



TOUGH TIMES AND REAL EMOTIONS

Making the Right Decisions in Difficult Times

There will be plenty of difficult times ahead, but it is important that we embrace these challenges we are facing and turn them into our next opportunities. **BY CHRIS ENBOM**

There are many articles in equipment finance periodicals regarding the current economic crisis and how to “weather the storm”. Many have been very helpful to me as I help steer Allegiant Partners through the rough economic waters. There are certain aspects of survival I have not seen mentioned in periodicals or the press involving a leader’s state of mind that may be helpful to NEFA members and friends.

The Psychology of Surviving a Downturn

You do not hear business leaders talking much about their feelings. The subject is taboo, but the navigation of emotions and the ego of business leaders/entrepreneurs is important in understanding who will survive a serious business downturn. I have been forced to make difficult decisions with regard to the economic downturn, many of which go against my nature and are emotionally very difficult.

Entrepreneurs – Good at Growth, Bad at Wielding an Axe

By nature, most of us started companies in order to be part of the excitement of growth. Entrepreneurs, by and large, are optimistic risk takers who in many cases ignore the downside risks in order to focus on their dream of building a successful and profitable business. Those running companies are used to the banter of those around them telling them why they will fail and ignoring such talk as they pursue their goals.

A year ago when many economists were stating “the sky is falling” how did most business leaders react? Most were concerned about a recession, but there were very few leaders who reacted fast enough. Reacting quickly enough over the past year and six months has required the ability to see a scenario that includes a significant degree of pessimism, a personality trait most entrepreneurs do not have.

I believe Allegiant has survived because we have always been more concerned about the preservation of our capital than the fast growth of our capital, and we have always taken both optimism and pessimism in the markets seriously. Last year at exactly this time I looked at the overhead structure of our company and the deteriorating economy and I started laying the groundwork to seriously cut expenses. In the case of Allegiant it meant people, some of whom had worked for 10 years and had helped start and even capitalize the company in times of need. Six months into our cost cutting we decided we needed to double the amount of cuts. Last month we decided we needed to cut again.

If we had not started cutting a year ago we would likely be out of business today. Making the cuts, however, has been the hardest job I have ever done. It means ending the livelihood of people for whom you care deeply, and also admitting to yourself that times are bad. For me and for most entrepreneurs this is emotionally very difficult. Corporate leaders who were able to properly predict the pessimistic future and go against their emotions early by making difficult personnel decisions are now surviving. Those who did not are now in serious trouble or are already out of business.

Pretending to be an Economist – Unleashing Your Inner Geek

Surviving any business requires any business leader to be a geek about economics. When there was too much liquidity in the markets from 2005 to 2007, we shrunk our originations because we knew the entire industry was writing bad deals. Amongst other indicators, corporate bond spreads were near historic lows indicating too much liquidity in the debt markets. Last year we grew our originations by 20% as we were able to book much better transactions due to the lack of liquidity in the system. As bond spreads widen we generally see good opportunity.

The Federal Reserve Bank has a great deal of information about the state of the economy. There is information available on Bloomberg.com, WSJ.com and other financial sites. When corporate bond spreads are historically low it is not a good time to book new transactions, and when they are historically high (like today) it is a good time to book transactions. We also look at both the Federal Reserve Board’s projections regarding the economy and projections from private economists, and we use this data when making our projections.

In most situations, common sense (rather than wishful thinking) will dictate staffing requirements. When the economy begins to shrink companies need to be ahead of the curve with expenses. As the economy begins to rebound firms that staff up properly to accommodate the growth will be the winners. Proper expense and staffing management is constant – it never stops.

Get Advice from Smart People You Trust

Reach out to bright people you know. Be honest with yourself and others regarding your financial situation. Listen, think and react to what others are telling you. Management requires seeing the obvious and reacting to it. When personalities and livelihoods are on the line the obvious often becomes obfuscated. People you know and trust will be able to help you navigate your emotions and make the right decisions.

Go With Your Gut, Make a Decision and Act on it Quickly

You know in your gut if you need to make further cuts. Once you have made a decision regarding reductions, it needs to be done quickly. Delaying the inevitable is just jeopardizing the company. It seems so easy, but it is really difficult to do.

Look at Benchmarks

Evaluate your income statement and compare with others. Are your ratios in line? In our case, our gross margin was good but our expenses were higher than our peers. In good times you can survive high expense ratios but in hard times adjustments need to be made.

When GE made the announcement that it was shrinking its balance sheet and de-leveraging in order to keep its AAA credit rating, I studied the press release carefully. What do GE and Allegiant have in common? We both are independent leasing companies and we both borrow money. The demands on large companies always trickle down to small companies. I knew at that time that Allegiant would need to reduce leverage as well, and that companies who were not extremely conservative regarding leverage would not be able to raise capital at some point.

I am hopeful that the worst will be over for the equipment finance industry within a year. The steps that we all take over the next few months will separate the survivors from those who do not survive. We are doing everything in our power to be a survivor.

When all else fails I go back to the words my wife told me recently: “Chris, what is happening with the economy is beyond your control. Do what you can do and the rest is out of your hands.” ■

ABOUT THE AUTHOR



Christopher A. Enbom is the founder and CEO of Allegiant Partners Incorporated, a direct funding source for middle-market “story” credits. Allegiant sources all of its business from third party sources. Mr. Enbom has spent over fifteen years in the leasing industry, both in Japan and in the San Francisco Bay Area.

Before founding Allegiant Partners, Mr. Enbom was a Managing Director in the Structured Finance/Leasing Group at CIBC World Markets structuring, marketing and closing “big ticket” leases.

A Publication of the National Equipment Finance Association

newsline

As seen in the March/April 2009 edition of