

# Compass Points

*Actionable business ideas - read & pass along - from Compass North Inc.*

## Special points of interest:

- The biggest cause why companies fail needlessly is management and ownership delay in responding to negative developments
- Economy is up, markets are down
- Thoughts on:
  - check your assumptions
  - 'lean thinking'
  - planning vs. budgeting

## Inside this issue:

- |   |   |
|---|---|
| - From The Failure of Others - Take-Home Lessons can be Learned | 1 |
| - Markets & Valuation Report                                    | 2 |
| - Action Thoughts & Ideas                                       | 2 |
| - End Points  | 3 |

## FROM THE FAILURE OF OTHERS – Take-Home Lessons can be Learned

To learn how to succeed, we need to study failure. Ironic, but true. The Enrons, WorldComs, Parmalats and Hollingers grab headlines because they are sensational. But most businesses don't have dishonest or "celebrity" management. Most companies that fail don't either. They're run by people we identify with – conscientious, hard-working owners and managers. So why, when things go wrong, do management teams too often fail to do effective things to make the situation right?

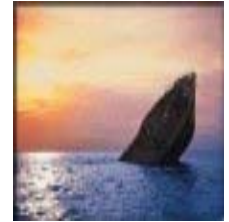
In every industry, in good times and in bad, companies that fail receive little or no mention in the press. These are unsung failures to learn from, for they're the ones that could have been avoided had management only done something different. To help ensure your company's success, learn what "something different" you can do.

Too often people feel business leaders can do little in most troubled company situations because the problems are general, economic or market related. They're wrong. Something proactive can always be done to avoid running into deep difficulty or to correct an unexpected reversal. If you ask a Bank Special Loan Manager, however, they will tell you virtually all management teams in companies that get into trouble put off or resist doing simple, basic things to turn their situations around. As a Canadian auto parts manufacturer, Ajax Precision, recently found out, **if you don't act in time, you'll run out of it.**

### – Don't Let Grief, Group Think, or Ego Delay Your Response to Negative Developments –

Here are some other take-home lessons from the failure of others that can help you ensure that your company succeeds:

- 1) **Know Why Customers Buy from You:** Understand what your customers value from you versus the competition and make sure your business delivers.
- 2) **Focus on Cash Flow:** Understand how and when your business dollars are coming in and going out. Try to put as many in the bank as possible and keep them there if the business bet you are facing doesn't seem worth the risk.
- 3) **Trouble Lies Behind the Numbers, Not In Them:** By the time problems show up in your financial statements, your business could be already dead on its feet, so don't play number games. Warning signs are usually clearly visible to those with open eyes and clear minds. If you are not sure, ask an outside advisor.
- 4) **Feeling Comfortable? Be Concerned:** Managing on cruise control because you are confident, have lost interest in your business, or because you are preoccupied with day-to-day matters is a clear sign of danger. A moment's inattention when driving down the road can put you in the ditch quickly. The same is true in business.
- 5) **Don't Delay:** Once you see something troubling in your business, jump on it aggressively. Having a problem means you are three steps away from improvement. Because change takes time, recognize how time can slip away quickly, and as it goes, so too go your options to turn things around.
- 6) **Attack Problems, Not Symptoms:** Putting off trouble by trying to whitewash the



Delay taking decisive action until your business shows clear signs it is about to go under and you will surely find yourself sunk!

(continued from pg 1)

situation, or attending to window dressing, is only a temporary, short-sighted response to difficulty. It can turn your business's minor sickness into a fatal disease.

**– Make Change Your Friend: Look for It ! Lead it ! –**

Good or bad, it's a mistake to see your indefinite future as a continuation of the immediate past. Remember, business is all about managing change. Companies that embrace change can lead it. Companies that resist change die.



This doesn't have to be your fate. Success can be had in making the best of a bad situation.

## Markets & Valuation Report

As at May 12, 2004

	Current	Higher/(Lower) vs. 3 mo ago	Observations
Canadian Dollar:	0.7205 US\$	(0.0392) ↓	Risks of a higher dollar still there
Cdn Interest Rates:			
- prime	3.75%	(0.50) ↓	How low can it go?
- short term risk free	1.91%	(0.29) ↓	Can't get rich with this rate
- long term risk free	5.34%	0.24 ↑	This is cheap long term money
Bank Business Loan Market:	Cautious	2.04% ↑	Bankers are feeling like Maytag repairmen these days
Company Valuations:			
- US public	9 - 18 x CF	(4)% ↓	Prices down but volumes are up
- Cdn public	8 - 10e x CF	(17)% ↓	Prices and volumes are down
- Cdn venture capital	Lower	N/A ↓	Some big deals but interest cooling
- Cdn private:			
Sales - \$50 to 100+ mil	6 - 7 x CF	8% ↑	Few deals/lots of \$s chasing quality; best ones go for 9 to 10 x CF
Sales - \$20 to 50 mil	4 - 5.5 x CF	-	- Bigger firms are easier to sell
Sales - <\$20 mil	2.5 - 4 x CF	-	- Deals still tough to do

*Somebody  
said things  
are getting  
better but it  
still feels like  
the party is a  
ways off  
yet !*

### Commentary:

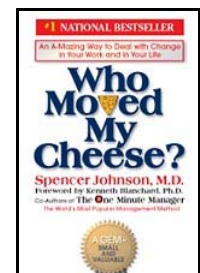
After the slow start to the year, you might be surprised to learn that Charter Bank economists are expecting 2004 to be markedly better than last year (~3% vs. <2% a year ago). Yes, oil prices are clearly higher, though that probably won't continue. Additionally, commodity prices in general will be on the rise, which means our dollar's recent weakness will likely reverse. Be prepared for a 5¢ higher 'Loonie' a year from now.

## Action Thoughts & Ideas

Here are some things worth thinking about that might help you:

- Every business is built on key assumptions. Do you know what yours are? What have you done to test them lately?
- Do you know what 'lean thinking' is and what it can do for your business?
- Too many companies confuse planning with budgeting. Can your strategic plan be summarized on two or three pages? Maybe you need help slimming it down so people can use it like you are supposed to.

Do you have questions, suggestions or thoughts we should cover? Let us know by calling (416) 346-4140 or send us an e-mail to GeneralManager@CompassNorthInc.com. We would enjoy hearing from you.



**Who Moved My Cheese?:**  
An Amazing Way to Deal with Change in Your Work and in Your Life  
- by: Spencer Johnson

This book is an easy read and it can help you accept and embrace change.



## COMPASS NORTH INC.

- providing management and advisory services

*Actionable business ideas - read & pass along -  
from Compass North Inc.*

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*Compass North Inc. helps companies make more money. We leverage proven business expertise and our executive-level experience gained in sophisticated national and global companies to help clients close better deals and take their performance to the 'next level' of success.*

*CNi's management and advisory services are geared to help commercial, industrial, manufacturing and technology companies deal with change. Our multidisciplinary team of professionals are extensively experienced in all aspects of the shareholder value creation process, and through them we offer such services as:*

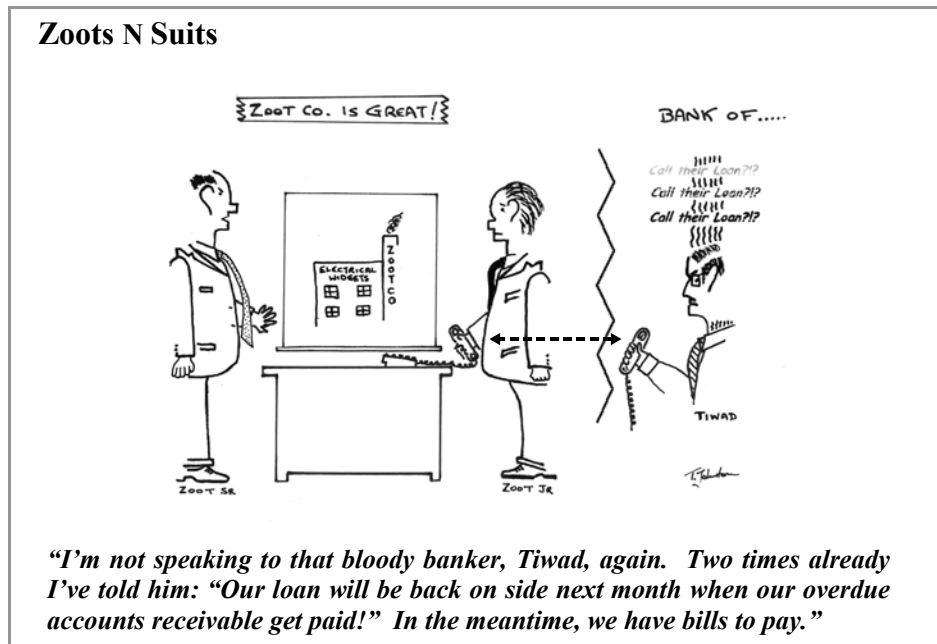
- Turnaround Management
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*CNi also has custom-tailored value-driven solutions packaged to meet the needs of business owners and managers, such as:*

- Business & Organizational Diagnostics
- Ownership Transition Planning
- Management Transition Support
- Strategic Assessment Services
- Operational Effectiveness Advice

## End Points

- If life's all business, where's the fun in making money?



If you could use some help getting your operations to perform or rebuilding your relationship with the Bank, we can help you get a start on that today.