

Strategies for Success—Billings Business News

Recovery and Reignition from a bad economy

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During the past 6 weeks, we have seen many signs that perhaps the recession and decrease of the business economy may be starting to moderate toward a forward looking positive direction. Stock prices are up, the unemployment numbers have begun to decrease, and in some sectors, hiring is again taking place. The question that you, as a business owner, should be asking is the following: “What I am doing or going to do to be ready when the economy has recovered?”

History has shown that one never knows when the economy is back on track. There are both leading and lagging indicators that can be used to monitor your particular industry, however, strong strategic thinking and planning are the keys right now. Crisp strategic thinking and how you can perform better in an increasing economy are factors that need to be addressed, so that you are prepared and can smoothly capture increased market share when the eventual economic increases arrive.

Industrial research shows that many companies are currently thinking about how to develop new products, reach other market spaces or expand into other geographic territories to sell their products. When you look at your business, are you asking the hard, penetrating questions about your operations? How can we improve? What costs can be either decreased or eliminated to allow greater return on investment and profitability? What changes is our industry making? Why are those changes being made? What are the results of those changes? How do we adapt/implement those industry changes into our operations?

A simple question, albeit one that I have found many business owners are unable to answer is this, “What is your break even point?” Sadly, I have met with business owners who did not know what I was talking about. What are fixed costs? What are variable costs? How are each of these factors related to each other? Many business owners naively believe that if increased sales come through the door, increased profits will result. In some cases, that may be true, however, it is much better to know and understand all of the market dynamics before making any changes in operation, believing that change yields gain or improved results.

Even though the recession has impacted small and large companies alike, some companies do have liquid cash resources. In these cases, businesses are retaining their cash, identifying buying opportunities and waiting until those opportunities come to fruition. Here is where your strategic planning and thinking is most important! Are there ways in which you can enhance your

operation through outsourcing, increasing machine size, different shift configurations? Simulation is a tool that can help you identify areas where changes are most effective and profitable.

Digital mathematical simulation can be quite complex and intricate. However, in many cases, especially for small and mid sized operations, the same results can be obtained by doing sensitivity analysis in a spread sheet. Identifying all of the fixed and variable costs, then increasing/decreasing the key input variables allows you to determine what the optimum product mix should be, the number of hours you should be open/closed, number of employees assigned per shift as well as how profits vary by changing various input parameters.

Asking your current customer base what changes they would prefer to see in your business offerings can yield some very key “gems of knowledge” that you may not have considered or were aware of. I have clients that have adapted their businesses to folks who work various hours. In one case, a business owner recognized that if he was to open at 7 am, customers could come to his store before going to work. He also recognized that if he was open later in the evening, customers could shop with him after his competitors were closed. Interestingly, once he identified his customers shopping traits, adapted his service hours to his clients, his sales increased, as did his profitability! I cannot over emphasize the value of good hard data collection, analysis and operational change based upon the data. Knowing how your business functions, what your customers really want and need are the keys to a successful operation in these trying economic times. The data collection step is not complicated or difficult. Designing a short questionnaire that addresses key questions that have direct impact on your business will provide you with information you may not know. In order to have all clients complete the survey, you may wish to have a drawing with a door prize. This drawing is done weekly, monthly, quarterly depending upon the business and types of questions asked.

One of the key areas which are always identified for budgetary cuts is advertising. Advertising is probably the last area to be decreased in economic downturns, because customers need to know that you are still available to service their needs. The next to last area to cut should be employee training and development. Both of these areas should be increased, not decreased during economic downturns. Using different advertising formats and media, i.e., radio, print, web site, television are all formats that you should consider using during economic downturns. Again, measurement of results is the key to identify if the medium indeed performed like the sales person claimed it would. It takes quite a “leap of faith” when the economy is in a downturn to spend money on advertising or employee development. However, this is exactly the areas that you need to enhance in a downturn, so that you are prepared when the economy is in an upturn!

What goes up must come down. Simple law of physics!! In these economic times, paying close attention to data, customer needs, wants and demands as well as insuring that your inventory is not excessive will insure that your business functions in a profitable manner.

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July 2009
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If you have questions or just want to talk more about these matters, give us a call—406-672-6387.