

Not your father's economy

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THE BANK OF

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The recent economic news has flooded the media. From financial experts to government officials, everyone continues to bombard Americans with predictions of when we will hit bottom and see the light at the end of the tunnel.

After spending my entire 30-plus year career in the financial services sector, I have a different perspective to offer. This is a "new reality", an uncharted road where the old rules about our economy have been shredded. Economic tools that have worked in the past – raising interest rates to bring down inflation, providing income tax cuts to jump-start the economy – may not work today. In fact, these approaches are considered more in line with your father's economy.

Previous recessions looked like an upside-down bell on a line graph that dipped before hitting bottom and then swooped upward. Recovery typically occurred 12 to 16 months after the down-turn started. However, the current decline looks more like an elongated letter L. This downturn is very different from the recessions our fathers endured. Yet, we believe there are ways to navigate these uncharted waters.

Psychologically, business owners must accept that the economy isn't returning to the same tenets that worked in their father's day. Denial could cost you your business.

We hear a lot today about the delay in restoring the flow of credit. What actually is happening is credit markets are refocusing on fundamental underwriting criteria.



Consequently, financing for highly speculative projects and to individuals who cannot pay their obligations will not be available. But for business owners with good credit, collateral, cash flow and a demonstrated ability to repay the loan, credit will flow.

Rather than waiting for economic salvation to come, businesses must capitalize on their strengths now. Find situations and markets where you can add value and excel. Pursue the niche that is not easily replicated or easily outsourced to Mexico or China.

Leveraging strong relationships with your advisory team will be more critical. Just as your CPA and attorney are essential members of your advisory team, your banker should also be included. Get to know your banker. Advise him or her about the approaching challenges and contingency plans for dealing with those situations. Use them as a sounding board for matters like a sales slump,

new product introductions or procuring new equipment. Bankers are evaluating even their best customers on a more regular basis and, trust me, we don't like surprises. The more information you share with your banker about your business, the better the relationship.

We can either let the forces of uncertainty overwhelm us, or we can become pioneers and face it head on. We are creating today what generations in the future will look back at and consider their father's economy.

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