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MONEY WISE

HOW TO STAY IN BUSINESS

The average person will learn by his or her mistakes. A clever person will also learn from the mistakes of others. So whether you are running a multi-million dollar conglomerate, a small business or simply managing your own personal finances it is worth taking the time to study why others have failed and what lessons can be learned from their mistakes.

Big Corporate failures

The past few years have witnessed an unprecedented string of failures among some of the longest established brand names in the world.

The collapse of Lehman Brothers in September 2008 was the greatest failure in corporate history. Other great American institutions such as Bear Stearns, Merrill Lynch and AIG also failed or needed life support. Across the Atlantic, high street banks such as Halifax and Bank of Scotland, Northern Rock and the Royal Bank of Scotland all failed and have survived to this day thanks only to government intervention. Indonesia also saw a string of bank failures during the Asian financial crisis of 1997 / 8.

Why did they fail?

Basically they lost touch with reality and got carried away without taking account of the consequences of irrational lending or in the case of AIG taking on risk that they did not fully understand and could not cover when the crunch came. In most cases those at the helm had little idea of what was happening in the engine room. Or, as in the case of the Titanic, what dangers were in their path!

If you own a restaurant but you don't know what is going on in the kitchen don't be surprised when you lose your customers.

Fraud

Since time immemorial people have cheated and defrauded customers and the companies they work for. In 1995 one loan rogue trader, Nick Leeson, was able

to bring down the century-old Barings Bank by his unauthorised and unsupervised trading. Incredibly, several other banks, including Société Générale and UBS have since fallen victim to similar actions. Nick Leeson by the way is now in demand for conferences and as an after dinner speaker.

Lessons for small businesses and individuals? Keep tight controls and look out for anything that appears out of the ordinary.

Keep pace with the times

To survive in business you must be ready to adapt quickly to changing conditions and markets. It is not the biggest who survive; it's those who can adapt. The dinosaurs once ruled the world, but when a catastrophe hit the planet 65 million years ago the big beasts could not adapt to the changed environment and perished as a result.

In the field of telecommunications, keeping pace with technology and consumer demands can mean a short life for those at the top. Barely five years ago BlackBerry and Nokia were at the top of the tree. Now they are falling stars and unless they can quickly come up with innovative products to revive their fortunes could soon disappear into oblivion.

If you are in business, do your research; find out the latest trends. Don't assume what you can sell today will sell tomorrow.

On an individual basis, the same applies. We need to constantly update our skills and be prepared if necessary to retrain and change career several times.

Always maintain liquidity

A business may be very successful but if it does not watch its cash position it may not survive. The financial meltdown of 2008 was basically due to a drying up of liquidity which caused asset values to fall as institutions sold everything in panic to raise cash. An airline may own a fleet of sparkling new jets but if it has no cash to pay its flight crew or pay for fuel it is out of business.

On the individual level, thousands of homeowners in the US and elsewhere have been forced to abandon their homes because they fell behind on their mortgage payments. If they had kept adequate cash reserves they might have weathered the storm.

So how do we stay in business?

It is always a challenge and failure rates are high. But success can bring big rewards. Here are a few basic principles:

- Maintain healthy cash reserves at all times
- Don't over-extend any borrowing
- Don't lose sight of what is going on in the 'engine room'
- Monitor changes in consumer behaviour
- Be ready to adapt quickly to changing circumstances
- Make sure you have adequate insurance against all possible calamities
- Don't venture into fields you don't fully understand
- Don't put everything into the business; have a good exit strategy

Even if you do everything right you are still going to need some luck on your side. What if you still fail? Don't mull over it; learn from the experience and try again or try something different. Sometimes you need to fail first in order to succeed!

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