

Surviving Economic Downturns



By Jayme Broudy, President, Contractor's Business School

"Run For Your Lives! The Recession is Coming!!" Coupled with news about the mortgage meltdown and high gas prices, it sure seems like our future is pretty gloomy, right?

But is the world really ending? And more importantly, what can you do to weather whatever storm might be coming?

First, understand that slow periods are as normal as red-hot ones. You can't control these gyrations, but you can control how you prepare for and react to them.

Much of the trick to surviving (and even prospering) in downturns involves getting your ducks in a row before the slow times hit. Even if you're already feeling the market's slowdown, you can still soften its effects.

If business is already slow, don't sit around throwing darts at your wall calendar. You've finally got time to do the work within your business that you've been too busy to deal with. I'm not talking about simply painting the office, but instead tackle a project like updating the accounting system or documenting your bidding process. These projects needn't be expensive or complex, and they'll provide a handsome payback and give you leverage later.

- **Upgrade Operating and Accounting Systems:** Cash management is critical during slow times and you will need dead-accurate operational and financial information to ensure success. If your current systems don't provide this information, upgrade or develop them. This doesn't usually mean spending a lot of money on new software or computers, it means documenting your business processes and getting solid reporting systems and operating policies in place.
- **It's About the Cash:** The bigger your war-chest, of course, the longer you can survive. To be around next season you'll need enough cash or credit reserve to carry you through a year of slow times. You can lower this amount by maximizing your efficiency and by developing contingency plans (below).
- **...and the Cashflow:** Unless you have a solid CFO or in-house Controller, you will personally need a complete understanding of cashflow and cashflow planning. If you don't yet possess this knowledge, find somebody who does and have them show you exactly how it works in your business (not just in theory). Make sure you're receiving a daily (or at least weekly) cashflow report and check it carefully before spending a dime.
- **Really Understand your business:** What's your breakeven revenue with current overhead expenses? What happens if you cut overhead by 30 percent? Which business segments are the most profitable? Which cause the most callbacks and delays? Who are your most productive and profitable employees? Don't know? NOW is the time to learn.
- **Have a Plan:** Create contingency plans that will allow you to rationally scale down and still remain solvent and/or profitable. If business drops to level "x" for 90 days, go to Plan 1. If it drops to level "y" for 90 days, go to Plan 2, and so on.

Each plan should include a detailed manpower, equipment, overhead, pricing, cash management and expense structure that's been analyzed to insure it will produce predictable results at various revenue levels. These plans will help ensure that you make decisions based on a clear understanding

of the consequences rather than on incomplete data, intuition or fear.

- **Pull the Trigger:** It's hard laying off employees, but it's better to do it according to your contingency plan. If you wait, these employees will end up costing you and this doesn't help either of you in the long run.

Operating costs and cash should be addressed first, but there are additional tactics you can employ to buffer the effects of a downturn.

- **Diversify:** Investigate new ways for using your existing equipment and crews. If you've been exclusively working on new home construction, look at remodeling or commercial work; or check out a few nearby towns for business. Don't get too locked down in one location. Make sure you analyze the alternatives ahead of time so you can pull the trigger if and when the time comes.

- **Copy the Successes:** How does the long-lived competitor in your area make it through many ups and downs? Learn what they do and copy their methods.

- **Be the Top Player.** Have bulletproof systems and people in place so you can do the job better, at lower cost, with higher quality and quicker than anybody else. If you're stronger and more efficient, you'll be the last one standing. Darwin is always watching.

- **Sell out before the Storm:** Not the preferred option; but if you absolutely know that a slump will wipe you out, you want to retire anyway, or are ready to try something new, consider selling the business sooner. Do it while its value is higher rather than during the slump when the value is in the toilet. But be aware: to be saleable, your business can't be dependent on you: it must have solid systems and processes in place to have value to a buyer. Again, get busy working on these systems.

Prospering in the Downturns: Yes, prosper. If you're the top-flight operation with a strong cash position, you're at a huge advantage when the slump hits. As weaker competitors leave the market you can hire their best employees, take over their clients and buy their equipment at fire sale prices. Like the animals who survive the toughest winters, you'll find less competition and a plentiful hunting ground (when the spring comes around) as the economy improves. Yes, Darwin again.

Don't get Psyched out by the Media: The media makes its living reporting on sensational disasters, some more real than others.

Even when a genuine downturn occurs it's not the end of the world. These never last forever, and the good times will return. Great fortunes, in fact, have been made during economic downturns. It's during these times that businesses with cash take over those without – often for pennies on the dollar.

However unpleasant, downturns are part of the deal. In the meantime, get your house in order and be prepared ahead of time. If you wait around until the flood hits, you'll get wet.

Jayne Broudy is the founder and principal of Contractor's Business School, a coaching, training, and consulting firm specializing in helping contractors produce more profit in less time. Since 1993, Jayne has worked with hundreds of contractors in many specialty areas to build successful stand-alone businesses. Visit www.contractorsbusinessschool.com or call 800.527.7545 to get the FREE CD "10 Key Strategies to Build a Business that Works."

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