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Where to invest in 2010

The common thread in conversations with business owners is the perception that it gets harder every year just to get back to the same place. Next year will be another challenging year. This is not pessimism; rather it is an acceptance of reality. The facts are housing and unemployment will be a drag on spending at least into 2011. And facts, as they say, are stubborn things. No amount of false hope and rah-rah changes that. The supply/demand equation remains tilted in the customer's favor, and the current political and lending climates are clearly unhelpful to small business owners.

Ninety-five percent of the companies I know will make less money this year. They are being realistic about next year and adjusting their investment strategies accordingly. They are investing in two primary areas: sales to generate revenues, and computer systems to reduce labor expense.

Investment in sales

A significant opportunity exists to pick up new business in 2010. Call it the "boomerang" effect. Many customers who contracted with the "low price guy" are not happy now, and they are willing to pay a little more — although not a lot more — for improved quality and reliability.

Make an investment in a pricing model that enables you to win this business while still making gross profit. At the same time, investing in additional sales staff is a good idea. In many cases, the actual hire may be in operations or administration, freeing up the owner to focus on sales.

The days of selling by simply answering the phone are over. You must prospect more, bid more and employ what might be long-dormant selling skills to succeed. Investments in pricing and "feet on the street" are producing solid returns for many business owners already.

Although investments in Web sites, advertising and collateral material are always good ideas, they do not seem to be producing equal results.

If you under-invest (in sales and systems), the perception that it is **getting harder to get back to the same place** will unfortunately become your reality.

Investment in systems

Another significant opportunity exists to reduce field and non-field labor expenses. Several companies I work with have invested in software that helps them manage in real time, thus minimizing the entry and manipulation of estimates, work orders and purchases. The goal is to enable the same number of people to handle greater workloads more efficiently.

This produces a "reduction in overhead" relative to revenue that has at least two virtuous effects:

1. It allows you to reallocate money away from "dead overhead" and redirect it to your sales effort.
2. It reduces your per-hour overhead recovery rate, allowing you to reduce prices in your pricing model — thus allowing you to safely work at a lower gross margin.

These investments go hand in hand, and are integral to recreating the way you will need to do business next year. Given the economic realities, it is best to get started now with these investments or risk falling behind. If you under-invest, the perception that it is getting harder to get back to the same place will unfortunately become your reality.