

DON'T EAT THE SEED CORN

By: Robert S. Sher

Recently I went into a store to purchase a sports jacket but they didn't have my size. It seemed odd as I have frequented this shop for many years and I have always found my size.

My son, Jonathan, shared with me a similar tale. Jonathan, who runs Compeople, a computer installation, repair and IT support business, went to an office supply store a few weeks ago to pick up some ink for his home printer. The inventory was so sparse he left empty handed.

While I certainly advocate running your businesses as lean as possible, I am puzzled by business proprietors who reduce inventory, overhead staff, and spending so drastically that they may not survive.

It reminds me of the analogy about seed corn. At some point in the early years of many agricultural settlements, there were times when the crops did not produce enough food to last a winter. To keep from starving, some settlers would start to eat the seeds they had been saving to plant; however, when spring arrived, the settlements had no seeds. As a result, there would be no harvest that year and the people who were depending on the food to grow would begin to die of starvation.

If you want to survive the tough times, don't eat your seed corn.

Business is based on profits which are like harvests. Investments are like seed plantings. Producing profits requires investments and the more investments you make today, the better your chances of profiting in the long term.

I would advise all of you to be prudent before bringing down the ax. The downturn has made it easy for company leaders to become obsessive about making cuts, yet cutting too much could cause you to fail before the economy pulls out of this recession. Massive cuts can make it impossible to keep up with customer needs. Companies that take such drastic measures often fail long before economies pull out of a recession.

I recommend the following to keep your business profitable in the long term:

- Modify your business plan. If you do not have one, the time is now to get it done.
- Take the time to do some strategic planning.
- Make sure you have enough inventory to keep customers happy. Don't deplete your inventory to the point where you cannot do business.
- Never sell out your inventory.

- Consider eliminating lines, products, services that are less profitable than others. If this results in terminating employees, it will not impact the remaining lines, products and services.
- Get into survival mode. You can no longer serve your customers with products that are not profitable.
- Don't cut staff so much that the people who work for you cannot do their jobs effectively.
- Don't cut marketing budgets so no one knows you are still in business.

Remember what happened to Sunbeam when its Chairman downsized the company to boost stock in the mid-90s? Wall Street applauded his actions at the time but, within two years, the company was nearly broke. The Chair was fired and the company filed for Chapter 11 bankruptcy protection in 2001.

Slow down. Ignore all of the pressures to achieve excessive levels of profitability right now. Invest in your future. If your business is going to succeed in the long term, you cannot eat the seed corn. In doing so, you will have nothing to plant for the future. Take the grain, invest in crops, plant them and watch your business harvest and grow.

Robert Sher, CPA, is a Certified Executive Coach. Formerly CFO and partner for Schostak Brothers & Company in Livonia, Michigan, Sher has been a delegate from the Michigan Association of Certified Public Accountants to the National Future Forum working on the CPA "Vision" Project. Sher serves on the boards of numerous charitable and professional organizations. His Email address is: info@bobsher.com.