

Step back and assess: Time for a stress test



**RICK
BRIMEYER**
Brimeyer
LLC

He is president
of the Ames, Iowa,
consulting firm

I'll preface my comments by admitting that I'm fiscally pretty conservative, especially when compared to a sample of other business founders. With that said, I suggest it's time to take a step back and assess your organization's preparedness for the next downturn.

As I write this in mid-February, the current economic expansion is more than 100 months old, making it the third longest in the U.S. since 1854, according to economists from Goldman Sachs. That's 100 years old, in expansion-years.

Our now-codger expansion was of humble birth with his roots dating to the depths of the Great Recession in the middle of 2009. His early years were characterized with slow, but steady, growth due to the difficult conditions of his upbringing.

Others teased him for being puny, even inadequate. They compared him to his flashy, faster growing relatives of bygone days. His tormentors appeared to forget that his super-sized predecessors lived in a country with younger demographics and occasionally abused steroids in the form of excessive consumer credit to grow faster. They forgot that those steroids ultimately contributed to the Great Recession.

Through discipline and hard work, Mr. Expansion continued to grow. With age he even started to garner respect from many, gaining the nickname "Old Steady." He liked that.

He liked it so much, in fact, that it might have gone to his head. It's been rumored that Old Steady could have turned to steroids. Historically a teetotaler, he was reportedly a party animal on New Year's Eve and is said to be frequenting many bashes early in 2018.

His behavior has certainly freaked stock market investors, always a skittish group. Take the market's recent volatility as a cue that it's probably a good time to step back and assess what the impact on your organization would be should Mr. Expansion drop over dead next week while twerking with Miley Cyrus.

There are a couple of strategies to consider for completing that assessment. If your organization was prudent enough to collect lessons learned during the global crisis, congratulations! Now is a good time to dust off that list and have an honest discussion as to whether your current state is aligned with the recommendations of your prior lessons. Prioritize the adjustments required to bring the organization into alignment with those recommendations.

If your organization was formed after the Great Recession or no lessons learned were gathered, create your risk assessment and abatement plan. Start by identifying various scenarios that could arise should the economy turn south. Examples might be:

- What if revenues/funding/contributions fall by 10 percent? 20 percent? 30 percent?
- What if a major customer extends payments by 30 days?
- What if a major supplier goes under?

Assess the impact and the likelihood for each scenario and prioritize them based on the combination. Highly destructive scenarios with a reasonable chance of occurring better have a plan in place to abate the risk. The time to develop and act on that plan is while the sun is shining, not amid the fury of the storm.

It's human nature to expect that the good times will continue indefinitely. Behavioral experts refer to this as extrapolation bias. It explains why capacity is so often added right at the peak of the expansion. I can think of several

new facilities that sat vacant or underused for years, or were sold at bargain basement prices, after being built just prior to the global crisis.

Personal finance experts always advise on the importance of individuals having an emergency fund for those unpredictable, yet inevitable nasty life events such as a furnace failure or an appendectomy. Likewise, your organization should have an emergency plan in place for the next inevitable recession. Mr. Expansion will certainly not live forever.

RICK SAYS

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