

THE STAPPAS PERSPECTIVE

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PLANNING FOR A MARKET DOWNTURN

This STAPPAS PERSPECTIVE was initially written on December 12, 2006 and is being sent with no changes to the original. Note how properly managed firms can take advantage of downturns. Warren Buffet recently invested \$5billion in Goldman Sachs (made \$650 million profit in five days) and \$3billion in GE. He took advantage of the current downturn because he was cash ready.

Approximately ten years ago I wrote an article titled “Small Businesses Can Manage In A Recession” and here it is time to again address this issue.

Over the past several months I have been asked what can be done to survive a current market downturn and have been told many firms are now experiencing difficulties as a result of such a downturn.

First, every business owner must realize that every business in every industry *will* experience a period of decline or market downturn; it is inevitable. It will happen in every market and in every industry and a business owner must be prepared for such inevitability.

Second, it is equally important to realize that every downturn has a recovery and, again, for those properly prepared a recovery can be exceptionally profitable. For those not prepared it just means the opportunity to “get back to where we were”.

Third, the problem is not a business downturn because this will happen; the real problem is INADEQUATE AND POOR PLANNING. Every business owner should be prepared and in a position to “manage” a downturn. **In fact, a market downturn is actually a period of opportunity for those businesses that are properly prepared.** Our next STAPPAS PERSPECTIVE will further address this issue.

In “managing” a downturn for those **not** prepared several items are quite important:

- a) The problem is really a lack of adequate cash that would enable the firm to “ride out” the downturn. This is the result of

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inadequate STRATEGIC PLANNING.

- b) A market decline or downturn is just that, a downturn; it is **not** a market elimination. For example, assume the market declines a tremendous 30% to 40%. What does that really mean? It means that there is still 60% to 70% business still available.
- c) The total market share any business owner has is a very small percentage of the entire market; consequently, there is still a tremendous amount of business actually still available.

THE SOLUTION, for those not currently prepared, is to develop a *proper* STRATEGY to work through the current problem and be prepared to meet future challenges:

- a) Cash flow planning becomes critical for the currently unprepared. An efficient cash flow budget is extremely important and must be prepared and continually monitored.
- b) The objective is to maintain profitability; consequently, an efficient review of the firm's entire overhead structure must be done. Remember that \$1.00 of cost reduction is more profitable than a \$1.00 increase in sales (if overhead is reduced by \$1, net profit is increased by \$1; however, assuming the gross profit is 40%, a \$1 increase in sales only increases the net profit by just \$0.40.
- c) Determine what the firm's break-even point is.
- d) Develop a strategy to expand your market. As noted above there is still substantial business available.
- e) Consider business combinations. Other firms are in the same situation and a merger may well be the answer to all. A business combination can reduce total overhead while combining the sales of two firms resulting in a larger firm with greater sales and probably convert two firms losing money to one firm with greater value and profits.
- f) This can be an excellent opportunity to develop proper strategic planning techniques.

REMEMBER -- COMPANY'S DO NOT PLAN TO FAIL, THEY JUST FAIL TO PLAN

About Our Organization...

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