

MID-IOWA BUSINESS

Embracing the next cycle

I received one of my most valuable economics lessons from a grey-haired, blue-collar technician while working in the Sauer-Danfoss (then Sundstrand Hydro-Transmission) test lab just weeks into my career. It was 1982, and the Iowa economy was entrenched in the farm crisis as deeply as a tractor that's lured too early into soggy fields. On a national level, the economy was still reeling from a tight monetary policy implemented in response to double-digit inflation that resulted from skyrocketing energy prices whose source lay in the Iranian revolution. With each day, the news got worse. As the least senior person in the facility, I was feeling particularly vulnerable.

"Wow, Leonard, what's going to happen?" I asked my older and wiser co-worker.

Leonard thought for a moment before responding.

"Well, it will get worse ... and then it will get better," he said.

Thus I received a lesson on the cyclical nature of economics that has stuck with me longer than practically anything I learned via my formal education.

The United States now finds itself at a more extreme point in the economic cycle. Depending on the industries served, however, where a given company currently finds itself in the business cycle varies immensely. If a business has practically anything to do with the planting, tending and harvesting of soybeans or corn, it is likely riding the wave of a perfect storm. Recession? What recession?

On the other hand, most businesses associated with lending, residential construction, transportation or con-



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sumer discretionary items have seen better days. Fortunately for Iowa, the same Midwestern sensibility that tends to discourage rampant speculation leading to market bubbles also protects us from severe downturns when these bubbles burst.

Nonetheless, the current bifurcated economy simultaneously places companies at each extreme of the business cycle and the majority somewhere in between. Regardless of where your business is in the cycle, it would do well to remember Leonard's words: Things will get better, and things will get worse. The question is whether your organization will be ready when the new conditions arrive.

For companies enjoying a market crest, now is the time to invest prudently in the future. Developing new products or services, as well as expanding markets for existing products all help to insulate the business from the next downturn. Service contracts, product upgrades and complementary products turn today's strong sales into tomorrow's recurring revenue streams. Focusing on increasing

the productivity of capacity-strained assets or resources may make sense, provided it can be accomplished without further stressing the bottleneck in the short term. Avoid hiring and spending capital like a drunken sailor. Keep in mind that employees hired or capital purchased to accommodate a market peak can become a huge liability as they establish the company's new cost structure and depreciation schedule long after that peak has passed. And it will pass.

With the exception of businesses in the deepest throes of a downturn (which probably got there by either under- or over-investing in the last peak), companies experiencing a market wane should prepare for the next uptick. Now is the time to focus on improving the capacity and flexibility of people and machines so the next rise in demand can be handled with less incremental hiring, overtime and stress. Improvements in training, maintenance and processes prepare the organization for better days ahead, typically without changing the company's fundamental cost structure. This is not the time to be laying off good employees who almost certainly will be required to meet the next upswing, especially if it can be reasonably forecast within the next 12 months.

My wise friend Leonard learned over the years to adjust his family's finances around the cyclical nature of our economy. Likewise, businesses that survive for decades master the ability to make the most of the current business cycle and prepare for the next.

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