



2013 ... Where Do We Go From Here? Finding Opportunities for a Profitable New Year

BY ROBERT D. KATZ AND MARC LEVEE

Despite ongoing economic concern throughout the U.S., Robert Katz and Marc Levee offer their thoughts on identifying opportunities to make 2013 profitable and prosperous. No question times might be tough, but your level of creativity will be one of the biggest differences between a mediocre or dazzling new year. >>



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The first decade of the 21st century has been described as the lost decade. The wealth and income of many Americans has fallen to turn of the century levels. President Obama promised positive changes but, by many experts, he failed to materially deliver. Don't get me wrong, many think that his predecessor, President George W. Bush was no better. And when you look to the current election, which by the time this article is published will have been completed, and evaluate both candidates: neither gives the public much sense for any great hope or optimism that

things are going to get materially better any time soon.

What we find the most ironic is the fact that through the first nine months of 2012, stock and market indices are positive yet optimism is sorely lacking. Businesses owners, professionals, doctors, entrepreneurs and corporate executives are flat out nervous. Their concern is that a small event, at any moment, could reverse any gains they have made.

And, until consumers feel confident the situation is improving and stabilizing, businesses will not be comfortable making significant capital improvements or capital expenditures. Political pundits have said, "Wait until after the election — there will be some better direction." Americans are asking in response, "With all the resources and brilliant people in the country, is this the best we can do?" If, as individual consumers, we are not comfortable committing to upgrades and improvements, then when will the confidence return for middle-market or Fortune 500 businesses where the owner, entrepreneur or president is willing to commit any significant resources for expansion?

Notwithstanding these concerns, there are a plethora of prospects on the horizon, as uncertainty has historically created opportunities. A college student recently told us: "There is a microscopically thin line between being brilliantly creative and acting like the most gigantic idiot on earth. So, what the heck — (prudently) leap!"

So, here are some thoughts about what to look for in 2013 to make it profitable, prosperous and opportunistic.

Creativity Generates Incremental Value

Whether you are a lender trying to put money to work, an auctioneer competing for your next appraisal or sale, or a lawyer, consultant or accountant facing hyper-competitive fee pressures, the ability to be creative is not only the

difference between winning an assignment, but also between a marginally and significantly profitable opportunity.

A particular lender was intrigued by what it saw in one of our clients as part of a refinancing transaction. To secure the deal and for an extra fee, the new lender provided additional availability, mortgages for the owner's home and more favorable amortization schedules than the incumbent lenders. For the borrower, it provided 25% additional availability for its growing business. For the lender, the entire package increased its outstandings by 40% and improved its collateral coverage.

As the distribution trustee of an estate, we are responsible for the wind-down of a second-tier auto parts supplier following a successful \$363 sale. We had a seven-figure receivable from a third-world country consisting of inventory and damages from a broken supply contract that the estate was pursuing for almost two years prior to Executive Sounding Board Associates (ESBA) taking over. The estate had pursued the balance with no real traction. Every collection agent or attorney wanted to work the project on an hourly billing basis because the perceived down-side exposure of chasing a situation like this was too great.

We engaged a middle-market law firm in New Jersey that demonstrated great flexibility and creativity. The law firm did some initial homework and agreed to take the case with a very modest fixed fee — less than 2% of the total settlement and the balance on a contingency. Less than a year later, and after multiple iterations and correspondences with attorneys spanning the globe, the estate was able to settle and recover a significant sum. All this, compared to the initial anticipated realization from this asset, which was zero.

No question times are tough, but how creative you can be will be one of the biggest differences to achieving success in 2013.

Equity Position — Do You Take?

We are often asked by clients if ESBA will take an equity position in an engagement. On the one hand, our pay is linked to performance — if metrics are not met for most engagements, we are not paid. On the other hand, there is an inherent bias or potential bias to take an assignment under an equity position structure as the potential outcome may lack certain objectivity.

While it has been a question for a while, as 2013 begins we think it is going to get more attention. Companies are more concerned about value for dollars paid than ever before and, as a result, are more willing to consider the pay for performance alternative. While we have considered it on occasion and executed on it less frequently, it has been with full disclosure and consideration of all the stakeholders. It is also more difficult to implement it once an engagement has begun. The best approach when considering this option is to have a meeting at the outset to reach a consensus and transparent metrics with all the stakeholders. If any of the key stakeholders are not on board, it could prove very difficult to be successful. However, if it can be negotiated correctly, it can be a great incentive and opportunity for all constituencies.

Got Patience? Real Estate May Be for You

In a lot of situations today, anything over 90 days may be considered long term. Notwithstanding, there are signs that the real estate market may be improving in pockets throughout the country and investors and lenders are regaining some interest. However, the underlying virtue for these investors and lenders is patience.

If the other parties in the deal are comfortable holding the real property, whether commercial or residential, for a year or longer and funding the operating costs including taxes, etc; spreads are such that there is real opportunity. Also, in certain segments, lenders have an inventory that they would likely be willing to move at any cost. From the investors' side

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nothing expedites a transaction more efficiently than when the parties have immediate cash to fund the opportunity. The rub is that while there are a good number of people that try to execute in this space; the investor must consider those on the other side of the transaction as well.

While the spread must be favorable, your counterpart has an objective to achieve and if you do not keep this somewhere in your thinking, you most likely will not get a second opportunity. However, if you do have patience and appetite, this arena may be a place to play in 2013. Any interest? Contact us, and we can discuss further. We can point you in the right direction.

Guarantee — Minimizing the 'No' Factor

There have been situations where we have been so confident in our ability to add value, we have guaranteed our work. In this situation, ESBA guaranteed that we would achieve savings at a multiple of our fees. Meaning, if we did not achieve a certain quantified level of savings, we would return the client's fees. This approach is very unique; after all it is much easier to persuade a client when the down-side risk is zero. Needless to say, due diligence is essential as this could potentially lead to a very expensive mistake.

Government Contracting

It is an election year and many municipalities are struggling. Clients that sell goods and services to governmental agencies had expected to receive contracts that have been delayed causing their cash flow to tighten. The companies have suffered significant operating inefficiencies while waiting for the log jam to break. It is critical for these companies to determine whether in fact it is a timing issue or a systematic problem. Also, many organizations have grants available that they can apply for to assist with profit and system improvement initiatives.

This segment will continue to grow. With all the road work and construction activity being undertaken to repair highways, bridges and buildings, this is one of the segments that appears to have some robust growth expected. Helping clients manage and streamline their processes will provide significant revenues.

Liquidity Assessment

In today's world, who doesn't need additional cash flow? Most companies are looking to increase or enhance their cash position, not necessarily for one-time opportunities like stretching the trade, but rather for streamlining production, reducing waste and disposing of underperforming assets.

Consider investing a day of time. We did this in a situation that led to a six-figure engagement and a relationship that has lasted more than two years. More than ever cash flow and liquidity planning are becoming part of both the short- and long-term planning process. Anything a consultant, lender or other professional can do to assist and add value and cash for a company in times of uncertainty will make you an unbelievably valued partner.

Hey You ... It's Already in Your Database!

At one of the season's many parties that seem to begin earlier and earlier each year, we were talking with a lender about new business opportunities and referral sources. He said, "Each year, I go back to the prospects I have called on, proposed on and opportunities that I didn't successfully close or complete." (And, by the way, this gentleman has been a successful business development officer for years and closes more than his share.) He then restarts a dialogue to see how the prospect is doing and if it is happy in its current situation.

He estimated that historically this tactic has accounted for 10% to 15% of the following two years' pipeline. For the pursuer, it is obviously

much better than having to regenerate a whole new lead as the touch point has already been created; and for the prospects, most are appreciative of the follow up. By truly acting as an "executive sounding board" to reassess and review a critically important decision, we add value. Not to mention, we all like to know that somebody has taken an interest in us.

Similarly, if you are a service professional, look at your current list of clients — some that you proposed on and did not win or those that you have had a successful relationship with in the past. At worst, you can reconnect with a satisfied customer, somebody that could be a reference for future opportunities. At best, they may need a check-up or have an opportunity for you. After all, there is rarely a better start to a phone conversation than, "I am glad you called, I was just thinking of you."

So What's Next?

Whenever you talk to someone that is out of work, from professionals to factory workers, supervisors and home remodelers to recent graduates, all are concerned that the market has not shown big signs of improvement and there

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is not a sentiment that it will change any time soon. As the calendar turns, hopefully those sentiments are wrong and optimism is around the corner.

But those that are succeeding and prospering in transitional times are always looking beyond the obvious, thinking out of the box, taking advantage and seeking out opportunities. Projections for the 2012 holiday season are cautious with a bit of optimism but certainly a bit less than robust. It will be "the other opportunities" that will likely make the difference between a mediocre and a dazzling 2013. So, as was said earlier, what the heck — (prudently) leap!

Wishing you and all the important people around you a great convention/holiday season, and an unbelievably healthy and prosperous new year. **abfj**

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