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4 R's of Driving Growth in a Recession

While President Obama sees "glimmers of hope" and Herm Isenstein of DISC, Orange, CT, forecasts electrical revenues to drop 25% across all sectors, distributors are trying to hold on to their businesses and, in some instances, benefit at the expense of others. We've spoken to distributors who are down 30-40% and have reduced their workforces commensurately to others who are dramatically reducing inventory and closing branches. Conversely, there are some who are identifying niches for themselves, enabling diversification, investing in their business and taking share.

The difference is what we call "the 4 R's of driving business in a recession."

By now you've recognized that the world isn't falling. The biggest challenge is the lack of available credit. Intuitively we know this won't last forever, the question is "Can your company persevere?"

Part of the answer comes from asking another question, "What type of company are you ... a cash flow company or a company that plans to grow and prosper three to five years from now?" The reason that this is important is that it determines your action steps. While both types of companies need to manage/cut costs, one does it for survival, the other can consider reallocation of resources (much easier for a privately held company than a public company).

Review your company

The business has changed, and quickly. Most companies have undergone some level of operational surgery. Layoffs have occurred, branches closed, inventory reduced, payrolls frozen, capital investments stopped.

Concurrently, many distributors' customer profiles have dramatically changed. This can affect the level of service and pricing that you

should commit to them, and may need to be changed. They are ordering less, hence increasing administrative costs / order; counters are quiet; quotations are up as more people chase the same order, SPAs are increasing and margins are being driven down. Meanwhile DSOs and write-offs continue to rise. Customer profitability has changed.

This drives the need to re-review your inventory strategy (especially since copper is less of an issue now ... hopefully you've sold the expensive material).

Your review should encompass

- Your current product mix and inventory by product category and velocity.
- While thinking about products, remember, your inventory is a non-performing asset until it sells. If you can't sell it, eliminate it (or find someone who knows how to use eBay, contact excess distributors or donate to a local cause).
- How you price product is critical for you to profitably grow and not just churn cash.
- Reviewing customer sales, gross profit, transactional needs and receivables. Exception reporting can identify underperformers.
- Consider the market segments you serve. Are all down? Equally? Are there niches that are performing "better" that could be further resourced?
- Review purchasing re-order points. Are they set for today's business or the business of 3-6 months ago?
- Evaluating the profitability of your suppliers to you as well as the "deals" you may have. Ask yourself, "Why am I important to this supplier in my marketplace?" Proving and communicating your worth can help you capture attention and resources.
- Unfortunately, personnel for some companies is still an issue. Pruning may be necessary, especially if those individuals are underperforming or do not have the ability to transition into an area where there is growth / profit potential.



- Evaluate your processes. Do you still need to do what you did, the way you did it, with less business and less profit? Downturns are an opportunity for process innovation ... especially if it can improve profitability (and another definition of profit is reduction of loss!)

Once you have conducted a review you may decide that change is needed to adapt to the current market place to ensure long term growth.

Retrench

Sometimes to move forward you need to take a step back. Many have done this through layoffs, closures, inventory reductions and more. If you haven't, you are currently one of the few growth companies in the market.

To retrench you need to understand your market, your competitors and your objectives. Are you suffering or is the market suffering? If it is you and not the market, why?

If it is the market, use the information from your review to right size your business. But don't throw the baby out with the bath water. If there are some segments that are doing well, resource them for growth as they may be paying for the lights to remain on.

This is the hardest part of managing in a recession. Quick implementation of a retrenchment strategy is key to ensuring future profitability. Without quick implementation, prolonged profit hemorrhaging can occur, threatening the entire company. It's unfortunate, however, it's critical.

Once you have undergone triage, now it is time to streamline your customers and operations to focus on profit. Sometimes this requires more involved sales management. Understanding customer financials, listening to their needs, directing your sales force and creating new opportunities are critical. Listening to the voice of the customer and integrating that into your strategies is more important than ever.

From a process viewpoint, now is the time to create some work groups and ask "how could we do this better?" One of the reasons for this is that as customers continue to receive lower prices, they will become accustomed to these prices. With a limited ability to increase selling prices

and margins, to ensure long-term profitability distributors will need to reduce their current operating expense by 2 points.

Some places to look for streamlining:

- It is not uncommon to find price matrices that have not been reviewed in several years. You may be selling product below your into stock cost without a SPA to claim back your profit. When was the last time you reviewed? Or at least reviewed key customers?
- SPAs for many distributors are time consuming and many claims go unattended. This generates lost profit as well as lost cash flow, forcing higher bank loans. How can this be changed?
- Most companies have customers that have become unprofitable. While we do not advocate "firing" the customer, maybe their prices need to be adjusted?. Or, if they have extended DSO's, file liens and help them find another supplier.
- From a sales perspective, how many new accounts have you opened? Are your salespeople capable or confident enough that they can find new business? Are you receiving "your share" from existing customers ... what don't you sell them?" Some distributors are actively seeking to hire top performers from competitors. Salespeople may be wondering if their company will thrive in the future, or compensation plans may have changed. Opportunities for quality people exist (plus many quality people have been, unfortunately, let go).

Re-evaluate

Once you've decided that your company will be in business, with higher revenues and profits, three years from now, communicate this to your employees. Show confidence and show them how you plan to succeed. Essentially say "The market is challenged, we see opportunities, and here is how we are going to move ahead. There may be some unpleasantness, but we are looking at the long-term and will emerge stronger."

And then look for the growth areas. A distributor in New England had to reduce the workforce on the industrial aspect of their business, but are hiring people with an energy background. Some



companies are focusing on government opportunities; others see profit in safety or in expanding their reach virtually.

Process innovation will be key to future sustained profitability. When you review your business, include a look at your operational methodologies. If you've upgraded your ERP system in the past few years, or are currently doing, recognize that there are many new capabilities that are standard in these packages. Make sure you use them. Technology will be how you can reduce operating costs. Ensure that your IT people are talking to other IT people. And consider services that could be outsourced if they save you money or generate money for you.

Consider one distributor who didn't realize their ERP system could send invoices via email. They are now sending all employee invoices for material that employees purchase for themselves via email and the credit department is asking customers if they would like their invoices via email. Conservatively it saves 50¢ / invoice and can improve cash flow.

So review your systems, understand your ERP capabilities and consider reports that better track your business and exceptions. Reinventing the way you look at your business will create new opportunities.

Re-launch

Re-launching is really about taking action. Reviewing and developing strategies is nice but in this economy, action and implementation is everything.

Those who procrastinate will quickly find that their cash flow situation has deteriorated and that someone in the marketplace is taking their business.

Now is the time to position yourself to grow. In fact, companies that invest in sales and marketing in recessions, after restructuring, generate greater sales and profit increases during and after the recession. The key is planning and action.

Keys to action include:

- Communicate and involve your people. Aside from capital, they are your greatest asset, and they will be the ones who need to execute the strategy. They also are the ones

who can enhance your strategy. Inspire confidence and you will be rewarded.

- Niching your business. Capitalize on your growth opportunities while managing your core business. Every market is a local market. Where are the growth areas in your market? Don't know, ask around. Identify target markets that you can pursue (and accounts you can develop.)
- Recognizing that the key to differentiating yourself and driving demand is positioning your company. Effective marketing is critical to success. Marketing isn't solely marketing communications and promotions. Consider outside market research, strategy development with return on investment justification, data analytics, merchandising, lead generating and the usage of e-marketing to name a few. Few companies market well. This represents an opportunity to grow the business.
- Recognize that speed kills and can be deadly for others. Make your competitors react to you. Always have initiatives to pursue new markets or to penetrate existing ones. Be known as the idea source. You may have heard of the concept of "death by 1000 cuts." How can you impose this on your competitors to grow your business?

Growing in a recession is challenging but not impossible. By re-orienting your company you can prosper. For the companies of tomorrow it is imperative as the marketplace changes we are seeing will have long-lasting impact.

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