

If the Economy Slows, Will the Cracks in Your Business Show?

By Monroe Porter

Business tends to go through cycles with some segments of the market more prone to slowdowns than others. Having been a business consultant for 30 years, I have weathered the oil embargo, the 18% interest rates of the early 80's, the savings and loan crash of the early 90's, and 911. Frequently, contractors ask me what they can do to prepare for a turndown. The best advice I can offer is to run a solid business and tighten up the weak spots in your organization. As business slows cracks and crevices in your business foundation have a much greater profitability impact.

The “my good name and reputation sells my work” contractor: There is no doubt that referrals and repeat customers are the least expensive way to drive your business. However, this approach can be devastating as the market slows because there is no way to develop new leads.

I recently received phone calls from several contractors who attended one of my cost seminars in the 80's. Unfortunately, they missed the marketing seminar. They had made a nice living through the years but now their business was suffering. With a little investigation, I found that many of their customers were dying or moving into retirement communities, they did little advertising and their vans and trucks were not even lettered. Now with fewer referrals and repeat customers, they just were not receiving enough phone calls. By not creating a brand name, both of these contractors came to the realization late in life that they had created self-employment rather than a real business.

BUSINESS CRACK #1: If you have no brand name, it may be too expensive and too late to create one in a down market. Downsizing and starting with marketing basics such as truck lettering, signage etc. is a must.

The “I’m bored so I am not going to be as active in my business” contractor: If you work at a job long enough, most people become less motivated. Contracting is no exception. With the past economy being so strong, many contractors have been able to step back, not be as active in the business and everything went ok. With fewer leads and tighter prices, things can quickly go bad. Many of these contractors will also blame the economy, poor employees and other factors rather than look at themselves.

Don't get me wrong. You can step away from your business, but you must have a good plan in place, develop an organization to do what you used to do and have a method for measuring what happens to make sure nothing goes wrong. As a leader, you must also stay connected to the organization. Family businesses can also suffer because too many family people may be taking draws from the business and not pulling their weight.

If the business begins to blunder, owners must be careful as they step back into the mix and try to rally the business. It can be tough for working class folks to be sympathetic to a bitching owner who left his condo in Florida, visits sites in his Mercedes and screams at folks for not being productive. Now is not the time to be a seagull manager by showing up at the job to squawk and dump on people.

SO, THIS IS BUSINESS CRACK #2: A disenchanted owner who is not providing leadership to the company. Work at being a better leader and better influence of your business.

The “I don't need to visit jobs and/or sell anymore” contractor: I am not advocating that owners must always stay active in day-to-day operations. In fact, I think for many it is a good idea that they are no longer active and they have earned the right to kick back a little. However, if the owner chooses not to be active in these processes, he or she must be realistic about the results being achieved by others and be able to measure those results. As an economy tightens, each and every job counts. No longer can you afford to have a poor performing salesperson or foreman.

I recently ran some numbers for a contractor with a poorly performing salesperson. The contractor was actually having an ok year but had expected a great year. When reviewing the salesperson's numbers, he

finds that his closing ratio was 20% less than what it should have been as compared to the other salesperson. Mistakenly, the owner thought that this person was on commission and did not cost him money. I quickly showed him how those lost sales would have generated another 70k in profit as he had the capacity to do the work, and the gross profit would have gone right to his bottom line.

If your business slows and you want to help bring value to the business, you need to find a way to help sell and run jobs. This might mean the owner has to make some calls or it might mean the owner needs to coach and work directly with the salespeople and foremen.

NOW WE HAVE BUSINESS CRACK #3: Salespeople and foremen who are not performing. If you are not going to be as active, you have to make sure your people are performing.

The “grow to make money” contractor: Growth is not always your friend. The more you grow, the more cash you need, the more employees, the more leads, the more admin, etc. Whatever you do poorly is now more exposed than ever. As the economy slows, prices tend to drop. Growth oriented contractors tend to match dropping prices because they believe sales will rescue them.

Dropping margins too low can create a break-even point that is difficult if not impossible to meet. What if a contractor does 1m in sales with 30% gross profit or \$300,000 total gross profit, and they drop their price 10%? They now must do 50% more volume or 1.5 million at 20% gross profit to end up with their same \$300,000 in total gross profit. Growing sales 50% in a declining market is probably unrealistic.

BUSINESS CRACK #4: Uncontrolled and poorly managed growth and margins. Maintaining margins is a necessity in a slowing market.

The “I’m going to build a big shop and other investment property for retirement” contractor: Most contracting businesses are worth little or nothing when the owner dies or wants to sell, so developing commercial property through the business can be a great strategy. A potential pitfall is if you build too early and do not have enough cash in reserve, you can be stuck with a severe cash flow issue. Contractors who by nature love to build things tend to build more than they really need.

Such hard building assets can stick the business with a debt that can be hard to pay in tough times. Liquidating the building would be painful plus the business needs a place to operate from. Some of these same contractors will also build a large home and see that as an investment. Being caught with too many hard assets and not enough liquidity can be devastating in a down market.

BUSINESS CRACK #5: To be facility and home poor. Obviously this is a long term issue but you must be realistic about what the business can competitively support.

Yes, the economy can slow and things can happen to your business which at first appears to be bad luck. Stories have it that Ty Cobb, one of the toughest competitors of all time, was sitting on the bench when one of his teammates drove the ball over the outfield’s head. In the old days, not all the fields had fences and the teammate jogged slowly around the bases feeling good about his massive home run. The ball hit a rock and bounced backwards into the hands of the outfield. The outfielder relayed the ball in, and the teammate was thrown out at home plate. As the teammate sat down by Ty Cobb, he cursed his bad luck. Cobb replied, “You make your own luck by hustling.” Good business people hustle and make their own luck.

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