



“From The Hot Seat” – Perspectives from the CEO

October 2019

Greetings from the “Hot Seat!”

Our fiscal year ended September 30th with a bang! Our TEAM completed orders for September with the largest labor contribution (revenue minus material) in our history. Does our FYQ4 success portend more success for FY-2020? One would hope that a huge last quarter would be an indicator of the next year. The truth is that in our business future order visibility generally provides some level of accuracy for about three months into the future. Our business is very “lumpy” and is fraught with many peaks and valleys. Consequently, forecasting becomes a bit of “black magic”. If we keep doing the “right things”, the orders will follow.

We conduct a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis each year to assess our fundamental conditions. Not “giving away the farm” regarding our detail strategies, I will only address the Threats. These threats are well known and likely affect all of us. Certainly, the list of threats can go on forever. I will address the major threats and strategies we use to minimize the impact. The list of potential threats and volatility in the marketplace is common to all. When threats materialize they may morph into other issues; thus, compounding the impacts.

Thomas Friedman wrote *The World is Flat* (2005). The “flat world” drives a level of interdependency that was not held as a common view in 2005. What happens in China, India, South Africa, South Sudan, Syria, and every other country on the globe today impacts us all in one form or another. The stage for threats and threat impacts is most certainly global.

Authors Jim Collins and Morten T. Hansen in their book, *Great by Choice* (2011), examine the chaotic and unstable world and suggest the best that survive, and even thrive, against these threats have common key traits. At Silicon Forest Electronics we have adopted many of these traits within our business model. Risk management is key. The actions taken BEFORE a chaotic or catastrophic event will well-prepare the company for weathering the storm and even thriving. Risk management does not mean risk-averse.

Risk management is being prepared for the “what if” scenarios and then proceeding with prepared knowledge. Collins and Hansen’s premise is that great companies manage risks in three ways. First, great companies build cash reserves and create buffers. For the “lean” gurus, buffers are a no-no. However, risk management buffers, taken in the context of Kanban approach, make total sense. Be sure you have resources available should a disaster occur. Second, bound the risks. Never engage in situations where failure can bring about the death of the company. Betting the company may pay off; however, the risk of loss is too great. Take smaller bites at the problem where failure does not result in the company’s demise. Third, always take a “world view” of the problem. Zoom out and view the situation as the forest AND then zoom in and be cognizant of the trees. Survival of the forest is the objective and may require the sacrifice of some of the trees. Be capable of “zoom-out”, examine the forest, then “zoom-into” the details of the problem for specific solutions.

What are the impact(s) that are on our threat list? There are many. My primary concerns are the impact of geopolitical instability, the impacts of trade dysfunction (trade wars), potential recession(s) in-country and globally, the impact and fluctuations of currencies relative to each other, elections with the left versus right being intolerant for others’ opinions deepening the political divide; and the list goes on... So what are our strategies?



Our solutions to the risk mitigation questions are not new and have been the mainstay of the SFE philosophy. First and foremost, eliminate any single points of failure; especially any failure that might drive the company to the “death line”. I believe our focus on “Making a Positive and Profound Impact” will always carry the day at the crest of any of the waves of threats. Together with the focus on finding positive outcomes, we can overcome.

Keep the SFE culture intact and the TEAM will work together to create needed solutions. Our greatest asset is our culture. People (employees, customers, suppliers, community partners, and shareholders) are the tools we have to solve the world’s problems and the impacts generated by threats. The secret sauce: SFE Culture - SFE delivers! Product, Quality, and Relationships. Especially in times of crisis, our stakeholders want to know that SFE will continue to deliver!

Socratic questioning is the basis of our existence. Understanding derived from questioning is essential for SFE to meet our commitment to high quality. The dialog brings a level of communication standard between individuals that improves both sides of the ledger. Questions allow each of us to better understand and improve.

Maintaining our focus on providing the highest quality products and services achievable. SFE Quality performance set benchmarks for others to follow. As I write this today, we are on day two of our audit for NADCAP accreditation. Continuous improvements are essential in accessing the growing technological advances available in the industry.

Lastly, never forget that sometimes things may go wrong. When “stuff happens” it is about what we do about it. All solutions are driven by individuals and how we act and react to the daily problems will dictate our long term successes. It’s what you do about it that counts!

No threat analysis can be complete without an exhausting examination of our resources, manufacturing processes, and our thought processes. The act of thinking about risk assessment, risk mitigation, and solution creation will keep us alive for many years to come.

Frank Nichols
CEO/Founder/President
frank@si-forest.com