



## CREDIT WATCH, WHEN THE MARKET SLOWS!



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**W**e are now very clearly in a lackluster real estate market. Call it what you wish but all the economic indicators have the real estate market in New Jersey slowing down. Although most forecasters anticipate slower, but positive growth in the national economy in 2007, housing activity is decelerating in high price markets, like New Jersey. This is primarily due to the high cost of housing, property taxes, migration to others regions, and restrictions imposed by the state on what can be built. Many builders are cutting back on starts, delaying new projects, and offering incentives to move inventory.

New Jersey's housing starts are declining and will continue to do so for both economic and regulatory reasons. Starts in 2007 are predicted to be 30% less than in 2005. As a result, new home sales are down, resale inventory is up, transactions are taking longer to close, investments are not performing and lenders are holding back. Cash will be king again as we move into the New Year.

As credit tightens bankers and underwriters are evaluating lending terms and changing the parameters of the deal. Personal guarantees, as well as other assurances may be required. This is necessary to adjust to current market conditions. There are things to be done and builders, sub-contractors and investors need to be proactive

So what actions should be taken in these "hard" times? Return to some basic business principals and review what is working for your company versus what is not. Dr. Thomas Radcliffe of Troy University once told me "If the horse is dead, dismount." You see, I kept arguing a position and did not like the consequences, but the results were in and cry as I might there was nothing left to do but move on. An easy lesson that was hard to swallow.

So starting at the top, look at your basic business model and determine if it is still working. If it is, monitor key numbers, such as net income and accounts receivable, now more than ever. If your model is not working find out why. Benchmark key operating ratios against industry norms to identify possible road blocks. Get input from your team. They may be closer to the real issues and have insight you are missing. Every business needs to be flexible to grow. That is why your business plan needs to adjust to today's economic climate. Look at how it evolved and make the changes needed to perform well in today's market.

Look at your sales force if you have one. Do they have the resources to make the sale? If they do not, figure out what they need and get it, or an acceptable alternative, to them as soon as

practical. If the sales force is only delivering marginal returns restructure by hiring fresh faces and terminating under-performers.

Look at who you do business with and how. Do you need to renegotiate your credit terms to reduce accounts receivable and increase cash flow? Do you need to adjust for price or higher costs? Now is the time to do so. Go to the person who makes credit decisions in your organization and see if they have modified their approach. They can not be extending credit in the same fashion. Examine credit limits and decide which vendors need to be put on-hold until they pay down some of their outstanding debt. Each vendor's credit limit should be modified if his payment history changed. If a vendor increases the number of days invoices are outstanding, limit the amount of dollars he carries outstanding.

Clean out old inventory. If you have land at higher than current market pricing, move it first. Investors, bankers and other lenders are expecting softer results. Do not try to match last year's numbers by sacrificing a subsequent year's return. If your company's performance matches that of the industry trend, it can be explained. However, the longer you carry inventory the longer it will take to show new growth. Move the inventory now. If you move older inventory later, it will take that much longer to say you are over the slump.

This will be unpopular to some readers but it should be done. Renegotiate. Sit with your current key sub-contractors and evaluate if the current deal still makes sense. If it does not, in good faith explain why and see what compromises can be made. There is no long term benefit to either party to maintain an agreement that will lead to an undesirable result. Concessions could be made that insure both sides a better economic outcome. After all, experience shows that bills are paid faster when the value received is recognized. It is very easy to say cash flow is critical when the economy is slow. All business owners know that, so explain to your subs what and when they need to submit invoices. A clear line of communication will avoid hard feelings and maybe even reduce the anxiety caused by a softer cash flow stream.

Just remember to look at and re-evaluate what you are doing. Entrepreneurs can move the company forward even in harder times. You must realize what is occurring. Re-think the approach and apply the dedication you demonstrated to get this far.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. understands how important your financial statements are to securing the credit necessary to grow your business. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or [bmcnamara@cowanguteski.com](mailto:bmcnamara@cowanguteski.com) for more information.

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