



How we survived the Great Recession

My family-owned packaging company has maintained its reputation for excellence despite economic challenges.

Here are some tips for business leaders.

BY MITCHELL S. KANEFF

WHETHER IT'S THE Great Depression of 1929 or the Great Recession of 2009, family businesses are highly susceptible to the challenges faced during economic downturns, as all businesses are. However, steeped in tradition and longstanding loyalties, family businesses are often less able to quickly adapt and make the changes needed to survive during challenging times. To make matters worse, they also usually lack the formal plans necessary for responding strategically to an unforeseen crisis.

In 1997, I assumed control of my family's business, Arkay Packaging, which provides folding-carton and other packaging to leading companies such as Estée Lauder, Procter & Gamble, Johnson & Johnson and L'Oréal. My grandfather founded the company in 1922; under my father's leadership, Arkay Packaging adapted new technologies and continued to grow. Today the company has 175 employees; annual sales are above \$50 million.

The following strategies were successful in helping my team at Arkay Packaging maintain our company's reputation for industry excellence during the Great Recession of 2009:

1. Be proactive. Being proactive means decisively confronting and managing the issues at hand, no matter how dire the consequences. During crises, I always remind my team what author Jim Collins so clearly prescribes in his best-selling book *Good to Great*: "Confront the brutal facts." This practice should not necessarily invoke fear and paralysis. Instead, it should inspire proactive problem solving and planning.

Spend time with your family and your staff. Share your thoughts on the current crisis with them. Host town-hall meetings and one-on-one discussions with managers and other employees. Understand their concerns. Address their fears and uncertainties. Keeping morale up during any challenging time is vital to the performance of the company.

Above: Arkay Packaging employees pose outside the company's Roanoke, Va., plant.

In the same way, engage actively with key outsiders such as clients, vendors, lenders and bankers. Talk to them to better understand how your business is faring in their eyes with respect to quality, service and competitiveness. Let them know your short- and long-term strategies for success. Ask them what they think can be done so that you can be a more vital and indispensable resource to them. In all dealings with both insiders and outsiders, it is absolutely critical to keep your word. Your reputation must always remain intact, no matter how severe the crisis.

2. Be transparent. Most family business leaders are very protective of their businesses. They seldom discuss essential company information with employees, let alone customers. But employees are not naïve. Family business leaders should be transparent, like their counterparts at publicly traded companies, while also striving to sustain the enduring values, traditions and legacies of their businesses.

Leaders should share essential business data with the team, including financial performance. In our facilities at Arkay, we post this information monthly. It enables all of our team members to see our progress and opens the door for questions and suggestions. No matter what the crisis, all stakeholders must take ownership of all successes and failures.

3. Be hands-on. Leaders must be absolutely hands-on in guiding the business through trying times. It is not necessary to micromanage, but it is essential to understand and



Mitchell Kaneff, age six, in Arkay Packaging's Hauppauge, N.Y., plant with his uncle Rusty Rudoff (left) and his father, Howard Kaneff.

engage in all aspects of the business.

At Arkay, we usually review all key metrics and then accordingly implement a monthly action plan. This plan includes an overview of the monthly budget, expectations for sales and all key expenses. We also review actual-to-budget numbers at the end of each month.

During times of crisis, we review and adjust our action plans frequently. We make sure to review cash flow, sales coming in and shipments every day. We also carefully monitor our weekly key scorecard with its checks on vital signs including accounts receivable, accounts payable and payroll. Creating accurate projections during uncertain times can be challenging, but the activity will enable you to target capital needs while also eliminating unnecessary expenses. As you plan for the future, a hands-on approach



Arkay Packaging chairman and CEO Mitchell Kaneff in the press room at the company's Roanoke plant.

to financial reviews will better prepare your company for growth opportunities when the storms finally subside.

Success in managing through a crisis may ultimately depend on the business's cash flow. To monitor our cash flow, we regularly review our bank line, our book availability and our checks for the next week. In our planning, we use the two-week cash flow model: two weeks for trending of checks, taxes, payroll, commission, etc.

If cash flow is a problem, look to negotiate payment terms that are acceptable to all parties given the challenging circumstances. Getting ahead of the curve and planning will make it easier to understand and predict cash flows. At Arkay, "Cash is not king. Cash is God!"

4. Seek outside help. The tougher the business situation, the more likely it is that a family business leader will not seek outside advice. Leaders often circle their wagons and hunker down during times of crisis. With years of success behind them, many also adapt an attitude of "I've seen it all before" and attempt to manage through the crisis alone.

I rarely chart my course of action by myself. In addition to working closely with my leadership team, I meet regularly with accountants, family financial planners and commercial and investment bankers. I do this monthly with some and quarterly with others, but I am always an e-mail or a phone call away. I also count on my board of directors and business peers to provide me with actionable advice for immediate success. No leader should manage his or her family business alone. In good times and bad, success is a team effort.

5. Be brave: Increase marketing/sales dollars. An economic downturn is a great time to really get to know a customer. Instead of cutting marketing dollars, invest in research to better understand how your customers are re-defining value and responding to the downturn. Hopefully, you can learn what they will value in the future as well. At the same time, be very cautious about taking on any new customers, no matter their size. We always review prospective customers' credit reports and require deposits for any work we do.

Since many family businesses take a long-term approach to growth, they may be tempted to cut back on sales and marketing or product development during down cycles. I believe that hard economic times present opportunities to plant the seeds for future growth. During these difficult periods, look to hire salespeople who can generate potential new leads and new business.

Being 'cab drivers'

Often the best practices we follow during tough economic times are the same as those we implement in flush times. The only difference is that we are more vigilant in applying them in a downturn. I like to think that our role as family business leaders, particularly during harsh economic times,



Mitchell Kaneff with his twin sons, Josh (left) and Max, in Arkay's Roanoke plant.

is to be our customers' cab drivers. Here's what I mean:

I was recently traveling from Toronto back home to New York. At the hotel, a cab driver approached me and asked if he could take my bags. First he opened the door for me; then he placed my bags in the trunk. He walked around the cab to close the door.

After I told him I was heading to the airport, he asked if I was traveling internationally or domestically. I said I was traveling to New York. He proceeded to hand me a customs document on a clipboard, with a pen. I was impressed.

This single act saved me 15 minutes and potentially could have helped me to make my flight had I been running late. When we got to the airport, the cab driver helped me remove my bags from the trunk. As I walked into the

terminal, he ran up to me to hand me my cab receipt. In my rush to the gate, I had forgotten it. At the same time he gave me his business card and suggested to me that on my next trip

back to Toronto, he'd be happy to meet me inside the airport. Once again, I was impressed. I noted to myself that the next time I stayed in Toronto, I would make a point of riding in his taxicab again.

This experience made me realize that we all are our customers' cab drivers. In good times and bad, all we can truly control is our reputation for superior quality, consistency and innovation. FB

Mitchell S. Kaneff is chairman and CEO of Arkay Packaging (www.arkay.com). His book Taking Over: Insider Tips from a Third-Generation CEO is scheduled to be published this spring.