CHAPTER 19
PLANNING FOR CHANGE

Author's Note

An important part of planning the new venture is planning for changes that are sure to occur. Change is one of the certainties of business life but, unfortunately, a good many entrepreneurs don't take the time to prepare proactively for it. Knowing how their venture might respond to typical changes in the industry and the economy in general will help them set up organizations that are more flexible and capable of adapting to change.

Planning an exit or harvest strategy is an important part of planning for change. At some point most entrepreneurs would like to harvest the wealth they have created. If they know in advance how they might want to do this, they will make better decisions along the way to ensure that they're able to when the time comes.

Sometimes the best laid plans go astray, and a company faces possible demise. This chapter looks at bankruptcy from two points of view: as a tool to reorganize the business and continue, and as a means to liquidate a failed business. The chapter and the book conclude with a section on what it takes to build a world-class venture.

Learning Objectives

This chapter will give students an understanding of:

- Why a contingency plan is important
- The need for a harvest plan
- How to deal with failure
- What it takes to become a world-class venture

Supplementary Lecture Material

Managing for Change

It is interesting that the article on which this material is based (see source note below) was written in 1999, when much of the volatility was caused by an abundance of capital going into the dot com frenzy. Then came the dot com crash of April 2000 and subsequent decline in technology stocks causing more volatility. However, in 2002, the ideas expressed in the article are still relevant, and some say that turbulent times will probably be a way of life for the foreseeable future. When the pundits can't even agree on where the economy is going and what the state of the capital markets will be in the near future, what should an entrepreneur do to plan for change?

- Don't expect a lot of capital to be available any time soon. Great and proven concepts will always find money, but even those entrepreneurs will find that their deals are happening at lower valuations. What this means is that entrepreneurs must concentrate on how they can make money without having to go to professional money sources.
- Don't rely on any single economic indicator. Furthermore, don't get caught up in the daily blitz of statistics on the market and the economy. Ups and downs are a normal part of this eco-

nomic period. Focus on indicators related specifically to your business like order rates, inventory turnover, and changes in consumer-debt levels.

- Make sure the company's cash flow can more than support its debt load. In a volatile economy, it's wise to maintain as much liquidity as possible and stay on top of accounts receivable. You can reduce leverage by selling off some assets that don't support your growth effort. Guard your credit.
- Be cautious about potential buyers for your company. In volatile economies, cash is important, so it may make sense to take less for the company if it's a cash deal rather than a higher price with a long payout.
- If you're in the global market, stay there. But be cautious about protecting your receivables with insurance. There are many great opportunities in Asia where the economy has been in a decline, so it's a good time to seek strategic partners and ask for tougher terms. Also, look at importing, which is a good opportunity.
- Invest in R&D. Do it not just for new products, but to get closer to the customer and to find out what they need.
- Invest in internal information systems to better manage the business processes.

Source: Jill Andresky Fraser and Jerry Useem, "Managing Through Turbulent Times," Inc. Magazine, January 1, 1999.

Films to Rent

Following the Money: The Maxwell Empire and Bankruptcy

This film focuses on the Maxwell Empire and the problems that led it into bankruptcy.

www.films.com
Item: **BVL4268**
Format: **VHS**
List Price: **$149.95**
Rental Price: **$75.00**

Cases Relevant to This Chapter

Mrs. Gooch's

Earthlink.net: The Journey to Recognizing an Opportunity

Highland Dragon

Answers to Issues to Consider

1. *Contingency planning is not foolproof. How can you ensure that the contingent plans you devise will keep your business on the path to its goals?*

   By forcing entrepreneurs to consider multiple outcomes and possibilities, contingency plans help a growing business deal with the ubiquitous downturns and upturns in the economy, new regulations, changes in customer tastes and preferences, and many other events that regularly, and often without warning, disrupt the equilibrium of the business. To remain the path to the company's goals, it's important to revisit contingency plans on a regular basis to update and revise.

2. *How can the entrepreneur prepare for potential product liability litigation, both to minimize the chance of occurrence and to give the company the best chance of prevailing against a product liability claim?*

   The entrepreneur can establish a formal safety panel that includes people from all the major functional areas of the business. They would review safety requirements on a regular basis, establish new ones when necessary, and document any injuries or claims made against the product.

3. *How can the entrepreneur prepare for a potential decline in sales?*

   The entrepreneur can make an effort to produce exceptional quality products, control the cost of overhead, control production costs, make liquidity a prime directive, and have a contingency plan in place.

4. *You have built your business successfully over several years and now have the opportunity to start another business compatible to your current one. How can you leave your original business yet stay involved?*

   You can sell some of your stock in the company and retain a position on the board; you can restructure the company by selling the assets and operations and retaining the facility, which you lease back to the new owner; you can do a phased sale; or do an ESOP.

5. *In what ways can bankruptcy law be a tool for the entrepreneur?*

   Chapter 11 can give the entrepreneur time to reorganize the company so it can repay creditors while not losing control and continuing to operate the business. If done correctly and fairly, this can be a win-win for everyone. For Chapter 11 to work, the business must have more upside potential and more tangible and intangible assets than debt.

Suggestions for Experiencing Entrepreneurship

1. *Interview an entrepreneur in an industry of your choice to learn what his or her harvest strategy is. What is this entrepreneur doing to ensure that the strategy will be achieved?*

   Students should not be surprised if the entrepreneurs they interview do not have harvest strategies. This might be a good opportunity for students to discuss the types of strategies the entrepreneur should consider and help the entrepreneur set a plan in motion.

2. *Interview a turnaround consultant about some ways to recognize problems that could lead to business failure. From this interview, devise a list of do's and don'ts that will help you avoid business failure.*

   Students should compile a joint list of key indicators of potential problems. This will be an invaluable resource to them when they start their own businesses.