

## Five Mistakes CFOs Need to Avoid in a Volatile Economy

An overwhelming 91 percent of finance leaders agree that the economic crisis is not yet over, and in fact may just be beginning. This was the finding of Tatum's October Survey of Business Conditions, based on responses from over 400 corporate leaders. The economy has reached a historic critical point, and business leaders face a daunting situation.

So how do CEOs and CFOs lead amid chaos? No one can predict the future right now, but Tatum's national Restructuring Practice has helped hundreds of businesses emerge from distressed economic conditions and they offer practical advice for avoiding certain critical mistakes during this time of extreme pressure.

### MISTAKE #1: THINKING THIS IS JUST A NORMAL DOWNTURN IN THE BUSINESS CYCLE.

It is not. With the credit markets virtually frozen, with no commercial paper market, and with the value of bank assets unknown we are in one of the most serious credit crises of our lifetime. Resolution of the credit shut-down certainly will not come from our elected leaders! This cycle is going to take the collective brain power of the country's financial and business leaders to solve. The Fed will be part of the solution, but it is going to take a long time for the consumer to get back into the market and begin spending again.

### MISTAKE #2: NOT SEEKING OBJECTIVE ADVICE

Remember the first point: this is not a normal cycle; now is the time to get objective advice rather than assume past techniques will work when the rules of engagement have shifted. How long can you continue your current course with no external funding? If the time line is short – you need to take action now! The ability of businesses to borrow for needs as simple as working capital is severely restricted. If you are planning to finance your inventory for the Christmas season – you will need to consider an alternate plan immediately. Proactively brainstorm with other business leaders and advisors with proven experience in tight situations, and be prepared to negotiate.

### MISTAKE #3: OVERREACTING... OR UNDER-REACTING

Don't rush into major changes without projecting the implication on your business model. Conversely, this is not a time to think that because business cycles always turn

around, that you can sit back and wait for the rebound. Challenge assumptions, create scenarios and think through the consequences.

### MISTAKE #4: POSTPONING "COLLECTING CASH"

With no cash moving in the credit market, the ability of customers to pay bills is decreasing. If it hasn't already, at some point this problem will reach your customers. The most important commodity is cash, and now is the time when you should be making sure that all accounts receivable are collected in a timely manner. Once a customer gets behind, he will not be able to borrow money to catch up and you will effectively be providing goods and services for free.

### MISTAKE #5: THINKING THAT YOUR STAFF IS NOT WATCHING YOUR EVERY MOVE

Your staff is looking for guidance from those they respect. The economic stress is heightened by the national stress of watching the increasingly negative performances on the national stage. Communicate with your organization and provide as much calming influence as possible through your words and actions. Constructive discussion will allay fears and help increase productivity. Don't forget: the unknown creates stress and anxiety that leadership must attempt to minimize.

### WHAT NEXT?

This is a time to demonstrate true leadership by learning from history and recognizing the need to adopt a new perspective. Tap into the intellectual capital of seasoned leaders to be sure you understand dynamics and focus on the most important priorities.

### ABOUT THE AUTHOR

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