



THE BENCHMARK

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The new normal

Have you asked yourself, “Why am I attending another seminar titled ‘Adapting to the New Normal?’” The very idea implies we accept a future of lower expectations.

I will never be involved in another, without first identifying for the audience the reasons for the “new normal.” Our failure to discuss real causes suggests a bovine acceptance of things — that this is the way things must be for small businesses, and we can do little but cope with it. In fact, we should be talking about more than simply adapting — we should be discussing how to change the circumstances that have created and continue to perpetuate our sad economic situation.

I recently attended a conference where several clearheaded professionals (not the-world-is-ending types) made the case that we are in for an extended run of high unemployment and lower consumer expectations and spending. In other words, things are not fundamentally or materially improving, despite what the stock market is doing. The case is compelling — and if we are paying attention to our own income statements, it is all too obvious. Every industry benchmark, which I have been keeping for the past 20 years, clearly bears this out.

As Table 1 shows, the real problem with lower prices and higher costs is the impact on return on assets. A three-person crew simply earns less revenue and profit than it did three years ago but still needs the same equipment, which is now more expensive and harder to finance. It is becoming increasingly clear that the “new normal” is slow death for many undercapitalized companies.

The causes themselves are also clear: Burdensome government intervention in the economy in the form of shifting tax policy, regulatory statutes and deficit spending is perpetuating an environment where small businesses continue to underperform in terms of growth, profit and return on investment. Look no further than the impact H-2B policy and the healthcare reform issue have on the industry. Regardless of your political persuasion, these are the facts. We cannot ignore them and put our heads in the sand.

According to the clearheaded investors at the conference, the days of a robust U.S. economy producing a rising tide that floats all boats are over. The game we played for the last several decades has been fundamentally turned on its head, given the current and ongoing political circumstances. Without changing these circumstances, we should expect this environment will produce more losers than winners, especially in the small business arena.

Certainly, we must address the short term and take steps to win, but we do have choices in the longer term. We can accept a long-term economy where it’s every man for himself, or we in this very vital segment of the economy (Sub Chapter S small business) can find our voice and actively work — as a coherent group — to change the circumstances instead of merely adapting to them. We can continue to treat the symptoms of low pricing, wage cuts, aging equipment, scarce capital and labor shortages, or we can choose to address the causes.

The stakes are high, and I would be remiss were I to merely address solutions to symptoms without addressing the causes. And so would we all.

TABLE 1: RETURN ON ASSET COMPARISON

Item / Name	Calculation	2005	2011
A / Revenue		\$1,000,000	\$1,000,000
B / Profit		\$120,000	\$70,000
C / Profit percentage	B/A	12%	7%
D / Balance sheet assets		\$250,000	\$325,000
E / Asset turns	A/D	4.00	3.08
F / Return on assets	B/D	48%	22%