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Waiting For Economic Trade Winds To Return?

Here's How Some Companies Are Making Headway In The Doldrums

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By Ellen Williams-Masson

When slowing economic winds threaten to becalm your business, is it better to stay the course, lighten the load or jump ship?

For Russ Endres, president of Wisconsin Management Company, making headway during the housing market slump has required a change in tack.

Endres handles a diverse selection of investment real estate throughout the Midwest and Florida and is in the midst of two condominium-conversion projects. The first, Nichols Station, is in Downtown Madison across from James Madison Park; the second is in Wisconsin Dells.

"How you structure the investment is really critical," Endres said. "Rather than taking the entire property, converting all the units, remodeling them and getting them all ready to sell, we've done that in phasing. We have kept about a third of the building in rental, so we've got rental income to sustain the investment until it can be sold out - we don't have to have any fire sales."

Endres, who has been with the company 28 years, developed his investment strategy through trial and error.

When he and his partner converted their first apartment building on the West Side of Madison in 2003-04, the condos were "selling like hotcakes" and they couldn't rehabilitate the building fast enough. It was a different story, however, when they purchased, emptied and remodeled their next two apartment buildings in 2006 and 2007.

"That was really when the start of the slowdown hit, and I sat with two buildings with zero income and zero sales," Endres said. "I did learn a lesson from that and the wonderful news is that I got out of them with my shirt still intact."

IDENTIFY RISKS

Management consultant Eric S. Brown in Madison advises Capital Region businesses to take time to anticipate and potentially avert the negative impacts of an economic downturn.

Managers can begin by assessing their own industry, markets and individual companies in light of the overall economy in order to identify risks above and beyond the norm.

"After you identify the new or heightened risks, solicit ideas from your management group, employees, vendors and outside advisers - the consultants, accountants and attorneys - because they deal with lots of companies all the time and see what are best or typical practices," Brown said.

"Sometimes when you work at a company, you get very focused on just how things are done in your own industry and don't look more widely."

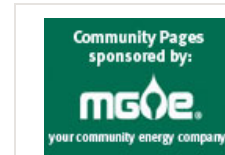
For Graebel, a global relocation company headquartered in Denver, Colo., laying off 16 workers at the company's shared services office in Wausau has been a necessary response to the U.S. housing and mortgage crisis.

Senior Vice President Craig Reineking said national cuts, in addition to the 3 percent reduction in administrative and clerical personnel at Wausau, were essential to "right-size" his work force as a "normal business reaction to the economic conditions that we are dealing with."

Through aggressive pricing and "finding more ways for customers to say yes," Graebel hopes to capture more of the tightened household goods and commercial transportation market.

"There are still people moving, so we just have to get more touches out there," Reineking said.

"Advertising is a part of it, and being available for the customer whenever the customer is available. You have to be out there



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literally calling on potential customers every minute of the day, because if you are not, somebody else will be."

CUSTOMER RELATIONSHIPS

Strong customer relationships have helped Engineered Construction of Verona weather fluctuations in the industry. President David Lombardo credits a corporate marketing mentality and strategic planning for his company's healthy backlog of commercial and general contracting jobs.

"We have gotten everybody in our company on the same page, because we've involved everybody from upper management to the labor out in the field," Lombardo said. "It's the guy on the job site taking an extra five minutes to pick up some trash where maybe he didn't before – he understands our No. 1 person is our customer."

Eschewing the common approach of underbidding in an attempt to make money in a tight market, Lombardo said his company focuses on projects where they can "do a really good job, make money and are passionate about doing."

"You need to create real value for your customers and build that relationship so they trust you," he said. "Another thing we've done is ask customers what is important to them – it sounds pretty simple, but I don't think a lot of people do it."

Teamwork helps companies pull together in an economic crisis, and retired federal mediator Ron Sweet emphasized the importance of labor and management respecting one another's contribution to the effort.

Sweet was instrumental in organizing the Construction Labor Management Council of Southeast Wisconsin , an association of union contractors and trades people united under the "Building Advantage" marketing campaign.

"After 40 years in the business, I've watched a lot of change, and those people who haven't dealt with that change proactively have fallen by the wayside," Sweet said.

"With or without a union, labor and management have to value each other. Together as one team you can be successful, you can deal with change and instead of fighting each other to deal with it, you are helping each other to deal with it, which is more job security for labor and management and provides an opportunity for the future for both."

TRIM THE FAT

John Topp, CEO of Allied Construction Employers Association and executive director of Building Advantage , advises construction businesses to improve efficiency in order to ride out the pendulum swing inevitable when the housing market recovers from a burst bubble.

"Every corporation can start with looking right from the top with their own organizations, then go out to the field operations and do the studies and make sure they are operating at peak efficiency so owners can see that they are getting more value for the dollar," Topp said.

"The bottom line is that you have to analyze your cost of operations and make sure you are operating as efficiently and effectively as you can possibly operate. There can be absolutely no waste in anything that you do today."

Shannon Seip, co-owner of Bean Sprouts in Middleton, knows all about trimming the fat at her hip, kid-friendly cafe. With a focus on healthy kid favorites spiked with vegetable and fruit purees, Seip has pioneered a niche market in the face of challenging times in the food industry.

"Even when times are tough economically, the one thing that does remain constant is that parents want the best for their children," Seip said. "We feel our unique concept will help us, and we have grown more than 200 percent since we opened in July 2007."

A creative marketing strategy coupled with "a really tight budget" has helped keep the sprouts growing. For example, the cafe's new "Bitty Baker TV" offers kids ages 2-6 the chance to star in their own food show, aired weekly on WYOU-TV.

"We are trying to be really creative in how we go about getting brand recognition," Seip said. "We don't necessarily believe that traditional advertising is the best way to reach our customers. I don't know if moms have time to read advertisements or listen to the radio – most likely they are listening to 'The Wiggles' or something like that."

Linda R. Marshall, president and owner of Elysee Scientific Cosmetics , said she has already pared margins to the bone at her Verona-based company to keep prices low, but she could add more free samples if needed to stimulate sales. Elysee sales have not yet been affected by the economic downturn.

"They say the cosmetic industry is recession-proof," Marshall said. "I'm not sure that is true because I think some of the cosmetic lines are going through the roof, cost-wise. We are positioned to make that difference in people's lives, so we want to be marketed so our products are financially within the grasp of every person."

Retail sales at most shops in West Towne Mall have also remained strong, according to marketing director Tiffany Bernhardt. She credits new retail development, including H&M , Granite City and the Apple Store , with increasing foot traffic and spurring mall sales.

Sephora , a new beauty and cosmetic store, will also open this summer.

"We have been in a very fortunate position where we're not seeing the economic downturn that some other retail establishments are," Bernhardt said. "It is a mix – there are retailers (at West Towne Mall) that have struggled, however, overall a lot of the retailers are posting pretty good numbers despite the economic state that we are in."

BE READY TO USE PLAN B

Even the strongest companies can be blindsided by an economic downturn, so Patrick Below of CEO Consulting Services in



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Madison warns businesses that "you'd better have a plan B to ride out this storm."

"You have to openly share the situation with the people, because they are nervous about what's going to happen to the company," Below said. "You have to communicate often, openly and early. You have to allay their fears – we can get through this, we now have a Plan B and we will survive."

Sharing financial secrets can be nerve-racking for executives accustomed to holding spreadsheets close to their chests, but Below encourages his clients to "share cash flow projections so people can see how important every sale is in the system."

He said it's also important for Capital Region companies to keep an eye on the big picture and not lose sight of long-term strategic goals.

"When you come out of a recession, marginal companies often do not survive, so you can make some pretty good acquisitions at good prices in an economic downturn if you have the cash and the financial strength to do it," Below said.

"Your market also expands because these competitors are no longer there, so if you can ride through a recession and not get thrown off your long-term course, then you will come out and even accelerate your growth because there's less competition."

American Players Theatre in Spring Green is investing in the future by breaking ground on a new production facility and an indoor theater this spring. Intended to complement their financially successful outdoor amphitheater that seats 1,148, the smaller, more intimate indoor theater will be a training ground for young actors before they move up the hill to the big stage.

With most of their audience coming from within a "one-tank" driving radius, the theater is also sponsoring a commuter bus from Madison for the first time this summer.

"We think that our customers will use it for all sorts of reasons – the economy, the environment, and some of our older patrons aren't able to make the drive at night after the show," said Sara Young, director of communications.

Such customer-friendly practices have created a loyal audience that Young credits for the theater's healthy balance sheet at a time when disposable income may be stretched to the limit. Nonetheless, the company is poised to take action if ticket sales decline.

"We try to be very fiscally responsible and be ready to act if we are affected by the economy, whether that's putting some additional discounts in place or doing additional advertising to affect ticket sales," Young said.

PLAY TO YOUR STRENGTHS

Concerns about fuel efficiency and environmental responsibility are providing a niche market in construction.

Madison Area Builders Association president Vic Pulvermacher said that area builders on the "cutting edge of great building practices" help increase housing sales.

"We're always on that cutting edge of innovation, staying up with Wisconsin energy guidelines and green building practices," Pulvermacher said. "MABA was one of the first ones to jump on green building, and now nationally it's finally taking off."

Pulvermacher, a custom builder of homes in the \$300,000 to \$1,000,000 range, has seen a shift in the industry as financially strapped homeowners opt to remodel their existing homes instead of building new.

Flexibility has driven more than a century of growth at J. H. Findorff & Son Inc., a Madison-based commercial contractor with about \$300 million in annual revenue. Jeff Tubbs, vice president of business development, said Findorff's diversification in educational, industrial, health care and residential building helps smooth out dips in particular industries.

"When the condo industry started to slow down, other industries, like health care, were starting to pick up so we were able to maintain our work force," Tubbs said. "Our emphasis is staying diversified and making sure we stay very close to our customers and maintain those relationships."

"In this downturn, we continue to look internally at our operations to make sure we are running as efficiently as possible."

STRATEGY PAYING OFF

For Russ Endres at Wisconsin Management Company, a phased-in investment strategy is paying off during a dearth of condo sales in his \$250,000 price range in downtown Madison.

"By not converting the entire building (at Nichols Station) and paying down our debt first when we do sell off units, we have a building that has rental income and little debt – if we don't sell another condominium for a year or two, we aren't going to be so hurt by that," he said.

Lessons learned while battling gale-force winds can lead to smoother sailing during the next economic storm, as Endres admitted with a chuckle.

"I would love to tell you how brilliant a strategy this was, however, it came about just through experience," he said.

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