Special Report

Restoring Confidence in Turbulent Times

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Corporate America and the nation's financial and business communities should not be lulled into complacency by Congressional approval of the $700 billion financial rescue plan, but should instead get prepared to weather the most serious financial crisis the nation has faced since the Great Depression of the 1930s.

But as the country works its way through the unfolding financial crisis, business and political leaders; investors; and the public need to keep in mind words of wisdom from two great Americans:

"It's not over 'til it's over"—New York Yankee Hall of Famer, Yogi Berra.

"The only thing we need to fear is fear itself"—President Franklin Delano Roosevelt, in his first Inaugural Address.

It will require time, patience, cool and calm planning, and sustained and thoughtful communications to all stakeholders for corporations and businesses to avoid panic, restore confidence in our economic system and successfully meet the challenges ahead.

We are in the process here of advising clients on how to 1) comfort their employees—most of whom are fearful and do not know what to expect; 2) work with investors and analysts who are concerned for their own part, but who are taking a totally new look at how they gauge those they cover; 3) address the media, which are 24/7 in terms of trying to interpret what is happening; 4) look at their philosophy, as this is an area that will change dramatically; 5) work with their boards, which are seeking direction; and more.

We will be reaching out to you in the days ahead on all of these audiences and others.

Let us here offer you some background.

What Will The Bailout Package Do?

The bailout package passed by Congress will hopefully ease the immediate credit crunch that threatened to shut down the flow of commerce across the nation and around much of the rest of the world as well. But it will not end the economic turmoil that has roiled the stock and bond markets or reverse the sharp economic decline in what could be the worst economic crisis since the 1930s.

So do not expect the Congressional package to end the collapse in housing values that has been sucking the energy out of the already slowing national and global economies. It will not even re-open the flow of credit through the global financial network as far as it should. The credit system has been clogged by mountains of toxic sub-prime mortgages and other, more exotic debt instruments of questionable value but, as important, by a level of mistrust based on ignorance of what will come next. In discussions with senior members of Congress in the past week we asked what the LIBOR rate was (an explanation is attached.) None knew of LIBOR or what it meant.

So corporations, financial services, small businesses, farmers, professionals, investors, homeowners, executives, and ordinary workers will have to suffer through the economic uncertainty and loss that will be inflicted as we continue to work our way through this grave financial crisis.

The pain has already been great just in the U. S., not to mention the global marketplace. The government takeover of mortgage giants Fannie Mae and Freddie Mac, which together hold or secure half of the nation's $11 trillion mortgage market, did not ease the crisis.

The bailout came too late to help save marquee investment firms like Bear Stearns or Lehman Brothers. Merrill Lynch, whose trademark bull was a Wall Street icon, was bought out by Bank of America. Insurance giant AIG was saved by a government bailout and its parts are now being sold off, and 11 banks went belly up. Expect thousands of small businesses and individuals to go bankrupt. In addition:

• Some 760,000 jobs have been lost since January 1.

• There were more than 1.25 million home foreclosures over the past year with more than a million yet to come.

• Trillions of dollars in value have evaporated from retirement accounts, pension funds, and 401(k)s, as stock, bond and commodity markets tumbled.

• The U.S. slowdown and credit crisis rippled across the globe, from Europe to Latin America to Asia.

What Will Happen Next?

In the weeks and months ahead, the U.S. Treasury Department, the Federal Reserve Board, The Federal Deposit Insurance Corporation, and other regulators will begin sifting through the mountains of bundled
sub-prime mortgage and other toxic credit instruments being held by the banks and lending institutions and try to figure our what, if anything, the government should pay for them.

While this process goes forward, the markets and the national economy will continue to slide down until both reach a sustainable bottom. How long that will take, no one really knows, but it clearly will be a long and painful process.

Housing values will probably continue their downward trek, thus generating more foreclosures as values drop below the mortgage debt. The decline in home values is already seeping into the commercial real estate market, deepening the foreclosure crisis, and putting additional pressure on our financial system.

Cities and states will face critical revenue shortfalls due to the economic downturn and the drop in property values. California and other states are already pondering the need for federal loans to help meet payroll and other costs.

As banks and thousands of small businesses will fail, unemployment will certainly continue to rise, thus feeding the downturn.

To reverse the cycle, expect the new Administration's first order of business will be putting together a multi-billion dollar economic stimulus and job creation program despite the looming record high federal deficits.

What Should Business Leaders Do?

In order to survive this severe economic crisis, business leaders will have to drive home the messages of cost containment, efficiency, and all-out efforts by all employees at all levels of operation. To underline the seriousness of the situation and to set a standard for all in the organization, top management should consider taking salary reductions and consider the elimination of costly perks for the duration of the downturn.

The messages of various areas of belt tightening need to go out to all stakeholders—board members, employees, investors, suppliers, and the general public as well. The messages should be delivered calmly without hint of panic or distress as part of the company's overall plan for dealing with the financial downturn.

All reduction and cost containment decisions should be announced promptly and publicly to avoid unnecessary anxiety or uncertainty in the marketplace. The surest way of combating harmful rumors and instilling confidence is to be as transparent and honest as possible.

The current economic crisis has taken business and government into uncharted territory, so there really is no roadmap for how to proceed. But, in general, it would appear prudent for most businesses to:

• Stay liquid. Conserve cash and avoid debt as much as possible.

• Cut waste. Encourage cost containment. Slim down and streamline. Shed marginal or non-productive operations.

• Be alert for buying distressed competitors at bargain basement prices.

• Take advantage of opportunities to increase market share as competitors are forced to retrench.

• Closely monitor the economic environment for opportunities and potential dangers. Be especially attuned to what your competitors are doing.

• Keep all of your stakeholders informed on business decisions that will affect them or their interests. Keep in close touch with the analyst community as well. Remember, in times of economic distress, companies need to take extraordinary efforts to dispel uncertainty, anxiety and fear in the marketplace.

This is not a rosy scenario, but clearly we are in for difficult times. To meet the challenges ahead will require the kind of leadership, discipline, focus and willingness to sacrifice that brought this country through the great challenges of the past.