

## **The Shindler Perspective, Inc.**



### **Passing the Stress Test**

**By Marty Shindler**

We have seen it so many times. So have you.

We have seen a significant number of facilities in production, post, visual effects and the related areas, close over the years, even in good times. The overarching reason for this — in our opinion — is that these companies fail to support their creative and technology teams with a strong business team.

This is the main reason for failure. All of the others are secondary.

The recent announcement about the closing of The Orphanage has sent a shiver down the spine of many visual effects companies, movie studios, post houses and others that are watching and even awaiting the fallout.

While the specific reason or reasons The Orphanage orphaned 160 people may never be known publicly, there has been a lot of speculation. This has included mismanagement, counting on a project to come through that was delayed and ultimately did not come through, over leveraging their assets, bidding on work at below cost, etc. The specific reason may not really matter. It is over and the place is closed.

The problems that The Orphanage faced are not that dissimilar from those faced all the time by many other visual effects, post production and other organizations. The challenges at The Orphanage bubbled over while those at other facilities rumble below the surface for long periods before finally going over the edge. Others are just not as high profile.

These problems rumbling below the surface are more relevant today than ever before, especially given the challenging times we are in. There are other facilities in the marketplace with business and financial problems. It is important that these problems not arise during a crucial time in the delivery cycle for a major movie or during production on a TV series. The potential ripple effects are tremendous.

This may ultimately mean that facilities will have their management structure and finances reviewed by the studios before future work is awarded. These companies will need to be able to pass the stress test, a phrase that is especially prevalent in the news in the current economic climate.

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The main problem is that most companies are reluctant to admit they have a problem. Often that admission comes when it is too late. Does an alcoholic admit a drinking problem or does it take hitting rock bottom? You know the answer to that question.

Periodically, companies attempt to meet the challenges themselves. That is not a bad course of action as a first step. Sometimes, though, that results in the entire management team — if indeed there is a team approach — following a common path because no one wants to be the voice of dissent.

In our experience, we have seen some companies use short term cost-cutting to stave off problems. Sometimes that works fine. Often it is like putting a band-aid on a serious wound. Sometimes companies take an unrealistic approach to ways that will hopefully transform their business. The intention is good, but the approach is inadequate. A flawed decision-making process will not self-correct.

This may not enable them to pass the stress test. Often the “make up exam” is too late.

The following are but five general signs that you may not be able to pass the stress test:

- Lack of communication amongst the team members with important matters falling through the cracks;
- A feeling by the “entrepreneur in residence” that everything must be done by him/her; but never feeling as though there is enough time to do even a fraction of the to do list;
- Reactive vs. proactive management;
- The company is growing but there is not any clear path to profitability;
- Chaos sometimes reigns supreme.

Of course these are very general problems that may or may not signal a stress problem at a particular company. Often the people running these companies do not know if their problems are at risk of reaching a critical level. Often they know they have a problem, but find them easier to ignore.

Sometimes they know how to solve them and it is just a matter of making bold changes. But sometimes they do not, especially in this industry where the company heads may be more artist than business person, or perhaps are just too entrenched in the day-to-day minutia to objectively assess the structural damage. That is when an outside consultant can pay huge dividends.

In the meantime, five important general recommendations to relieve some of the stress include:

- Clearly define the exact roles for key members of management, including the "entrepreneur in residence" and make sure that all important business functions are adequately covered and that there are clear lines of communication within the organization;
- Understand when it is time to bring in outside help;
- Never underestimate the power of marketing and never cut significantly into the marketing budget when times are tough;
- Prepare financial statements and projections on a regular basis, including an analysis of the true cost to complete projects;
- Learn from mistakes - hold a post mortem after each significant project and at regular intervals during the course of the year, soliciting input from throughout the organization.

There is never a guarantee of success, of course. If this scenario rings true, the time has come to move forward diligently to prepare for the stress test with the help of someone who can objectively evaluate the situation.

The test *is* coming, not might be coming. Are you prepared?

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