Planning, selling are key recession opportunities

If you do not panic, you can turn a ‘downer’ economy into your advantage

By Frank Butrick
Management Consultant

Talk of recession sends ripples of panic through the business community. And with good reason, because every major recession will see some business owners closing their doors—without ever reopening them. Big business and little businesses try to hunker down for the coming storm, because a recession is no respecter of size.

Yet here and there business managers remember that the best defense is a good offense. These men will make their businesses grow in good times—and grow in bad times. Because a recession represents a paradoxical opportunity. First, it forces the hardy to plan and analyze more carefully—to become better managers. Second, it forces selling to become hard selling—which is always more effective than lazy good-times order taking. And third, when your competitors hump up to weather a recession is a perfect time to broaden your market penetration. A recession will kill a soft, lazy business, but if you are tough enough—and determined enough—a sharp recession merely works the fat off and toughens the muscle. When this recession ends (and it will), your business can be bigger and stronger than it is today—if you want it badly enough to work for it.

Protect the Profits You Have Now

1. Analyze your business for the past five years, Take your Profit and Loss Statements and (if your accountant does not do it for you—and too many do not) calculate every item as a percent of sales volume. Then study these percentages, item by item, for all five years. Regardless of sales volume, a business is profitable if its expenses are lower than its gross profit. So as to not distort the numbers, pull your own salary and depreciation out—the former because you can control it, and the latter because it is merely a legal charge-off against taxable profit. Your accounting records are more than a tool used for filling out tax returns. They are a management tool to show you where your money comes from, where it goes to, and how much stays with you. But to make the numbers meaningful you have to compare one year with another—thus the percentages. Watch for a drooping gross profit. That means your bidding has become too sharp—you are cutting your own profit too deeply to get work. Keep it up and you work at breakeven; maybe you would even be better without the jobs. Watch that gross profit year by year and month by month; it is one of your most important numbers.

2. Then analyze your growth, year to year, again as a percentage. Courtesy of the boys in Washington, a certain amount of growth is built in. It is called inflation, and it pushes your sales upward without much effort—or at least, it should. But if they do not grow faster than inflation, you are
not growing at all. So check year-to-year growth against inflation.

**In 1975 it was 9.4%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
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<tbody>
<tr>
<td>1975</td>
<td>9.4%</td>
</tr>
<tr>
<td>1976</td>
<td>5.2%</td>
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<tr>
<td>1977</td>
<td>6.0%</td>
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<tr>
<td>1978</td>
<td>7.5%</td>
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<tr>
<td>1979</td>
<td>13.5%</td>
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If your sales did not grow as rapidly, and if your gross profit did not hold fast or increase slowly as a percentage of volume, then you have problems built into your business which may not have shown up in good times but will rise to haunt you in a bad one. It is not enough to know about drywall and insulation, underlayment and roof trusses. That is enough, perhaps, for a job foreman—for one of your middle-management people. It is not enough for a manager or a business owner; if you have a business, run it. It will not run itself.

So analyze those volume and gross profit numbers. They are the pulse rate of your business.

3. Now look at individual expenses as a percentage of sales volume. The information they reveal is plain enough—you must control costs. You must make a profit every good year or you will have no cash for a bad year. And you better make a profit in bad years, too, or a couple in a row will wipe you out.

4. There are two other numbers you should analyze: Accounts receivable as a percentage of sales volume and inventory management. Divide sales volume by 52 and the answer into your A/R to get your average collection period. Five (weeks) is reasonable; less is better. More could be disastrous. You are not a bank and should not be in the loan business. Charge 1½ (or 2%) a month for past-due receivables. Charge $2 (or so) for every statement. Put on a 3% ten-days discount to speed up your cash and bill if a customer takes it late. Get tough about cash flow and collections; in times of double-digit inflation, money is worth well over one percent every month. If a customer uses yours, charge for it.

5. Inventory control is part of management. Fortunately, your inventory should be very low at year’s end. But there is a trap here; compare one year-end inventory with the next. Any increase in inventory shows up as a direct increase in your taxable profit! That does not make any sense, but if you disbelieve it, ask your accountant. That also means that a decrease in inventory reduces your taxable profit. So run it down. Besides, an inventory ties up cash, and in a bad year you want, above everything else, to protect your cash flow.

Make your accountant work for you, not just for the IRS. His time, talents, and experience are valuable. Ask him for advice, what the numbers mean, what other businesses are doing. Amatuerish financial management kills more businesses than any other single factor. Make yourself an expert. It will pay off handsomely.

**Increase Your Profitable Work:**

Part of your financial analysis leads directly to the next way to fight a slump year. Analyze your jobs by type of work done and kind of customer. If your books are not broken down by type of work—walls, ceilings, drywall, plaster, and by new construction, remodeling, commercial/residential, etc., then make an estimate. And meet with your accountant; you cannot run a business
without cost and profit data and the breakdown by kinds of jobs and customers is vital. Because it lets you direct your advertising and sales effort primarily toward your most profitable work.

Think carefully about the various income breakdowns, balancing profitability against ease of selling during a recession. Your general-contractor customers may have moved out of new construction and into remodeling and commercial work. If so, reorganize along these lines. Or go after that kind of work yourself. If you also do general contracting work and have been pinched by the droop in housing starts, consider tying up with another contractor and going after high-cost custom homes, or commercial jobs, or whatever seems to offer some potential in your area. Go after the customers—especially those who offer repeat jobs. Because other contractors, less flexible than you and unwilling to bend with the wind, will lose customers. While they are cutting their advertising, letting their salesmen go, and crying in their beer, you get out there and S-E-L-L.

Actually a recession is the best of all times to get new customers. In good times, customers are complacent—they do not want to rock their own boat. But in tough times, customer-supplier loyalties are weakened. Architects and contractors are out to cut costs. If you can come up with ideas which suit their needs, you can increase your market penetration—your share of the total volume available—and emerge from the end of the recession a long stride ahead of where you stand now.

So analyze what you do, for whom, where your profits lie, what new kinds of work you can offer—and then steer your full sales and advertising efforts in those directions. Do not worry about a recession; losing is mostly a frame of mind. Hang on to the customers you have by going to highly personalized services if necessary, and watch customer complaints and call-backs carefully. Do not lose a customer because somebody failed to clean up after a job—or tracked spackling compound across someone’s carpet. Carelessness—and business-owner callousness—always spell lost customers. In bad years you need every one you have. And the other contractor’s poor handling of angry customers may let you snap up his, too.

Read your trade magazines; their purpose is to give you useful information—not to ballast your desk or ornament your lobby. Go to seminars; learn, think, and analyze, plan—and PUSH. This recession could be the best thing that ever happened to you if you use it to become a better manager.