

Costs are up. The economy is down. Ways your small business can cope.

Sure, the economy in Texas hasn't slowed as much as it has nationally. But that's little consolation to the North Texas business owners who still have to deal with rising costs and the effects of the nationwide slowdown.

From gas to electricity, labor to raw materials, prices have gone up. It'd be easy to say, "Well, just raise your own prices." But then you risk losing customers, who are simply trying to keep their own costs down as well.

Here are a few ways local businesses are combating rising costs in a sluggish economy.

Spend money to save money. That may sound counterproductive, but it can be an effective move overall. Larry Cole, president and owner of Garland manufacturing firm Cole Industries, Inc., did just that last year when rising raw material costs put a crimp on his profits.

Larry's company casts aluminum molds for manufacturers nationwide that make things like kayaks, outdoor play equipment, garbage cans, and myriad other items.

"We buy aluminum, steel and resin, which is derived from oil," explains Larry. "Steel and aluminum prices increased 50% in the last two years, and oil prices have certainly skyrocketed."

"I knew the economy was slowing last year, so we bought machinery that's more cost-effective and saves labor and material costs. It allowed us to change the types of material we use, and use less material in some cases, with no effect on the end result."

Use resources wisely. Higher labor costs are affecting DCS Global, a Plano software and consulting firm that offers services for healthcare providers. Owner Babita Jain says, "Everyone is getting hit by inflation and higher gas prices. We have to pay employees higher wages to keep them from leaving for jobs that pay more. Even the lowest paid job has gone up since last year."



"What we're doing now is to make sure our employees are fully utilized."

Little things can pay off big. Babita found that simply marketing her products and services via e-mail rather than long-distance calls has helped curb some of her costs.

And other companies are finding simple solutions to rising energy prices—the biggest hurdle for Roland Schurrer, who runs Quality Powder Coating in Carrollton. His company applies coatings on metal fixtures from airline ground support equipment to lawn furniture, and is one of the city's biggest users of natural gas. Since he can't reduce its usage—and gas prices have quadrupled in the past several years—Roland looked at other ways to save money.

"We replaced all the lighting in our warehouse with fluorescent fixtures," he explains. "Since they're so much brighter, we only had to put up 60 of them instead of 120. That's saving us \$1,000 a month on our electric bill."

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- FDIC Insurance



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Small Business continued

Roland also replaced office windows with “Low E” windows, which helps keep heat out, and is looking into double insulation for the “office-sized” ovens the company operates to improve oven efficiency and cut down on waste.

Increase your sales efforts. When Larry sensed a slowdown was imminent, he reached out to prospects. “In a slowing economy, we try to increase our customer base, working harder on sales,” he explains. Larry’s efforts resulted in a 30 percent increase in new customers over the past year. “We’re still not as busy as last year,” he says. “But we’re not far off.”

Of course you don’t want to forget your existing customers. “You’ve got to do whatever you need to keep them happy,” explains Larry. “And you have to do that before the economy slows. I’m definitely on the phone with them more.”

Diversify your offerings. Roland increased sales when his company recently began offering a new coating that looks like woodgrain, which few companies offer.

“We picked up so many new customers because of this line, even though sales from existing customers have slowed,” Roland says. “We diversified at the right time, because we didn’t know there was going to be a slowdown. We’re happy with the result.”

Babita also expanded her product line with a registration kiosk for hospitals. Similar to check-in kiosks at airports, the kiosk allows patients to schedule themselves or check in up front rather than waiting in a waiting room. “We can’t raise prices, so we’re investing heavily in new products and technology to keep sales up.”

Plan ahead on travel. Babita’s business requires frequent nationwide travel, so she’s had to change a few things to stay efficient. “We’ve become very vigilant in planning ahead to save on airfare,” she explains. “No more spur of the moment travel. We also try to train clients on software over the Internet whenever possible. And we’re definitely more selective about the conferences we attend to make sure we get the most bang for the buck.”

High diesel costs are an issue for Roland’s small fleet of delivery trucks. “We’re running them differently, combining deliveries and pickups when we can,” says Roland. “The drivers have phones, so I can call them when they’re out, rather than waiting for them to come back just to send them out again.”

Join forces with other companies. Larry found a unique solution to higher product prices: “We got together with a semi-competitor for more buying power, and now we get volume discounts.”

Reevaluate your vendors. Make sure the companies you hire to provide products or services are offering you the best deal. Granted, you want to make sure the quality doesn’t go down along with the price. Says Roland, “One of our supplier’s prices rose too high, so we found a new vendor with the same quality at a lower price.”

Got a cost cutting tip you’d like to share? We may be able to use them in a future article. E-mail us with “Cost-cutting” in the subject line at businessinsights@viewpointbank.com

The numbers

\$75 billion

Annual revenues of the utility contractor industry

40,000

Number of small, mostly privately held HVAC and plumbing companies that operate from a single location

\$30 billion

HVAC industry annual revenue in maintenance, repair and replacement services.

Businesses featured in the cover article:

Cole Industries, Inc.

Larry Cole, President
Garland
www.coleindustries.com

DCS Global

Babita Jain, President & Owner
Plano
www.dcsglobal.com

Quality Powder Coating

Roland Schurrer, President
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Spotlight: Heating, Air Conditioning and Plumbing Contractors

If you own a home or manage an office building, chances are you've dealt with a plumbing or HVAC company. (You may even have thought, "Hey, I'm in the wrong business," when you've gotten the bill.)

Split between commercial and residential contractors, the industry is heavily dependent on new construction, although the demand for maintenance and repair work is substantial. Here's a quick look at the utility contractor industry:

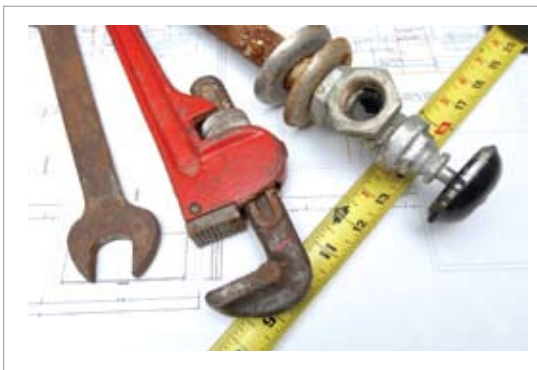
Where the money is. Industry revenue is almost evenly split between commercial and residential segments; companies usually participate in only one, as the work differs fundamentally.

Revenues are further split between installation and maintenance; commercial companies usually do both, in many cases providing continuing maintenance under long-term service contracts. Most residential companies perform mainly maintenance work of the 43 million central air conditioners, 54 million furnaces, and 9 million heat pumps in U.S. homes.

High working capital, accounts receivable. HVAC and plumbing companies typically have high working capital requirements. Because final payments on many jobs aren't made until after project completion, accounts receivable are often as high as 20 percent of sales. In addition, technicians typically carry a large inventory of parts and supplies in their trucks.

The building industry affects sales. Demand for HVAC services in the U.S. depends partly on the volume of new construction, which can drop rapidly during an economic slowdown. During the last recession, the volume of commercial construction fell 25 percent. Although a large portion of industry revenue is from maintenance and repair of existing equipment, new construction can be the major source of new business for large commercial HVAC contractors. Plumbing work most often occurs when a home is sold.

That's why it costs so much. Companies in this industry generally have a low gross margin, as the work is typically labor-intensive and highly skilled employees can be hard to find. Labor costs are a major concern, as is the ability to correctly estimate a project's cost. Contractors often have difficulty finding workers with enough technical training. Because of rapid technological advances in HVAC equipment,



even experienced technicians may require frequent training. Apprenticeships from two to five years are required for HVAC contractors.

Material costs have also gone up. Project costs rise as manufacturers revise product prices. The price of HVAC and commercial refrigeration equipment rose nearly 4 percent in February 2008 from a year earlier. Plastic plumbing fixtures, metal plumbing fixture fitting and trim, and sheet metal AC ducts and stove pipe rose over 3 percent. To protect profits, contractors typically pass the added material costs to customers.

Trends & Opportunities: Things are getting complicated.

The increasing sophistication of HVAC and other utility systems, such as the use of computer chips, sensors, and control technology, requires greater expertise in both installation and maintenance.

Going green spurs growth. Companies and homeowners seeking ways to reduce ongoing energy costs are buying newer, more efficient HVAC equipment. The ban on chlorofluorocarbon (CFC) refrigerants, still used in an estimated 38,000 chillers, created a large replacement market.

Ugly baths create demand. Demand for plumbing fixtures and fittings is projected to increase over the next few years. Building improvement and repair, both residential and nonresidential, will drive demand for plumbing work. Residential plumbing trends, both in larger bathrooms and kitchens and in higher-end fixtures like enhanced showers, jetted tubs and spas, will also bolster market growth.

Not as many DIYers out there. Aging baby boomers who planned to install their own fixtures and upgrades realize that time and know-how are more difficult to find than the money to pay for professional work.

Source: First Research

Q&A

What does the FDIC insure?

The Federal Deposit Insurance Corporation insures funds in deposit accounts, including checking, savings, money market deposit accounts and CDs. As of October 3, 2008, the FDIC will fully insure bank deposits up to \$250,000 at each insured depository institution, up from \$100,000. This increase will be in effect until the end of 2009.

The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, IRAs and trust accounts. For example, the funds you have on deposit in your name alone are insured up to \$250,000. Your IRA deposits are insured separately, up to \$250,000. And your portion of a joint account is also insured separately. Please visit www.myfdicinsurance.gov to learn how much coverage you qualify for.

What's not covered?

The FDIC doesn't insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities, even if they were bought from an insured bank. Safe deposit boxes and their contents are also not insured.

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