



PROFIT MATTERS

HOW DO YOUR NUMBERS LINE UP? | BY CHRIS "CHUBBY" FREDERICK

An Economic Forecast for Shop Owners

Since we all know the joke about opinions, I have one like everyone else, and I'd like to share my opinion on the economy in 2009 with you. I have been through a few tough times since I joined the automotive brotherhood in 1971.

Actually, I went through rough times before then. While I am the CEO of a company that mentors 947 independent automotive service centers and tire dealers every week, I had three different colleges ask me to leave, and leave I did. So I have seen in our industry some shops doing better and just as many doing much worse. So what's my opinion on 2009, and what can you do to survive?

We are now in a recession that will probably not bottom out until the third quarter of 2010. Be prepared for a long slow recovery and don't get comfortable at the first sign of improvement. This is not going to be the typical recession we have seen where car sales drop and the repair business goes up. The fleet has matured and is capable of going long periods without repair and maintenance. The housing market will continue to decline until first quarter 2010, when the entire market will

be in the trough and begin to climb out.

If you can re-engineer your business to generate cash, there will be a lot of opportunities if you wait on them. A decrease in inflation will take place in 2009 and 2010 with it returning from 2011-2013. This will allow you to only have to increase prices slightly to keep up with your financial model you have been used to. Credit conditions will not improve in 2009, but 2010 will be a good year to borrow, maybe even a good time to buy that building or property you've been thinking about.

The U.S. unemployment rate will increase in 2009, which will help you hire some great people that may have been out of your reach in normal times. Plan on the automotive sector to be down for the next couple of years. In certain areas, unemployment will dramatically reduce your car count and cause consumers not to drive as much. Many companies are

moving to telecommuting, which will reduce driving considerably.

But with many of your competitors going out of business, proactive shop owners can increase market share and repair sales even though the maintenance business will suffer. Re-engineer your management objectives to take advantage of the upturn on the other side of this recession. Make no mistake about it: the shops that are really in trouble right now will have terrible odds of surviving until 2010 unless they change immediately.

Most of us, I believe, will be fine in the service and tire replacement business if we pay attention in order of importance to gross profit, margin dollars, average repair order, stabilizing car count and expenses. The toughest challenge for owners is to make those tough decisions to stay alive.

You must re-engineer your staffing, business and financial model so you can get through these tough times. If you were a military commander, you would have to get used to sacrificing lives so the majority could live. Many shop owners can't do this or they do it too late in the game after it has sucked the life out of the cash flow of the business. I strongly

QUESTION OF THE MONTH

QUESTION:

What is different about this recession vs. all the others us baby boomers have been through?

The current fleet of automobiles is more capable of going greater distances without repairs and maintenance. By 2010 we will all realize that this recession was the worst we will see in our lifetime. You have not seen anything yet, get ready and go back to monitoring your basic metrics every day not just every week.

*Do you have a question for Chubby?
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suggest a coach or a mentor to help you through these times if you are famous for reacting too slowly.

Talking about retirement, I said before that as of Nov. 1, you could expect another 10 percent drop in the S&P 500 before we start back uphill. Now that the date has passed, you can judge my ability to forecast. I also said you could expect a volatile market until January 2009, so hang in there on your retirement investments.

For those of you who have held on to your mutual fund portfolios, don't panic, but do get more defensive and consider some new strategies. There is no great rebound on the other side of this recession, only a long slow climb out. Rather than buying broad based mutual funds, invest in sectors you are willing to hold onto for the long term.

Borrow as much money as you can in 2010, because it may get much harder in

the following years. If you have no debt now and don't need any money, consider getting a line of credit right now. You will pay a small commitment fee annually to have it in place, but you may sleep better at night. If something happens to your business plan and you run out of cash, it may be the safety net that gets you through 2010. Shop owners who prepare for this downturn will be able to grow and prosper. Remember, cash is king.

The action steps I recommend to ATI clients start with going back to basics. Re-engineer your financial model to net 20 percent to 30 percent cash profit depending on your tire/service mix. Look at your pricing and check your margins as compared to the last time you set them. Tune up your service manager by sending him or her to a relationship-based sales course.

Many managers are being told by the customer that they won't buy anything, so

they stop trying to even recommend needed items. Re-visit leadership and financial modeling courses. Attend events with successful shop owners who are proactive in this environment and succeeding.

Though controlling expenses is critical in a poor economy, don't stop trying to stabilize your car count with retention and acquisition techniques. Send me an e-mail and I will give you a rebated scholarship to a cash profits boot camp or a financial remodeling seminar near you. *ML*

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