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HITTING THE WALL:
What It Is And How To Survive It

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By Don Zillioux, Ph.D.
Chief Scientist and CEO, SDW

Running a fast-growth company can be exhilarating. But when growth gets out of control, it can be a desperate, intensely emotional, painful, and often public experience.

Hitting the wall

We've all heard about it. Though it happens in different ways, "hitting the wall" has one overwhelming characteristic: you're out of cash and you're out of options. More accurately, you may not be aware of the options you actually do have. But, basically, your company is in trouble and there's a strong chance it won't survive.

The mystery is, since every one of us knows about the "wall," why do so many otherwise smart business leaders hit it? The answer is threefold:

- First, in emerging high-growth companies, advance warning of disaster is seldom accompanied by warning bells and whistles that are recognized by management.
- Second, the same qualities that make entrepreneurs so successful at growth often impede the management of that growth.
- Third, people often start businesses because they know how to do something (fix cars or write code—its all the same here). What they miss is how to run the business that *uses* that something. In the end, they try to work *harder* but are less successful at working *smarter*. That's the real pity, since hitting the wall is always painful . . . and unforgiving.

One company's experience

I know this because I have been introduced into multiple companies that were experiencing it first hand. In 1998 one company hit the wall and hit it hard. Their family-run business ended the 1998 fiscal year with $10 million in revenues and more than 100 employees working at units in Atlanta, Los Angeles, and San Diego.

At age 34, their founder had begun his company with a clear concept. He had read the story about selling picks to the miners during the gold rush in California, so he set about doing just that— in a new era, a new industry, and new product solutions. Customers flocked to his products and there was no shortfall of complimentary press. And then in 1998 he hit an immovable object called the "wall." Cash had run out. His Atlanta operation was out of control and his capital and lease commitments were becoming unmanageable. Then, he suffered further losses from those operations, which eroded market value and customer loyalty, as inventory began to dwindle.

One business newspaper did the corporate obituary and, with the benefit of hindsight, pointed out in painful detail every mistake: too much short-term debt, uncontrolled growth, too little experience, and poor management execution.

And you thought it was lonely at the top?

Hitting the wall is a desperate, intensely emotional, often public experience. And when you hit the wall, you usually hit it alone. Those who helped you rise usually have a new spin on why you're there and they're not.

In rapidly growing companies (or companies with a lot of "potential"), hopes are always focused on future performance. And the language from one company in trouble to the next is remarkably similar:

- "We're about to get the biggest contract we've ever had."
- "This new product can carry the company."
- "This budget is really conservative."
- "Our revised sales plan shows that we'll be profitable next month."

The reality it seems is always clear to everyone but the chief executive. The next month is usually not any different from the one before, nor does the revised budget by itself, change the company's underlying problems.

Then, too, rapid growth itself—too many new locations, new products, new people, too much or too little capital; and always too little investment up front in financial systems and controls—makes everything worse. In this case, hindsight proved the harsh reality of just how many new people and units could be brought on line in any period of time. Needless to say, healthy skepticism on management's part would have helped them better manage their growth.

The tragedy is that few companies about to hit the wall just nick it or bump it. Most crash right into it often realizing the truth only after the fact, when something major —like cash— becomes an emergency. And most companies hit the wall at the peak of their sales growth and just as their access to capital is drying up—a lethal combination.

Developing "Wall" radar

So how do you know when you're about to hit the wall? Listen to the people you'd like to avoid because you don't want to hear their advice. Seek people outside your own circle, a good business consultant will help you face facts. Ask those people about your expansion strategy and your new-product plans, and most important, have them challenge your cash-flow projections. And before you dismiss their input as useless because you're sure they don't know your industry, your product, or your people, think about what they've said.

Their opinions could be validated by the events such as diminishing cash flow, recent turnover of good people, more-frequent surprises (both good and bad), expanding general and administrative costs, and your own increasing distance from the core of the business. When you find yourself spending more time with your chief financial officer and lawyers and bankers than with your key operating people and salespeople you know you're getting close to the wall.

Other sure signs are hearing yourself tell others that you visit your operations more frequently than you actually do; hearing others describe you as "visionary"; and walking down your company's halls and seeing lots of framed articles and awards (usually from a year or two past) that have little to do with the product or service that's the source of your company's revenues. Finally, if you find yourself feeling embarrassed when others refer to you by what you do, you know you're in deep trouble.

When we try to escape from our own business, we need to be especially tuned in to the reasons why. We need to take to heart the views of outsiders. As someone once said, "When ten people tell you you're drunk, it's time to fall down."

Surviving the "Wall"

The best way to survive the wall, of course, is to avoid it altogether. A lot of companies do that by managing their growth up front and relying on internal, not external, sources of capital. But even if you do run smack into it, the experience doesn't have to be fatal. When you're in a company that hits the wall, it's like being the first on the scene of a major accident—there's lots of noise, panic, and misinformation.

Often the first things I do involves calming everyone down and helping to assess the situation clearly—the first steps toward survival. Often an assessment by outsiders before you hit the wall can save the business completely.

One thing outsiders can do is to quickly assemble customer and non-customer advisory resources. Sitting behind a one-way mirror and hearing unedited opinions about your company and its products, services and leadership is a powerful way to begin developing a plan to deal with those perceptions and the attendant problems. One thing most people never accept quickly enough is that life is never the same after you hit the wall. A realistic scaling back of both your company's and your own personal financial plans makes it much easier to survive. In many ways hitting the wall can make you stronger in the future, but just as we don't want to see our children learn their lessons the hard way, critical thinking about your business, trusting the facts and not the hype, and seeking outside advice and criticism can go a long way toward preventing the pain.

Don't just survive—stay healthy!

In some basic ways, your personal health and the health of your business are much the same. Periodic physicals help you stay healthy and head off illness. For just the same reasons, periodic organizational health physicals will do the same—help the business stay healthy and head off catastrophic and often fatal illness.

Remember, it is easier to ask than it is to struggle and possibly fail. For me, the facts are always friendly.

About the Author

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Don is an expert in large-systems change management and a guiding contributor to SDW's Advisory practice. For over twenty years, Don has advised a diverse variety of businesses, such as SKF-Germany, NCR, Mexicana Airlines, Advanced Tissue Sciences and many others, large and small, throughout the Americas, Europe and Russia. He has worked with various Native American organizations and played a founding role in the creation of HANU University working with the IPFDC to conceive and create the first Native American University for New Mexico.

Don's writings and consulting work focus on planned change, organizational development, managerial effectiveness, sustainable performance, leadership and managing change with measurable results. He is the author of *The Results-Focused Organization* and, with Darrell Luery, a soon to be published series of results-focused field guides, the first of which is *The Field Guide for Managers and Supervisors*.

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