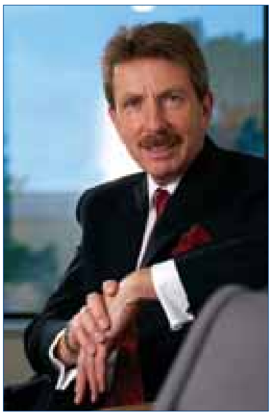
Recession? What recession?

Jeff Addison, a Principal of The Alta Group, takes a pragmatic view



Jeff Addison

The economic headlines have moved from downturn to recession, and the more pessimistic lead-writers use the prospect of Depression to remind us that past indiscretions and profligacy must, inevitably, be paid for. The "live now, pay later" philosophy began in such innocence with a gradual relaxation of consumer credit restrictions over many decades. Unfortunately, in the past few years it accelerated rapidly with six times salary, and 120 percent of asset value, mortgage advances.

'Those in asset finance are nothing if not resilient'

It finally crashed and burned out on the barrier of unfeasible levels of leveraged debt created by banks, hedge funds, and private equity houses. That it was encouraged by graceless policy makers with an eye on social engineering, and permitted by regulators with an eye on nothing but a series of boxes to be ticked, does little to engender confidence in what is now proposed as a solution to extricate us from the mess.

Nevertheless, those involved in asset finance with sound business models are nothing if not resilient; they will reflect on previous experience to find a route to a brighter future, and if ever that optimism is needed, it is now!

An interesting feature of the leasing industry is that for a number of reasons, the recessionary indicators often lag those of the real economy. New Business volumes may be satisfactory, "not too bad" often sums it up, so too, arrears, delinquencies, fraud (both perpetrated and attempted), and write offs. Competition may be fierce and margins squeezed, overheads may increase and bottom lines shrink, but because we operate in confidence zones the inclination is to continue doing what we always do. So the impact of recession, when it comes, can be exaggerated and disproportionately shocking.

The last real recession in the real economy, not counting the hiccough caused by the collapse of many bizarre and speculative businesses when the internet bubble burst, was in 1991-93, following a spectacular housing boom and bust (sounds familiar?), and appeared to catch the leasing industry by surprise. It presaged intensive and increasingly frantic activity as the trough deepened; market exit, market entry, consolidation, forced sale of leasing books, companies folded, teams of people moved, you name it, it happened. It took cool heads, and a steely determination, to maintain an even course through the mayhem. And during that recession, and its aftermath, there wasn't even a question mark over the stability of the global banking system! So what makes us so sure that nothing similar will follow in the footsteps of this recession/depression?

One of the principal causes of concern over the actions to be taken, is that many of the young professionals now in the industry have had limited exposure to the concept of business decline. Globalisation, and a relentless increase in GDP and actual wealth over the last decade, have apparently led to belief in a new business paradigm, where the graph is only ever on an upward curve. Unfortunately, as we now know from current experience, everything which can go up, will come down!

This is not an article of despair, however, more a reaffirmation of three basic principles. Firstly, recessions, no matter how deep, do end, it is a major tenet of capitalism, and if that's what we believe in (and I've yet to meet a truly socialist lessor) then we should ensure our actions support the achievement of that goal.

Secondly, don't start planning for what you will do after the recession until you have navigated most of the way through it, if only because we don't know when it will end. Yes, of course we all want to take advantage of the upturn when it comes, but, actually, it is more important to ensure we are still in business. So, make sure the contingency plans are in place to be positively active whilst maximising efficiencies. This doesn't mean knee jerk reactions, resulting in the loss of valuable human resources which will be difficult to replace come the upswing, but it may mean casting a critical eye over those business lines which were part of the volume vanity that has possessed many companies in the last few years.

'Very importantly, ramp up the training process now'

Thirdly, and very importantly, ramp up the training process now! It's surprising how often, when the budget comes under pressure, that one of the first targets for cutbacks is anything to do with people development. In-house training however, is a very cost effective, and regularly overlooked, option. Try auditing your team's experience. How many, and which, of your people were working in the industry through the early nineties, and have seen recessionary problems before? Next, identify those people who weren't. This isn't about sheep and goats, it's about acquired skills over perceptions. Those who actually have the acquired skills can help establish experience based programmes, to train those who ought to have them, and in areas of the business where you will need every possible advantage.

If, having completed your experience audit, you find the business staffed mainly by those who were still in full time education 16 years ago, don't panic; they will be bright enough to learn, when you do find someone to train them, and it could be you.

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