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Is the sky really falling?

What is happening with the economy? What does it mean? What can we do about it? What does Chemark tell its clients to do?

Somewhat akin to the infamous Chicken Little fable that many of us remember from our childhood or have read to our own children, it would appear that various segments of our economy are running in fear of the "economic sky falling." There is no doubt that the U.S. economy is not its normal, robust self these days. In fact, it is reeling from the riveting blows of mortgage crisis, foreclosures, falling home values, higher energy cost, rising unemployment, a faltering stock market, weakening U.S. Dollar and a genuine fear of inflation. What we are experiencing now is the true impact of the economic trickle down theory. In other words, the real impact of higher crude oil cost has now saturated our economy at all levels. As consumers, we feel this impact every time we go to the grocery store, purchase any item that requires shipping or has a crude oil content, arrange for travel on any airline, pay our electrical utility bill, and of course, fill up our automobiles with gasoline. In other words, everything we purchase or use that has a crude oil content has exhibited significant increases in price over the last few months and that is likely to continue into the future.

In the coatings community (i.e., raw material and formulated product manufacturers, retail paint outlets, etc.) price increase announcements seem to be happening more or less on a daily basis. For most companies, competing in an economy that is already weak from a variety of maladies is difficult for even the strongest of companies and if your company was already experiencing financial problems it can take on a nightmarish appearance. What the coatings industry has seen over the past few months is a higher than usual level of activity in the alliance/joint venture and acquisition arena as more companies are unable to cope with the cost of doing business in today's economy.

One of the interesting concerns that have been noticed by some economists is a phenomenon referred to as "waiting for the good news." In other words, waiting for the economy to revert back to the way it was. Fortunately, a number of companies have decided that what we are experiencing isn't a temporary or transient happening but rather "this is our new life, get used to it." Other, less enlightened groups appear to be stuck in denial and rather than take positive action to ensure that they survive in this new economy they are waiting for a return of the good old days.

Surely by now it's not news to anyone that the U.S., and the world, has an energy problem. Contrary to current political finger pointing, our energy crisis isn't an overnight happening. We have had this problem for decades going back to the administration of Richard Nixon. Even then our politicians were talking about energy independence or at least significantly reducing the U.S.'s dependence on foreign sourced oil and gas. Unfortunately, for the most part, talk has been about all that has happened. The simple fact is that we are where we are because of inaction at a time when we could have made a positive change to our future.

Market conditions are not going back to where they once were simply because today's world is much different, it has changed. Today we live in a time where the population of China, like the U.S. population of the 50's, has discovered the automobile. As a result, China has become a net importer of crude oil. Similar happenings are occurring in other countries such as India and Russia. All of a sudden, the U.S. isn't the only country that requires huge quantities of crude oil to keep its population and its economy on the move. Some economists refer to the decline of the U.S. economy and the growth/expansion of the economy of other countries—China, India, Russia, Brazil—as "decoupling." Call it what you may, the simple fact is that because of this so called decoupling there isn't enough crude oil and current refinery capacity to fulfill everyone's needs. Hence, the old law of supply and demand comes into the scene. In our case, the U.S. is experiencing even more of a negative impact as our currency weakens versus other currencies around the globe making the cost of crude oil even higher than normal market conditions would suggest. It's a bit like a downward spiral effect where as we encounter a higher cost of energy the worse our economy becomes which in turn lowers the value of our currency which raises the U.S. Dollar cost of energy and so on. Obviously, the U.S. must find a way to break this downward cycle of events otherwise the economic hole will get deeper and deeper.

So, given that we are where we are, what do we do now? From the perspective of the government the Feds are contemplating an increase in interest rates to combat the dreaded specter of inflation and to ward off a further decline in the value of the U.S. dollar. Let's hope that cooler heads prevail as such action would most likely slow an already declining economy.

Unfortunately, when the economy turns bad we often see those companies who act like a turtle and pull back into their shell and take on a posture of waiting until external conditions improve (i.e., they cut back on travel, entertainment, training, and implement downsizing in various areas, and take a position of "riding out the economic storm" as if it was just a temporary thing). I guess if your competitors implement this kind of action, this might be an acceptable option to consider but it isn't something that we would suggest. In the current economic conditions, hiding your head in the sand like an Ostrich will simply keep you in the dark. Remember, there are a number of company's that look at economic conditions such as we see today as an opportunity to become more aggressive and to take additional market share by being out there on a day to day basis while their competitors adopt a wait and see, keep a low profile, take no risk strategy.

In the business arenas that Chemark serves, the advice that we give to our clients is:

• Accept what you are seeing in the market place as reality and plan accordingly;

• Review your product and market portfolio and make some hard decisions about which ones to keep and continue to support and which ones you will consider exiting (i.e., either as a sell off of that portion of the business or simply downsizing that particular area);

• Determine if there are those areas within your portfolio of markets where an alliance or partnership would be a better option. As the old saying goes, two heads are often better than one;

• Spend time understanding what is happening in your markets. Like you, your customers are not immune to what is happening in the changing economy. They too are contemplating actions, which may make them more viable. Are your actions and strategies consistent with theirs?;

• Where possible, consider hedging for your future, large volume raw material purchases. The high cost of energy isn't going away anytime soon. Southwest Airlines has been doing this with aviation fuel for years and even in this declining economy continues to stay afloat, financially speaking;

• It may be prudent to delay some of your expansion or construction plans and to consider placing a hiring freeze on non essential positions. In this latter area be careful not to completely discontinue the hiring of new graduates as doing so will place a blip in your employee demographics which will flow through your company for many years to come;

• Consider implementing needed training programs. In good times, finding time to implement training is at best difficult and in many instances, impossible. Take advantage of the downturn in market activities and pursue employee skill enhancements. Take a page out of your production area and de-bottle neck your systems and employees, make them more efficient;

• Make certain that you provide highly visible leadership for your employees, suppliers and customers;

• Take an active lead in the turn around of the economy, don't wait for someone else to do it.

There is an old saying that seems to sum up where we are today: those that do not learn from history are destined to repeat it. What our country is experiencing today, it has seen before and most likely these economic conditions will come again. Throughout our country's rich history economic downturns have come and gone. Those companies that do not lose their head, that decide to adapt to the new market conditions and take appropriate actions will succeed whereas those companies who are sitting back, waiting for the good old days to return will most likely become a footnote in history. If you want to change the conditions that are impacting your company then that change will have to come from within your own organization, not from the government, not from any outside Guru with the latest theory and certainly not from sitting back and waiting for the good old days to return. History has shown that the major changes that have happened in our country have come from the hard work, sacrifice and dedication of our people, our industries, not from any other source.

So, is the economic sky really falling? Our answer is no, but there are a lot of changes on the horizon. The conditions, understandings and expectations of the past are no longer valid in today's markets. If any company is to succeed in today's economy it must adopt policies and an operating style that is compatible with the new economy. The question of the day isn't "is the sky falling"; rather it's, "economic change is here, what are you going to do about it"? ***CW***