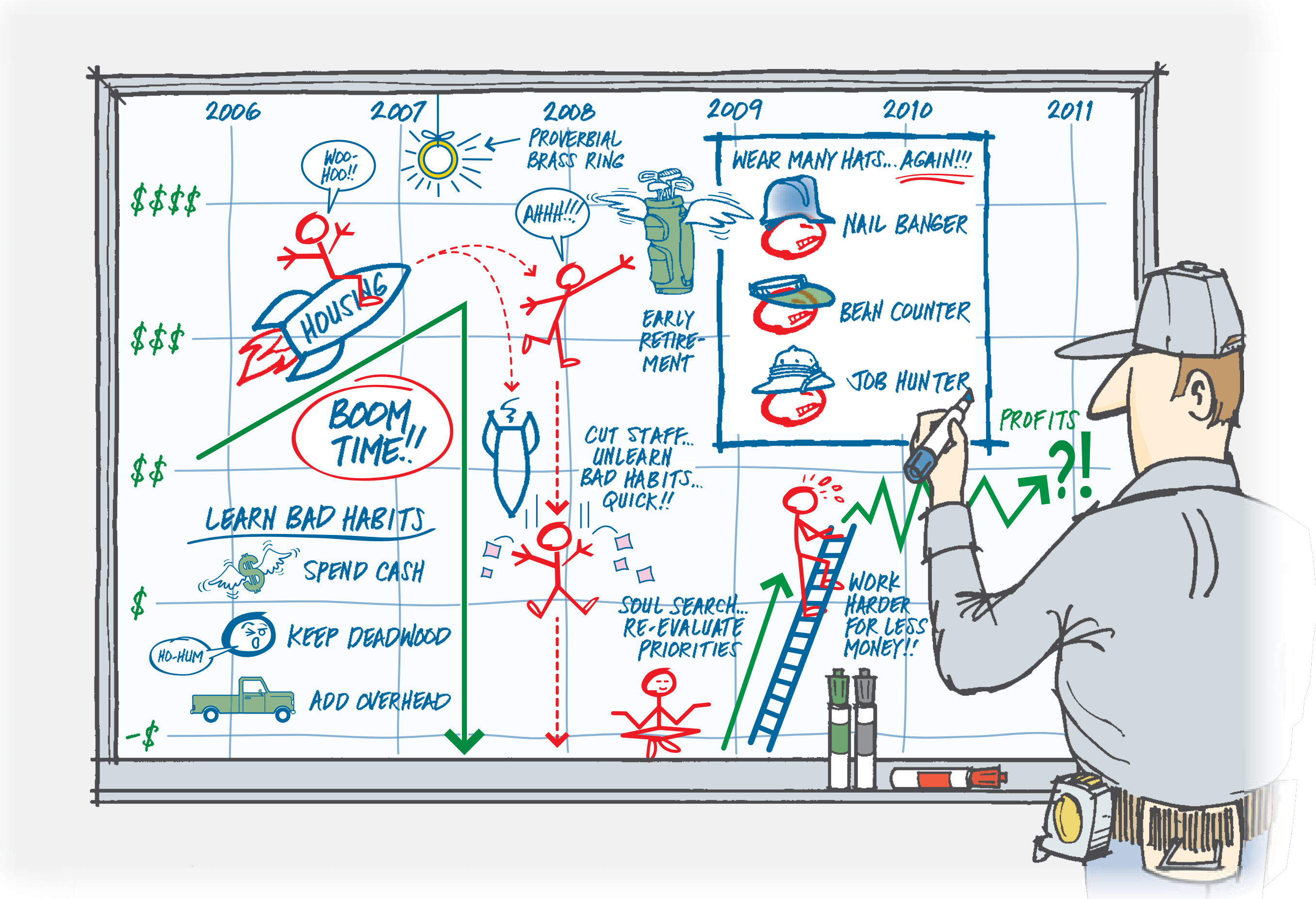
Living Through the Housing Bust

Unlearning bad habits picked up during the boom years is the first step to recovery



by Peter Feinmann

These are tough times for the housing industry — 15 years of solid growth followed by a nationwide contraction like we've never seen. Even though many of us experienced a dip in revenues after September 11, this recession has been far worse. Most custom builders and remodelers are down 20 percent to 30 percent, and many have cut their staffs in half. Government estimates put unemployment for the construction industry above 17 percent, and many think it will get worse before it gets better.

The question is, what have we learned from this recession? We've had to make many difficult choices during the slowdown, but will those choices improve our companies as we move ahead?

I know that I picked up bad habits during the boom years, and now I'm having to unlearn them. My company has had to change, and the process has not been pleasant. In 2007 I gave a talk at the *JLC* Live conference; titled "Growing Your Business Beyond Yourself," it focused on how we could continue to grow our businesses by developing our staffs and learning how to delegate some of the roles we take on as company owners. Then came the crash, and instead of growing we had to shrink to survive. Conserving cash was critical, and rather than delegating I had to lay off well-trained staff and take on roles I had relinquished as I grew.

Monthly Leads Report (as of June 10, 2010)															
	January		February		March		April		May		June		Running Total		
LEADS	#	$	#	$	#	$	#	$	#	$	#	$	#	% Total	$ Vol. Leads
Past Clients	1	$100,000			2	$200,000	1	$125,000	2	$1,000,000	3	$200,000	9	12.5%	$1,625,000
Referrals	5	$800,000	1	$100,000	2	$250,000	6	$500,000	5	$500,000	6	$600,000	25	34.7%	$2,750,000
Yellow Pages													0	0.0%	$0
Job & Truck Signs	2	$100,000	2	$50,000					3	$200,000	2	$150,000	9	12.5%	$500,000
Direct Mail	1	$100,000			2	$150,000	1	$75,000	1	$50,000	1	$100,000	6	8.3%	$475,000
Designers													0	0.0%	$0
Advertising	1	$500,000	1	$200,000	1	$50,000	1	$100,000	1	$50,000			5	6.9%	$900,000
Web	5	$600,000	2	$100,000	2	$50,000	1	$50,000	1	$50,000	2	$250,000	13	18.1%	$1,100,000
Home Show			1	$10,000									1	1.4%	$10,000
Public Relations	1	$100,000					2	$200,000	1	$50,000			4	5.6%	$350,000
Totals	**16**	**$2,300,000**	**7**	**$460,000**	**9**	**$700,000**	**12**	**$1,050,000**	**14**	**$1,900,000**	**14**	**$1,300,000**	**72**	**100%**	**$7,710,000**
PROPOSALS															
Past Clients													0	0.0%	$0
Referrals	1	$25,000	1	$250,000	1	$100,000			2	$300,000	1	$200,000	6	54.5%	$875,000
Yellow Pages													0	0.0%	$0
Job & Truck Signs									1	$100,000			1	9.1%	$100,000
Direct Mail					1	$25,000							1	9.1%	$25,000
Designers													0	0.0%	$0
Advertising	1	$200,000					1	$100,000					2	18.2%	$300,000
Web													0	0.0%	$0
Home Show							1	$100,000					1	9.1%	$100,000
Public Relations													0	0.0%	$0
Totals	2	$225,000	1	$250,000	2	$125,000	2	$200,000	3	$400,000	1	$200,000	11	**100%**	$1,400,000
SALES															
Past Clients	1	$200,000											1	11.1%	$200,000
Referrals	1	$25,000	1	$250,000	1	$100,000			1	$150,000	1	$200,000	5	55.6%	$725,000
Yellow Pages													0	0.0%	$0
Job & Truck Signs									1	$100,000			1	11.1%	$100,000
Direct Mail													0	0.0%	$0
Designers													0	0.0%	$0
Advertising							1	$100,000					1	11.1%	$100,000
Web													0	0.0%	$0
Home Show							1	$100,000					1	11.1%	$100,000
Public Relations													0	0.0%	$0
Totals	2	$225,000	1	$250,000	1	$100,000	2	$200,000	2	$250,000	1	$200,000	9	**100%**	$1,225,000
Appointments	10		6		5		8		6		10		45		

Leads-to-Sales Ratio	
# Sales / # Leads	12.5%
Sales $ Vol. / Leads $ Vol.	15.9%
# Appts / # Leads	62.5%
# Sales / # Appts	20.0%
# Sales / # Proposals	81.8%
Sales $ Vol. / Proposals $ Vol.	87.5%

The monthly leads report (above) provides valuable information about where the company is heading. By keeping a regular tally of leads, proposals, and closed sales, the author can make good strategic decisions about hiring and scheduling well in advance of job start dates. Tracking leads-through-sales by origin indicates whether marketing efforts are paying off, while a brief leads-to-sales ratio report (left) tells if the company is hitting its sales targets.

Spotlight on Staffing

I have heard a number of business owners say that the silver lining of this recession has been that it gave them an opportunity to rid their companies of underperforming employees.

During the boom years, when the demand for our services was steadily increasing, it was easy to justify making a lot of hires. But I can't honestly say that the extra staff helped us serve our clients better. I found, for example, that when resources were stretched we would assign a less experienced architect and project manager to a demanding high-end project, and as a result we didn't always meet the clients' expectations.

Like any owner, I had difficult choices to make when it came to layoffs. I thought I handled it fairly, but soon realized that once an employee is let go, there are no more friendly conversations. These people had lost their jobs, they were angry and fearful, and I was to blame.

In addition, it was hard coming into work every day and seeing the looks on the faces of the remaining staff. We were getting the work done, but there was less excitement about the new kinds of jobs we were taking on, and there was always a lingering uncertainty about what lay ahead. Furthermore, I had become pretty attached to our image as a large established company, but now I was working harder for less money. I had been advised a few years earlier that I could possibly retire in another five years, but suddenly that option had vanished.

On the other hand, these setbacks forced everyone in the company to reevaluate his or her priorities. For some people this meant spending more time with their families or making sure to pursue those activities that nurture us outside of work.

I believe I have a better company now, one that serves our clients more effectively. And the next time I have a chance to hire, I'll do it more thoughtfully and make sure there is time for training.

Keep a Lid on Overhead and Some Cash in the Bank

During the growth years, I discovered that the infrastructure required to operate a large company is much different than what it takes to run a small company. When the crunch came, I was surprised at the total investment I had made in vehicles, tools, computer systems, and layers of administration. I also discovered that it's not easy to simply eliminate this infrastructure — the process takes time, and the accumulated overhead bleeds cash until the task is completed.

I was fortunate that I had always collected accurate financial data, so I was able to move fairly quickly to rein in these costs. During the summer of 2007, for instance, I had noticed a large increase in unbillable time for our design team — a key negative indicator. As a result of this observation, I cut my staff by nearly 25 percent in the fall of 2007, almost a year before the real recession hit us. This made my company's entry into the deep recession slightly less difficult, because I had preserved cash instead of spending it for nonproductive office and field staff.

I'd actually learned about the importance of keeping money in the bank during the recession of 1991, when — as a member of a Business Networks peer group — I had the opportunity to observe how other remodelers navigated those lean years. One lesson became clear — that cash is king. In other words, when you're earning a profit, save it. It will help you survive during a downturn, even as other businesses are folding. And when it's time to make the investment needed for growth, you'll be prepared.

Plan for Recovery

As always, it's vitally important to have reliable financial data to base your business decisions on. I always maintain a monthly leads report, which is an excellent predictor of future work (see spreadsheet, facing page). When I start seeing a significant increase in our leads, I know from experience that I have a three- to four-month window in which to hire new staff. I monitor staff productivity to see if there's been an increase in billable time, which is another clue that I may need to hire. I also analyze our monthly profit-and-loss statement to review the key numbers — revenue goal, job cost, overhead expense, and net profit — all of which are good indicators of how well I sleep at night! I review these key indicators with the staff, too, so they can participate in reaching our revenue goals for the year.

I make it a habit to read the business sections of several local and national newspapers, to keep an eye on the tone of the articles. The in-depth business analysis gives me a more accurate view of where the local and national economy is headed. Over the last six months there has been a relatively optimistic outlook in the business press, compared with the daily headlines, which often seem to be predicting imminent economic disaster.

As I plan for a better future, I've already started to advertise for field staff, project managers, and design professionals. I don't want to wait until we're swamped with work to do this. It makes sense to lay the groundwork for the future now, as the economy begins to improve.

Don't Repeat the Past

In looking ahead, let's avoid those ways of doing business that we've worked so hard as an industry to stay away from. In an effort to win jobs, do I really want to give my prospective clients free information because my competition is doing so? Do I really want to work twice as hard to scope out jobs that I know in my gut won't go anywhere?

In the depths of this recession — after the layoffs and when the future seemed most uncertain — we changed our policy and started offering free design services for prospective clients. We felt we had to because other remodelers were doing it. And guess what? We didn't win a single one of those jobs. But in the meantime we noticed that we did continue to land those projects that were well-suited to our company. I learned — again — that it was smarter to target our ideal client than to get stuck in competitive bidding. And I learned — again — that our clients really do desire our high level of design and execution, and that they are still willing to pay what our services are worth.

Without a doubt there have been fewer of those clients to sell to, but we are still in business, and we're still constantly looking for ways to serve our clients better while maintaining a successful — though smaller — company.

I think for me the simplest, most important lesson has been this: to continue to identify what makes my company unique and unlike those of my competitors, so that I can sell this difference to our potential customers. If I find myself competing for jobs against too many other remodelers, I'll know I haven't separated myself from the pack. But if I can successfully define my company, we'll see greater success in the recovery.

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