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A Hunt for the Elusive Surface Finishing Economic Forecast

During a 30-day period this year, I pulled the following headlines related to the U.S. economy from various periodicals. Let's review them for hints on the economic future:

- NABE Lowers '07 U.S. Economic Forecast, Sees Stronger '08
- U.S. Report Signals Faster Growth
- Growth Of U.S. Economy At Slowest Rate In Four Years
- Bernanke Predicts US Economy Will Rebound
- U.S. Economy Skids With Worst Quarter Since 2002
- U.S. CEOs Optimistic On Economy
- Construction Inflation Could Get Worse
- Market Experts Predict End For Real Estate Slump
- Economists Foresee US Growth As Most Sluggish In Five Years
- Job Growth Should Boost Economy
- U.S. Government Cuts 2007 GDP Growth Forecast

Detect a little inconsistency? As evidenced by these headlines, none of us knows for sure what the economy will look like three months from now, much less a year down the road. This is even more pronounced in the surface finishing industry, where, given our short lead times, our ability to predict future volume is even more limited than in the rest of the manufacturing sector.

How then does a surface finisher ensure that his business can thrive in spite of his inability to foretell the future?

Several years ago I attended a presentation, delivered by Gideon Malherbe, on the topic of "Scenario Planning." The presentation was memorable for two reasons. First, the speaker was about 20 minutes late to a presentation he was to give to about 45 chief executives. Not a way to get off on the right foot. Second, Malherbe made up for his tardiness by the fact that the content of the presentation was really, really good, and I walked away with a tool I regularly put to use in my business life.

The presupposition of Scenario Planning is that none of us can predict the future with any real certainty. However, by anticipating several different future business landscapes, we can pre-plan separate strategies for each possibility. Then, once one of the potential scenarios becomes reality, we will not lose

any ground while figuring out how to react. The strategy will already be in place, enabling us to move directly to the execution stage.

The practice of Scenario Planning is a valuable tool for surface finishers and is especially useful in short to medium term planning. What is the proper course of action if new orders increase by 30% in the coming month? How would you react if new orders dropped by 25%?

Surface finishers know that these possibilities are not hypothetical; they are the reality of our marketplace. The ability of our businesses to succeed given our uncertainty about future volume depends upon how quickly and how well we can react to a variety of future scenarios. Why not then have "flex-up" and "flex-down" strategies in place so that, regardless of whether business volume goes up or down, we are poised to react swiftly?

Before we can react to changes in our business climate we must know that a change is taking place. In order to be aware of change, we must have a method of measuring our own business volume. Metrics that can be used in doing so include the number of orders in backlog, the number of dollars in backlog, trailing 12 months revenue, etc. Determine what your metric is and monitor it daily.

The name of the game from here is for the finisher's entire business to be flexible and able to move quickly—to be nimble. Start by keeping overhead and indirect spending as low as reasonably possible. Excess spending is much easier to justify when times are good, business volume is strong and margins are healthy. Examples of excess spending include new equipment not supported by solid cost benefit justification, building additions, company cars for management, excessive entertainment expenses and positions added to the organizational chart that aren't really necessary.

The thinking is, "What's the problem if net income is off budget by a few percentage points? We still made money." The problem is that such expenditures can become the norm, and even part of the company's culture. When business volume does, inevitably, slow down, management is left in the position of having to "take away" luxuries that never should have been approved in the first place or to pay for unjustified past decisions in a period of dwindling cash flow.

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I am also an advocate of a flexible workforce. This includes cross-trained equipment operators and the use of temporary labor for those positions requiring a relatively low level of skill. If and when the time comes to tighten the labor belt in order to reduce costs, doing so is much simpler and less costly if all it takes is a call to the temporary service firm. Further, since the expectation of a temporary employee is that his or her position may not necessarily lead to permanent employment, one could argue that the utilization of temporary labor for positions that may be less than long-term is a more ethical manner by which to manage labor.

Finally, if and when volume slows and it comes time to reduce costs, leave no stone unturned. Review hours of operation, number of shifts, how many hours are necessary in order to run waste treatment, frequency of pick-ups and deliveries (and whether to offer transportation at all, for that matter), the amount of chemical inventory, the size of maintenance staff, office staff and so on.

What does the economic future hold for the metal finishing industry? I have no idea. What I do know for sure is that by planning ahead and addressing the right issues, the metal finisher can be prepared to succeed regardless of what the future brings. **PF**

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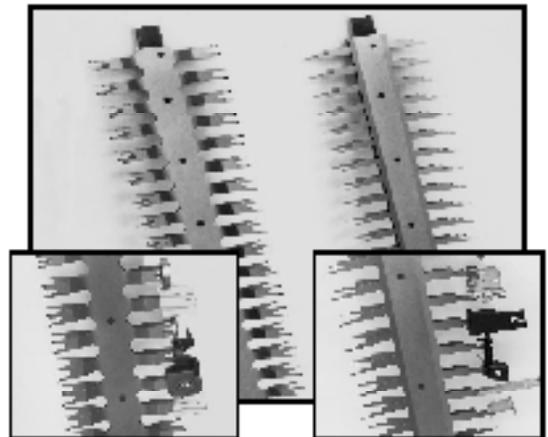


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