

THE STAPPAS PERSPECTIVE

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SURVIVING IN A DOWN MARKET

Before discussing surviving in a down market, let's examine the most important item in effectively managing a business for profits; this is adequate liquidity, in other words, CASH. Every firm **MUST** have adequate CASH to, first, grow and, second, to survive the inevitable down turn.

When a business owner is in the process of increasing sales, he or she never increases the cash position of their firm. This results in a continuing cash flow problem that, in turn, hinders effective growth. Unfortunately, most business owners "take out" all the cash in their firm rather than building their cash position. **THE FOUNDATION FOR A SUCCESSFUL BUSINESS IS CASH.**

Cash is similar to the foundation of your home. The foundation supports the house. That foundation will probably support building another floor to the home; however, it cannot support building an additional five, ten, or fifteen floors. The foundation will collapse. The floors represent increasing sales and the foundation represents the cash position. If you want to add sales (floors) you must strengthen the foundation (cash) of the firm (foundation) will collapse.

To confirm this principal for your firm check the cash position when you first started the company, then check your sales from when you started to two years ago (before the downturn). What you will probably find is that your sales have increased but your cash position is about the same or less than when you started your business. **Without adequate cash a firm cannot effectively grow.**

CAPITALIZING IN A DOWN MARKET

The last ten to fifteen years have been "good years" for business owners. The markets were very strong and virtually all segments of the economy were performing very well. If the business owner managed his or her business for effective profits and for long-term survival, their firm would, or should, have strengthened its foundation (cash position). With strong cash position the firm would be, or should be, in a position to "ride out" the current down turn and also be in a position to take advantage of opportunities. What opportunities?

- a) The purchase of a competitor -- the unprepared businesses are in financial difficulty and probably become motivated sellers. Such a purchase eliminates a competitor when business returns.
- b) Capitalize on a market downturn -- in a downturn a market does not go down to zero. If a competitor goes out of business, the business that used to go to that competitor has to go somewhere.

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SURVIVING IN A DOWN MARKET

If a business did not properly build a strong foundation it must now take action to SURVIVE and REBUILD. The primary objective is not focusing on sales but focusing on NET PROFITS. Here are some items that should be considered:

- a) Reduce overhead – every dollar saved in overhead increases NET PROFITS by a dollar. If the overhead is \$400,000, a 10% savings will increase NET PROFITS by \$40,000.
- b) Negotiate with vendors – remember you are your vendor's customer and your vendor does not want to lose your business. If cost of goods has been \$500,000 and you reduce that by 10% you increase NET PROFITS by \$50,000 and also reduce the break even.
- c) Control direct labor – be sure you properly and effectively schedule production requirements. If your production only requires 30 hours of work, do not have employees work a 40-hour week. This reduces the gross profit while increasing the break-even point.
- d) Shorter work week – if the overall sales of the firm are down, consider a 4 day week and adjust wages accordingly.
- e) Keep an eye on competitors – if a competitor goes out of business the potential customers have to find another company to work with. Be sure your firm's name is properly noticed.
- f) Expand marketing – now is not the time to reduce marketing/advertising costs. Remember, if the market declines 30% there is still 70% business available. If the market declines 60% there is still 40% business available. You can increase your firm's market share during a down market.
- g) Consider a merger – a merger with a competitor will take two weak firms and create one firm that is stronger than the two firms separately.

MAKE A NEW RESOLUTION

As a firm moves forward through these challenging times it must make a resolution to begin to build a firm with a solid foundation. As a firm grows it must strengthen its foundation. This foundation is adequate cash. As a firm grows it must increase its cash position. Adequate cash comes from net profits.

SUMMARY

A firm trying to survive in this current market needs to stop the "cancer" that is currently hurting the firm, then stabilize the "patient", then begin to strengthen the "patient", then put the "patient" on the proper "medication" so it can enjoy a long, healthy, and profitable future.

About Our Organization...

We provide complete and total STRATEGIC PLANNING consulting services to individuals that own and operate their own business as well as our exclusive BMA service that provides complete bookkeeping (saves an average of \$18,000 per year) and complete payroll (saves up to 70%). We help our clients succeed. Please contact us for more information. Call us for additional information.

