). At no time during the past 37 years have I witnessed such a total assault on our economy as there is today.

This assault affects all facets of our economy:

- Approximately 8 percent of U.S. workers are unemployed, a figure that could reach 9-10 percent.
- Approximately 20 percent of all mortgages have a loan-to-value ratio that exceeds 100 percent. According to current surveys, about 13 percent of Americans feel that they are unable to pay their debts.
- Consumer confidence has been at an all-time low. Consumer spending may never return to previous levels.
- The government/taxpayer rescue plan is too large to comprehend and its impact will be felt for generations to come.

Such economic turmoil is occurring all over the world. U.S. Treasury Secretary Tim Geithner says, "Never before in modern times has so much of the world been simultaneously hit by a confluence of economic and financial turmoil such as we are now living through." Sobering news reports flood media outlets every day. While

writing this article, Chrysler filed for bankruptcy and General Motors is unveiling a plan that would give the federal government majority ownership of the company, eliminate the Pontiac brand, and cut another 21,000 jobs by next year. On the health front, the potential Swine Flu pandemic is predicted to have additional world economy implications and threaten food prices. There seems to be no way to escape endless hours of negative media coverage, heavy on finger pointing and light on solutions.

Business owners and leaders must stay focused on how we manage through the storm and keep a positive attitude. As difficult as it is, we must focus on things we can do something about, and not worry about those things beyond our control. Our need to survive should cause us to refocus on our strengths, our relationships, our tolerance for risk, and our ability to sustain our businesses in a changing economic environment.

At Verdant Partners, we are consistently interacting with clients who want to sell their businesses, make strategic acquisitions, or in some cases, undertake a comprehensive evaluation of their business. Inevitably, it is leadership that distinguishes one business from another.

How do you learn to lead and manage effectively, especially in these difficult economic times? One way is to network with effective leaders to discover their approach to leading and managing. I recently had an opportunity to sit down with some effective leaders to find out what their businesses are focusing on in this difficult economic period. Although the businesses may differ from yours in terms of size, maturity, and market strength, their leaders may offer some wisdom that could be helpful in leading your own company through these unsettled times.

An owner and president of a successful regional seed company said that his driving focus is to stick to the mission that has made the company successful over the years. Every decision is based on producing a quality product that performs consistently and has exceptional value. Staying true to this mission drives every aspect of the business, regardless of current economic conditions. This may seem conservative to some, but this is the way the business is led. Because of this, research and development of new products is not compromised. Much of the competition wants to take the focus off performance and put the focus on price, but that is not what happens here. The constant focus is on providing products that provide simple solutions to complex situations, to make product selection simpler, and offer customers more options to finance their purchases. The risks associated with being in the seed business have increased as technology has driven prices higher. Margins must increase to offset this increased risk. Every decision is made by staying true to the mission and not relenting because of competition or short-term economic conditions.

No industry has been under more scrutiny than our banks. An executive of a \$4.5 billion bank, located principally in agricultural areas, looks at the current economic situation as a catalyst for action. Instead of retrenching, this leader thinks this could be a great time to look at new opportunities through acquisition. Capital can dictate how you approach these opportunities, making banking relationships essential. He recommends that you keep your bank at the top of your relationship list and, in fact, turn the relationship around. Treat the bank as your customer, giving them more than requested, even if not in a current borrowing position. In order for your bank to be an asset to your business when needed, they need to understand the way the industry works, and they need to understand the details of your business. It is an essential partnership that needs to work together, especially now.

A distinguished professor in agriculture who works with many private companies agrees. Managing credit flow is essential, and lenders must deeply understand your business. Also, in addition to acquisitions, look at opportunities for supportive partnerships and alliances focused on taking care of customers.

The managing director of a company making acquisitions in the agriculture sector, (including seed companies) on behalf of investors offers some additional perspectives. The status quo does not make sense any longer. You have to focus on all pieces of the operation, even the smallest. You have to be more thorough and more proactive in managing the business. Formalized budgeting, evaluation of accounts receivable, evaluation of suppliers, and planned versus generic marketing strategies are examples of this proactive management. Again, making sure credit lines are available insuring liquidity, is essential in this economy. These are all areas to look at in managing through the current economic conditions.

There are many lessons to be learned in leading and managing our businesses through tough economic times. The great news is that we can become stronger and better positioned to lead in the future.

Verdant Partners LLC is a leading investment banking and consulting firm specializing in the global crop genetics sector. With over 300 years of combined experience in all crops and in all phases of the international crop genetics industry, as well as in other sectors of agribusiness, Verdant's investment banking and consulting skills are sharply focused and experience-based. Each of Verdant's principals has senior management experience in leading agribusiness companies. Together, Verdant has initiated and managed transactions and alliances valued in excess of U.S. \$1.5 billion. ■