

Outlook for 2010

Why it will be a challenging year — and how to respond.

BY KEVIN KEHOE

TAKE AWAY

Build a budget and pricing strategy that provides the flexibility to price-pick key jobs for as much as 10% to 15% lower than your current rates.

Invest in employee productivity improvement.

TWO REALITIES facing every contractor are the need to price aggressively to retain and win new work, and the need to reduce overhead in relation to revenue.

I've written about this subject before, but it's important to revisit it now.

As we begin planning for 2010, we should have no illusions about a smart and sassy economic recovery. Still, it's important to distinguish between good news and news about the economy "not worsening." The most predictable forecast for 2010 is that the economy won't get much worse, but it won't get much better, either.

The real-estate market in particular isn't in recovery, and only a recovery will drive the kind of spending that affects contractors.

There's a substantial foreclosure problem looming in the commercial and non-subprime residential markets, and consumers still are deleveraging their balance sheets. As a result, spending will be tight next year.

And don't expect much help from a government stimulus program. There's nothing in these programs to help small businesses, no matter what the politicians say.

A second year of pain puts considerable pressure on everyone — customers and contractors — to manage money even more prudently. But the real risk facing the economy isn't *inflation* as much as it's *deflation*, or falling prices. We've seen prices decline all year long. Prices increase during an inflationary environment, not decrease. This will continue in 2010.



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"IF THERE'S ONE THING THAT HAS MADE A DIFFERENCE FOR MANY COMPANIES THIS YEAR, IT HAS BEEN **ACTING ON REVENUE AND COST INFORMATION FASTER TO CLOSE SALES AND REDUCE WASTE!**"

Be prepared

To meet 2010 head-on, you must first build a budget and pricing strategy that provides the flexibility to price-pick key jobs for as much as 10% to 15% lower than your current rates. (See prior articles or www.kehoe.biz on how to do this.) This *is* doable. This year, contractors discovered customers respond and they can engineer jobs to minimize gross profit loss.

You also must be prepared to invest in employee productivity improvement. A key lesson learned this year is that employees can be more productive, measured in terms of revenue per employee, and demonstrate they can handle 10% to 20% more workload. While training is helpful, accountability produces real results.

The key to productivity improvement is accountability; the key to accountability is performance information. The keys to performance information are simplicity and availability, reporting that shows results by position every day. If there's one thing that has made a difference for many companies this year, it has been acting on revenue and cost information faster to close sales and reduce waste.

Contractors should go into 2010 with eyes wide open — and with pricing and accountability systems to manage tightly to budgets. But there's good news, too: We've probably weathered the worst, and most have survived, albeit at lower profit margins. Now we must apply the lessons learned in 2009 and employ these strategies to be successful in 2010. **LM**

The author is owner-manager of Kehoe & Co. Contact him at kkehoe@earthlink.net.



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