PERSONNEL NOTEBOOK

For Your Most Important Resource — The Human Resource

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Small Business Survival Guide for Tough Times

Part I —Your Company

Facing tough economic times is not new to American businesses. And this is certainly not the toughest time we have had to face by a long shot. This may be hard to believe since nightly newscasts tend to deepen the fear by shouting "depression" ("If it bleeds it leads"), which often seems to lower confidence even more. But that is not what we are facing. Most estimates call for the American gross domestic product (GDP) to shrink in the first quarter of 2009 by 2.6 percent. That's bad, but small compared to the 27 percent decline at the beginning of the Great Depression. But how long will this downturn last?

No one has enough information yet to forecast our full return to a booming economy, but a lot of very smart people are telling us when they think it will start turning around. Business & Legal Reports (BLR), Moody's, Wharton Publishing, Employee Benefit News, and Harvard Business Publishing are all forecasting the turnaround to start in the fourth quarter of 2009. The National Association of Realtors is calling it for midsummer, in the third quarter! And *Construction Business Owner* magazine is advising its readers that "One of the biggest booms in the history of the construction industry is coming soon for those who are prepared."

All business downturns in our competitive American society have a built in correction. As prices drop and companies lose business, well-prepared and well-managed companies see bargains and business opportunities to be had. Which company will you be?

In this three-part *Personnel Notebook*, we will take a look at surviving in tough times as it applies to businesses, their employees and the legal issues of most concern. In this part I, we will focus primarily on the business issues. In part II, we will concentrate more on the employee issues and in pert III we will focus on the legal concerns.

Phases of a Downturn

Generally, there are three phases to a downturn:

1. The Gathering Storm
2. In the Eye of the Hurricane
3. Clear Skies on the Horizon

1. The Gathering Storm

Before economic problems begin to appear, there will always be warning signs that they are coming. At this point most companies do one of two things. They either ignore them, telling everyone that this will blow over, or they panic and run for cover, hoping for miracles.

This is not the time to be telling everyone that everything will be all right. Nor is it the time to start looking for new tricks, new products, or new services. This is the time to do two proactive things: *prepare for the worst and focus on what you do best*.

Prepare for the worst

Don't worry about frightening the troops. Bring them into the preparation process, and bring every problem out into the open. Let them participate, and let them buy into the solutions and consequences. Revise your business plan, but base that revision on facts and on doing what you know you can accomplish. This is not the time for shrinking violets. This is the time to get excited, get active, and be proactive!

Forecast and plan out each coming month and project. Where are the vulnerable points? Where are the strengths as well as the weaknesses, and when will they emerge? What steps can and will you take? What are your options?

Know your business thoroughly and measure and evaluate everything. Find those necessary wastes to cut. Should you be cutting those less desirable customers and least productive employees? Consider where you will be focusing your efforts, cash, and energy. Lay out that plan.

Look at your client list. Rank your clients in order of revenue, profitability, and desirability. How many does it take to account for 80 percent of your business? Can you improve your profitability with 80 percent of your customer list? Which customers use your core services or products? Which customers can be serviced by your core employees? Make a plan that you understand, believe in, and can and will carry out.

Focus on what you do best

Don't start experimenting with new products or services. Trying to diversify at this point only dilutes your market share and subjects you to more risky turmoil. This is the time to identify, focus on, and reinforce your core business. What can you do to strengthen, improve, expand, and promote that basic, central work that you do? Stay focused on what you know you can do. Your purpose is not to gain higher prices or bigger profits at this time, but to *gain a bigger market share*! Now is the time to *market, market, market*, but with a plan!

This could be the time to make that bold move, that move that tells the world, you are different from your competitors! You know more and can offer more on this service than anyone else! You set the standard for this work! You are the best at what you do! This can be your opportunity to become a "brand."

Target the services, products, market, and the customers you want. And, if you have one, remember to look at your company's mission statement. It is an integral part of your core business. Now is the time to reinforce and practice it, to show that it is part of who you are.

2. In the Eye of the Hurricane

You may now begin to see several smaller competitors visibly on the brink of ruin. No one knows when the downturn will end, but most are shouting their fear that the industry will never be the same again. They are focused totally on survival and certainly not on acquisitions. *Don't be focused on the failure that you fear. Be focused on the success that you want!* Smart companies are looking for acquisitions at this time.

Clearly, this is a time when costs must be reined in, but do so prudently. You want to cut fat, not muscle. Will you try to survive by cutting the workforce? Labor costs have to be one of your considerations. How do yours compare?

Labor Cost Averages

Maintenance	35% to 45%
Maintenance & Construction	30% to 32%
Design Build	20%
Entry-level Mower Operator	$8.80 ph
Crew Supervisors	$14.30 to $16.00 ph

Bear in mind that the people you cut now may be working for your competitor once the storm has passed. When cutting employees, cut the low performers and keep the high performers. Don't cut the highest paid just because it means cutting fewer people. Think about who is most focused on bringing your company through this as opposed to who is focused on just keeping their job.

Vendors and suppliers should also be brought into the process. You can help each other. Maybe they can help you identify potential clients whose needs are not being met. Maybe you can help them in the same way. Can they cut your prices by 5 percent? Can they provide extended billing? Did you ask?

Make friends with others who are in the same boat. Not just vendors, but employees, customers, and others in the same or similar businesses. Can any of them use your employees during your downtime? Can you extend longer credit terms for your customers? Build relationships, prepare for better times.

Smart companies know that this downturn won't last forever. They will prepare and be ready for when that time comes. If you prepared effectively, you may find that this is a time for buying equipment from others who are downsizing. You may be able to hire someone else's top performer.

These are fundamental events that occur in every growing industry. In tough times, mergers and acquisitions take place. If you are looking for such bargains, focus on companies that strengthen your core business. Smaller or poorly managed companies are often absorbed into other larger firms. Which end of this dynamic do you want to be on?

The Credit Crunch

The number of businesses defaulting on credit terms has jumped to four times the normal rate. The major problem we face is that so many companies that need credit now simply have no place to get it. And, having had years of easy borrowing, many companies have been left with little remaining collateral. That means that companies trying to navigate the current credit crunch must look for liquidity within their own operations.

Companies can start by reducing inventories, stretching out payables, and stepping up the collection of receivables. They can also cut back on new expenditures, and avoid new, untried ventures. When you do manage to free up cash, don't hoard it. Use it to strengthen your core business. De-leverage yourself, that is, pay down debt. According to *Fortune* magazine, "The North American banking environment appears to be stabilizing." Be prepared for that sunnier horizon when it begins to show.

3. Clear Skies on the Horizon

Companies that mapped out and implemented their plans during the first two phases will seldom need much advice in this third phase. They have pruned nonessential business and strengthened their core. They have bolstered their relationships with employees, vendors, business partners, and customers. They may have made acquisitions or purchases at attractive prices. As a result, they may find that they now hold a larger share of industry growth and profits than they could have expected by "hunkering down" and waiting it out.

They know that failing to strengthen a company during a downturn can leave it in a much tougher position afterward. *One thing that we know about downturns is that those businesses that fail from downturns almost always fail after the downturn is over!* This is because they have not adequately prepared in the earlier phases.

But one mistake survivors traditionally make after the sun comes out again is to flip the big spending switch back on. The rationale is simple; making those draconian cuts may have seriously damaged employee morale and loyalty. So, we need to crank up the, pay, travel, and spending to perk everyone up again. Unfortunately many companies have learned from earlier downturns that new spending sprees can hinder them from serving the growth they have prepared so hard to achieve.

Making it through the three phases of a downturn doesn't guarantee an easy path to success. But companies that successfully navigate these huge waves tend to look bad news in the eye and *institutionalize* this approach to detecting and surviving storms. Rather than hedge their bets through diversification and risky experiments, they place their bets on their core business and proven successes and spend their money to increase market share.

Many companies in many industries, including our green industry, are doing well in these difficult times. For some it may be because the downturn is not affecting their business or their area. But in most cases it is because they are preparing for survival in tough times.

In the next issue of *Personnel Notebook,* we will focus on the practical and ethical issues affecting employees in tough times.

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