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Vantage Points

A Shop Owner's Guide to Surviving the Recession

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Suggestions for evaluating your business in a slowing economy.

by Marcy Tieger

It's here. "Recession," "a period of reduced economic activity," "economic downturn," "tough times;" call it what you want. The more important issue is what are you going to do about it?

Reinvent

In his book, "150 Best Recession-Proof Jobs," author Laurence Shatkin identified the job of educator in his top 10 list. The reason? Educators are needed to retrain those who are motivated to seek specialized training to stave off obsolescence, as well as those who have already been laid off.

Many in the collision industry get it- to educate and stay ahead of the curve, is critical to a shop's success. The only modest decline in attendance at NACE this year, despite tough economic times, is a testament to this fact. There is a hunger to develop new ways of approaching the business of operating a collision center. Implementing lean, the "greening" of businesses, developing a "fast lane" model for light hits (minor damage), flex hours to enhance cycle time, are some of the ways that shop owners are reinventing their businesses. Smart business owners are taking advantage of the fact that they are not slammed with work to explore the trends and ideas that have been swirling around them, but they put off because they were perceived as too disruptive or costly. And while some changes may have a hard (capital) cost, say implementation of waterborne as a component of a "greening" campaign, time to conduct thoughtful research often yields surprising results --the cost can actually be nominal and conversion relatively seamless.

This is also the time to focus on marketing and improvement. Says G. Michael Maddock and Raphael Louis Viton in their Business Week article, "Innovating During Recession," "It has been well documented that maintaining marketing and innovation spending during recessions creates a major bounce effect once the market stabilizes." They suggest that if you can gain market share now, while others may be retreating, even if it costs you money, do it. Your growth will be exponentially larger when the market recovers.

Renegotiate

Many shop owners are evaluating their supply agreements and long-term contracts with an eye toward renegotiation. For some, this is a matter of survival; for others it is a well-timed business decision designed to prey on the vulnerabilities of suppliers who reluctantly agree to renegotiate for fear of losing the business (and rarely invoke the terms of the contract to quash the process).

I practiced law for 21 years; I know how to draft contracts, how to enter them and even how to get out of them. However, the best advice I can give about renegotiating an existing agreement, especially a written contract, is proceed in good faith. If your very survival is dependent on it, share enough detail to make that point. If you are grinding a vendor for a fraction of a point because you can, think twice. You may win that battle but find your reputation for being "difficult" precedes you in future transactions with this vendor and others.

Reflect

"Anticipate the difficult by managing the easy." (Lao Tzu, father of Taoism.)

Perhaps the last advice an owner struggling for survival wants to hear is "be philosophical." And yet, to some extent, a Zen approach which distinguishes that which is controllable from that which is not can be liberating.

Things you can't control: The proliferation of crash avoidance technology borne from a fundamental human desire to avoid injury or death. The tendency of car owners to use their property damage checks to pay for necessities during tough economic times (even while their car rusts and deteriorates for want of repair). You've got the picture.

Things you can control: Customer service, marketing, cycle time and following SOPs (to name just a few). When the shop is crazy-busy it's easy to become lax about those things which unchecked seem trivial, isolated or overly nuanced. But now, more than ever, is the time to look at them: How many rings does it takes to answer the phone and how pleasant is the person who answers it? Is your business attractive from the street and if not, could it be cured with a coat of paint and a few plants or flowers? Do your techs spend way too much time looking for misplaced tools, wading through more SKUs of supplies than the shop needs or taking calls on their cell phones? Is your cycle time creeping up and do you know why? The cumulative effect of "the little things" can bury a business.

Are you listening to your customers? Apart from any feedback you receive through a formalized CSI program, you cannot ignore the regular feedback customers deliver along the way before the post repair CSI call. Do you conduct a regular morning huddle to assess work flow and ruffled customer feathers? Do you require

your employees to initiate customer contact to advise of the status of repairs (proactive) or do they just wait for the customer call (reactive)?

If you participate in DRPs, review your compliance with DRP requirements. In a perfect world, every time you failed to meet a requirement you'd get a pleasant handwritten note with an, "oops, better luck next time" reminder and an inquiry about your golf game. But this is an imperfect world, and the same people who are monitoring your KPIs are scrambling just like you, and would much prefer to work with shops that follow their requirements without a whole lot of babysitting. Bottom line: conduct an internal compliance audit on all DRP requirements. If you agreed to the terms, make sure you follow them.

Also, get ahead of any problems. If you have had the benefit of someone telling you you're not in compliance (yes, benefit, sometimes an inattentive owner may not know the extent of the problem until it is too late) schedule a meeting to discuss this with the DRP representative and cement the relationship. Be prepared to own up to any short-comings and commit to fixing them. Again, be proactive not reactive.

Retool

If you have not had to lay off an employee, you probably know someone who has, and so does your team. We are working in an economy where "right-sizing" (the prettier twin sister of down-sizing) has resulted in lay-offs in all industries.

For the first time, many shops are faced with having to downsize because of fewer cars in the door, which begs the question: How brave will you be in the selection of who goes and who stays, and will you use this as an opportunity to eliminate employees who are a drag on your business? For instance, are you one of those shop owners who gripes about a master tech who rules the roost, bullying employees and acting like a prima dona, but is too afraid to let him go?

While evaluating the quality of your team and even the possibility of looking outside the business to upgrade, standards of decency may dictate that you ask: Is there something I (my shop manager/a designated mentor/a one day seminar) could do to coach and assist an underperforming employee? In the rush of business, we sometimes put up with mediocrity and bad behavior in our employees and even model it in our own behavior. With time to reflect and retool, consider the fairness equation in rehabbing an employee. But if it doesn't make sense, let them go and recognize that there are plenty of great people, victims of down-sizing, who are ready to be part of your A Team.

Reorient

With all of this talk of boldly and imaginatively plowing through a tough time, it would be unfair to ignore the financial, mental and

physical cost of retooling. While some characterize the cost of say, converting to waterborne paint, as nominal, (one multi-shop operator who converted several small shops estimated the cost to upgrade booths and blowers at around \$10,000), for others, this expense may represent the tipping point on a scale where the "it's time to pack it in" weight has been bearing down for years.

The problem for many shop owners who reach this point is properly valuing their businesses. During the 90's, it was not unheard of for shops to be sold for 4 to 5 times the annual cash flow of the business. Many shop owners remember those times and assume the same will be true now, in spite of many indicators to the contrary. As such, a shop owner who is contemplating a sale should do his or her research and get a good feel for the market.

For instance, an asset purchase sale may be more streamlined for those in a hurry, but it will yield a far lower value than a business sold at multiples of cash flow (in today's market, usually in the neighborhood of two or three times cash flow for a healthy business, with few exceptions). However, to make the case for the second scenario, where consideration is paid for goodwill in the business, may require that an owner hang on a little longer to bulk up the business before going to market. This may require him or her to cement DRP and dealer relationships, build up the customer pay side of the business, better manage vendor contracts, and cleaning up the books so that personal expenses are no longer run through the business. This kind of pre-work can enhance the value of the business and make it more attractive to a potential purchaser.

Conclusion

Difficult times require something other than a business as usual strategy, but they do require a strategy. The shop owners who are best positioned to weather the storm are those who do not retreat, but instead use this time to reflect, retool and even, reinvent their businesses.

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