

EXTENDED

Extend and Pretend

-- Al E. Bavry, President Emeritus, Kimal Lumber



Reading an investment letter the other day, I came across the statement: “Extend and Pretend.” In this case they were talking about an iffy stock that “might” gain traction down the road. By “pretending” that all the planets might line up in a row and it skyrocket in value, it could gain a lot of value! So, “Extend” your position into the future. Said another way, it painted a picture of taking an easy route rather than making some tough, uncomfortable decisions in a timely way. So, how do we apply that philosophy to our day-to-day operations? Here are some thoughts that came to mind:

- So, you have a truck or heavy equipment that is needing some work...You’ll put off fixing it now. Hey! We’re pretty busy now, so I can coax it along a bit longer...But the fix down the road may be far costlier when it really breaks in a bad way! “Extend and Pretend!”
- You have a customer who is showing some early signs of having financial problems...They’re paying us a bit slower, changing their Subs...You get the picture. The customer says, “But just wait a bit, I’ve got this one job that’s giving me a fit. I’ll be ‘well’ when I get it behind me—just bear with me for 60 days.” So, you forgo some tough credit decisions and extend further credit when you might need to reconsider your position and make some tough, uncomfortable decisions now!
- You have an errant employee...Job performance deteriorating, attitude change, etc. You have a fairly benign conversation (Hey! Don’t want to harm his/her sense of worth!), and park the problem maybe way into the future...And then it really blows up! You realize you should have brought HR into the picture early on, rather than allowing the situation to finally implode. Hey! Always remember. Where there’s smoke, there’s usually fire!
- You suspect a structural problem with your P&L...Numbers are trending in the wrong direction. A quick and easy analysis might show rapidly accelerating commodity prices...You “Pretend” that this is the whole issue, and “Extend” the issue down the road...When an in-depth analysis might show a whole different scenario. Take time to “peel the onion back”...even if there’s one warning flag.
- The competition has “stolen” a few “key” customers. You may say, “Oh, they just used the old *Sell it Cheap* strategy. Once the customer sees the short term strategy, he’ll be back.” When, in fact, maybe what you should do is analyze the whole situation with the caveat that maybe, just maybe, *we* did something to cause the customer to leave...Be honest in appraising the situation. Don’t “Pretend” that the issue is one dimensional, and “Extend” your concern into the future...

I’ll stop here...I’m sure we all have cases where we “Pretend” that something is a certain way (the easy answer) and “Extend” that issue, problem, concern, whatever, into the future--knowing “It will get better.” When in fact, the opposite is often true! And maybe another way to frame and wind this up, is to always follow the old rule of being “Proactionary” rather than “Reactionary.” The toughest call you may have to make is probably the one down the road...Not right now!

Good luck and great selling.