Short Term Survival Strategies

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In the current economy, it is hard to find any metal caster that has not been hurt. A number have closed and many more are at risk of closing. The only companies operating at normal levels are foundries that can produce very large gray and ductile iron castings – 30,000 pounds and up. That is due to the heavy demand for wind energy combined with the shortage of capacity. With automotive demand off 45% on average, class 8 trucks off 70% and rail cars off even more, many metal casters are wondering if they are going to survive. The companies in the best shape going into this recession with strong balance sheets and profitable operations are wondering how low they can drop production levels and remain profitable. Those who have a heavy debt load and marginal profitability are looking to survival strategies.

In this type of economy, profits don't count. Cash does. Short term survival strategies focus on how to conserve and generate cash, sometimes at the expense of good long term management practices. Here are some tips on where to come up with cash. The sequence you use and priorities depend on the circumstances you find yourself in. This isn't the time to do one thing at a time. Multi-tasking is the order of the day.

1. **Collect accounts receivable**. Bringing cash in earlier not only puts the money in your bank account it reduces the risk of uncollectable accounts receivable. Be especially aware of your customer's financial condition. If any look to be weakening, tighten up credit even more. Do you have any customers with receivables at levels that would pull you under if they are not collectible? If so, pay especially close attention to them. Consider purchasing accounts receivable insurance, if your insurer will issue it. They have stopped insuring receivables from some automobile manufacturers.

2. **Reduce inventory**. Many metal casters frequently carry more inventory than necessary. Reducing inventory will generate cash very quickly. One medium volume iron jobbing foundry we know ships 30% of their production the same day it is cast (its ready to ship in 3 hours) and believe they can go to 70% of same day shipments. Imagine the cash you could generate if that happened in your company. Add up the actual time it takes from cast to ship and you'll be surprised how fast castings can move through the system. The key is to get the velocity going and keep it going.

3. **Right size the company early and often.** It is great if this can be done through attrition but a precipitous drop in orders will find you with a burdensome payroll in very short order. It really doesn't make sense to protect some employees and put the entire corporation at risk. A lot more employees may be hurt in the long run trying to keep everyone working in the short run. Don't forget to include salaried employees in this. This is the time for people to wear multiple hats. As a side note, it is also a good time to weed out those employees whose performance is not what it should be. Consider short weeks (four days instead of five) or alternate weeks working. Short term shutdowns may be appropriate with employees required to take their vacation time, if they are entitled to any.

4. **Raise prices**. You need to know the profitability of every part you make. It is hard to believe but you are better off without unprofitable customers than you are with them. The rationale of "absorbing overhead" just leads you into negative cash flow. Every customer needs to be truly profitable. Often, metal casters find themselves with a lot of customers who buy only a little. These customers should be highly profitable. Chances are castings are not a large part of what they purchase and they are not as sensitive to price as they are to delivery and quality. Very low volume parts should carry profit margin percentages three to five times the high volume parts.

5. **Reduce Scrap Levels**. Very few metal casters know the true cost of scrap. Sure, they know the energy and labor lost. Maybe they even appreciate there is metal loss in casting production. What they don't appreciate is the opportunity cost. You could have been producing a good part but weren't!

6. **Make sure you are productive**. Do you know the sales per employee? Does it meet or exceed industry norms? How can you make the company more productive? While this is important, it is not always a fast thing to do. Also, if it requires serious amounts of capital investment, now may not be the time to do it. Are breakdowns costing you production? Fix your maintenance department. We have seen some old equipment operating reliably when a talented maintenance department is responsible for keeping it operating. With a good preventative maintenance program, breakdowns are virtually non-existant.

7. **Liquidate anything you can**. What can you sell on your balance sheet? Is there excess property? Excess equipment? Even selling at distressed prices, the cash will do you more good than an unused piece of equipment sitting in the warehouse.

8. **Change management**. This may or may not mean changing them literally. It certainly means changing the mentality they operate under. There must be an awareness of profitability, cash flow and a sense of urgency. You just can't continue to operate the way you were. Anyone who can't adapt needs to be replaced, relocated or eliminated. Everyone needs to carry their share and, maybe for a short time, more than their share. Do salaried employees watch the clock? Not in times like these. If they can do that, you have too many salaried employees. If you are the President or Chairman, you need to honestly ask yourself, "I was in charge when we got to where we are. Am I the right person to take us out?" If the answer is no, you need to bring in a key turnaround manager.

9. **Reduce wages – especially yours.** If you are not contractually bound, a wage reduction may be in order, especially if you are paying wages high for your area. Make sure management wages are not above scale for the position and area you are in. It is very important that officer salaries are reasonable. Financial institutions look for the owners/officers of the company to contribute in some tangible manner to the success of the company. Eliminate bonuses. Cut 401k contributions and matches. Tell your employees that when business returns to normal you will return to normal pay structures.

10. **Stop capital expenditures.** While it is important in the long run to invest in equipment and processes, if you are worried about survival it is not the time to make capital expenditures – even on fast payback investments. Put construction in progress on hold, if you can.

11. **Consolidate facilities.** If you operate in multiple facilities, consolidate in fewer facilities and close or liquidate excess facilities. You may not have capacity you need when business returns but if you don't survive, you won't need the facility anyhow.

12. **Cut to the chase.** When we first started working in the metal casting industry we worked for a very successful foundry that often used the phrase, "cut to the chase." What they meant was, tell me what you need and what will happen after that. If I don't understand or if it doesn't make sense to me, I'll ask or tell you. It also speaks to a sense of urgency. Too often we see companies in special situations with a lot of reasons why you can't do something or why they are where they are. Forget excuses for the past. Focus on the future and fixing what is broken.

13. **Talk to your lenders – a lot.** Have a plan that makes sense and provide regular reports on your progress. Never, ever, surprise them. Believe it or not, right now lenders are as worried as you are. Sure, they are secured on the balance sheet but recent liquidation scenarios have been so bad that the security often doesn't have the value it shows on the balance sheet. The best thing you have going is your credibility. Lenders lend to people, not companies. Don't compromise your credibility by not informing them or hiding bad news. Once you lose credibility, lenders are going to be much, much more difficult to deal with.

14. **Get objective advice and a few kicks in the butt, if needed.** When we go into struggling companies, it is rare that they don't know what they are doing right and what they are wrong. Sometimes they even know the answer but are just not willing to take the steps to correct the problem. This is especially true when it's a people problem. Sometimes they don't know the answer such as in productivity issues, inventory management or general quality levels. When you are struggling you need to (a) identify the problem, (b) find the answer if you don't already know it and (c) take decisive action. Sometimes it takes tough love. If you don't know the answers internally, look to the outside.

15. **Put your own money in the business.** Lenders will be much more amenable to working with you and, perhaps, even increasing your loan if you put money in the business. This is especially true if you have wealth outside the business or have been taking significant amounts of cash out in the past. Put it in as a subordinate note secured after the primary lending source. They won't object to a subordinate note if it includes convents that protect them as the primary lender. A secured note from a related party usually precedes the unsecured creditors if it has been in place for over one year.

16. **Consider refinancing.** Of course, traditional lending sources (banks) are the best option. Rates are the most reasonable and you are normally dealing with local entities. Smaller companies may want to consider SBIC loans. These loans typically carry reasonable interest rates but at the expense of cumbersome reporting requirements. If traditional lending sources consider you too risky, look to the sub-prime lenders. The price will be high here – interest rates in the current market are in the low to mid teens with points up-front and steep back-out fees. A final fallback position is factoring your accounts receivable. This is a very expensive option. There are all type and size sub-prime lenders. One option to find one is to check with the Turnaround Management Association.

17. **Find an angel.** You would be surprised to learn how many metal casters have silent partners. Often they are synergistic companies (one we know of is a large gray iron foundry that invested funds in a smaller gray/ductile iron foundry saving it from going under). They can also be well funded friends or acquaintances. Typically, investment funds that consider turnaround situations are looking for companies with sales in excess of $20 million. Small companies don't often provide the tools to work with in a turnaround and the risk is not worth the investment. Small companies should look to people they know. If you are $20 million and up, look to the investment companies.

18. **Don't wait for tomorrow.** There may not be a tomorrow if you wait.