How to manage a business through a **weak economy**

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Balancing Optimism, Lessons Learned and 4 Basic Steps

Article Summary

Whether a recession is just around the corner or has already begun, there are several things that business leaders can do to manage through a weak economy. Lessons learned from the recent homebuilding slowdown bring valuable strategies to light.

Thriving Through an Economic Downturn

If you read the papers and listen to the economists, recession is around the corner or already upon us. Surprisingly most of our clients have continued to do well, with many recording record years in 2007. (The most notable exception has been the homebuilding industry downturn, which is now in its second year.) How deeply a national economic downturn will affect us in Colorado is anyone's guess, but it never hurts to think about how you will respond to an economic slowdown in your industry.

Entrepreneurs are optimists. If you have started and grown a business, you have already plowed through doubts and risks that would scare most people away, and you have refused to accept excuses for poor performance. If the market for your services stops growing, you simply focus your efforts on taking market share away from your competitors.

While optimism is a key strength for many successful business owners, it can also become a weakness. In a tough market, your optimism may drive you to "sell though it" by turning up the heat on your salespeople and refusing to accept anything less than your target growth rates.

Stubborn refusal to acknowledge a market slowdown can be a big weakness. Too often, optimistic business owners wait until profitability is seriously damaged before they start taking steps to minimize the damage. If your company reacts slowly, you could take big hits to your profits, which in turn, could weaken your balance sheet. When the market bounces back, your financially weakened company may lack the resources needed to respond to new growth opportunities.

Lessons Learned from the Recent Homebuilding Slowdown

You don't need to look back very far to remember how to manage a business through a weak economy. Looking at recent experiences of businesses that have suffered through the homebuilding downturn, it's clear that those who recognized the changing market early and adjusted their business model are weathering the downturn much better than those who were slow to react.

Here are four basic steps to consider taking in an economic slowdown:

1. Stay alert for the early warning signs. Watch for revenue declines, competitive price cutting and deteriorating receivables. Intensify your budgeting discipline and monitor budget-to-actual variances every month. At the early signs of under-performance, start making tough decisions and refuse to accept the "our costs are fixed" excuse.

2. Revisit your strategy and focus like a laser. When times are good, you can get sloppy and lose your focus. A slow market presents an opportunity to evaluate every product, every program and every person. Anything that does not contribute to your core discipline needs to be closely scrutinized.

3. Evaluate where you spend your time. As goes the leader…so goes the company. Where top managers spend their time reflects the priorities of the company. If spending time with customers is your highest value driver, then cancel non-essential meetings and go see your best customers.

4. Focus on your best customers. Not all customers are created equal – some are a lot more profitable than others. Your most profitable customers are the most likely targets of your competitors. In tight markets, your customers may be tempted by aggressive pricing from hungry competitors. If you maintain

strong relationships with your best customers, you will earn their loyalty.

A slowdown in your industry can provide the chance to streamline your operations, eliminate waste and re-focus priorities. Even in the best of times, improving financial performance and increasing business value are high priorities for the vast majority of our clients. If market growth is not creating natural profit improvement, then the only way to improve financial performance is by doing things better.

Doing things better requires change, and change often requires external stimulus. The management consulting professionals at EKS&H can help you objectively evaluate your organization and develop plans to improve performance in any economic environment.

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