

Economic Tip No. 5: Fine-Tune Operations

by Angela D. Harris

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[Editor's note: This is the fifth article in a five-article economic series offering tools and suggestions to help contractors during changing economic times.]



Staring down the barrel of economic uncertainty, two contractors — one in Phoenix and one in San Jose, Calif. — have determined that they will not embrace recession without putting up a good fight. Both face different circumstances, but each is addressing economic challenges while keeping a watchful eye on the bottom line. To do this, they are fine-tuning their day-to-day operations.

STANDING STRONG

Louis G. Hobaica, owner of Hobaica Services Inc., Phoenix, is experiencing a definite pinch due to the downturn in the housing market. His business is less than 10 percent new construction, and the retrofit HVAC sales, maintenance, and repairs have all declined, "due to an overall economic downturn and the availability of liquid assets in both the residential and commercial markets," he said. "Even our high-end wine cellar sales came to a screeching halt due to the loss in available cash and investment returns."

Due to these circumstances, Hobaica reported his year-end 2008 sales to be 12 percent below his 2007 sales numbers. The first quarter of 2009 hasn't proved to be better for his market sector and predictions for the second quarter are still dicey. The company has had a wage freeze in effect for one year. "Basically, much of our business has been in the pause mode for a good part of the past year," he said.

Despite these struggles, Hobaica isn't allowing the economy to slow down his business plan. He has adopted several strategies to improve business procedures and prepare for the bounce back predicted in late 2009 and early 2010. "We have concentrated our focus, refining our targeted marketing strategies to the existing customer base and the Internet," Hobaica pointed out. "We have also implemented marketing programs utilizing our employees to market the company and receive bonuses."

In 2008, Hobaica Services extended an additional \$25,000 in marketing bonuses to its employees. According to Hobaica, this employee-marketing program is intended to be a creative way to allow employees to earn additional money by marketing the company and creating the ultimate customer experience.

Besides rethinking marketing costs and strategies, Hobaica keeps a close eye on his insurance costs too. When the company renewed its health coverage, the 2008 renewals came back at a 25 percent increase. After implementing, Hobaica explained, the insurance company did a detailed individual health analysis and increased rates by 300 percent.

"At that point we had to quickly jump through hoops to secure another provider with reduced benefits, at a 30 percent increase," he said. "We continue to be very proactive and shop very smart. Our local ACCA [Air Conditioning Contractors of America] chapter is in the process of implementing a group health plan. It looks like it will be a beneficial plan for all involved."

Beyond internal best practices and ramping up his daily customer service, Hobaica is focusing on working smarter, faster, more efficient, and with a much lower overhead structure, and described the company now as being "basically 'a lean and mean operating machine.'"

In the midst of becoming lean and mean, Hobaica doesn't advise that contractors extend themselves as a credit source for the potential customers who are being turned down for credit. "Some companies are extending themselves as the credit source to obtain the sale," he explained. "Many have overextended themselves and are hurting or being forced out of business."

According to Hobaica, times like these can be good in some respects because it forces companies to re-evaluate their operations and redefine a new level of comfort.

"This [tough economic time] will allow our industry to 'clean house' and 'purge' the companies that poorly represent our industry."

FORGING AHEAD

Russ Donnici, president of Mechanical Air Service Inc., San Jose, Calif., currently has a backlog of work that is more than four times the highest backlog the company has had in 33 years. The company had plans to begin increasing its residential changeout business but, according to Donnici, that

type of work has almost disappeared.

"I have even heard that several of the large changeout companies are hurting pretty bad," he said. Despite the delay of market expansion, economic downturn has not hit Mechanical Air Service too hard.

"Regardless of this, we are still focusing on fine-tuning our operations and executing our work better. This is a constant process for us."

As the company examines its processes for efficiency and maximum profit yielding, some of them have been changed, removed, or added. Most recently, the company removed its fuel surcharge, leaving only a truck charge on the customer's bill. They continue to seek out ways to be more cost effective and are currently researching and considering GPS. Donnici's business and vehicle insurances have remained relatively stable, but he is noticing a 25-35 percent yearly rise in medical insurance costs.

Despite the challenges and changes in business, Donnici acknowledged that some of the problems contractors are facing are beyond their control but that sticking to the basics of good business practices should get contractors through.

"We all just get lazy when times are good, spend money recklessly, and don't pay attention to the details," he noted. "The contractors that haven't operated in a conservative manner in the past are going to pay a high price for it now. Many will not survive. We are aggressively managing our receivables, saving our money like we always have, and watching our expenses."

As his company continues to look for new and expanded opportunities, geothermal and energy-efficiency projects are ranking higher on their list.

"We have always been in the green movement, it was just called energy management before," said Donnici. "We are continuing to pursue geothermal projects and projects that our green expertise will differentiate us from our competitors through service, training, technical expertise, and unique solutions to clients' problems."

Looking past the economic times currently being faced by the industry and the U.S. economy, Donnici is also considering other issues that will continue to dot the HVACR industry's landscape.

"I believe that business taxes, employment taxes (FICA and Medicare), and medical and labor costs will be some of the big issues contractors will face over the next five years," he said. "Finding highly motivated employees will continue to be an issue as well."

POSITIVE OUTLOOKS

Both of these contractors are facing different situations with different tools, but each has the same thing in common — a positive attitude. “I think one of the greatest challenges is all the negative press that comes out everyday about the economy,” said Donnici. “I have a great deal of faith in America and its people.”

And as for Hobaica, he not only plans on being around for years to come, but he is projecting a moderate sales growth by the end of 2009 that will bring him back to 2007 sales levels. “I look at it as a wake-up call where only the wise, hard-working companies will survive.”

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