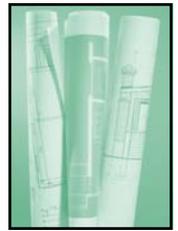




KELICK & ASSOCIATES, INC.

Improving Performance, Productivity and Profits for the Building Supply Industry



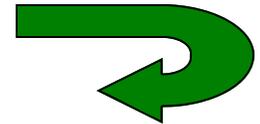
Vol. I May 2009

TAKE-OFFS

The Kellick & Associates Newsletter

TAKE 1: BACK TO THE FUTURE!

The comparisons of present day to the past abound. "Times are tough." "We've been through tough times before and we'll get through these as well." We agree. We don't agree when someone states, "I've seen this before."



This is a whole new ball game. This is NOT like the recession of '91 or '87 or '74. Don't let yourself fall into the experience trap and assume that today's conditions are the same as past conditions. *Don't treat today's challenges like the challenges in the past!*

They're not the same.

The breadth and depth of this downturn is unprecedented in both size and scope. Yet, we hear a number of folks saying the end of the recession is near because it's lasted so long. (???) None of the data says we're even approaching the end. Don't run your business as if we were. Consider this your "new normal!" for the next 18 to 24 months and aggressively preserve cash. **Restructure your business to be profitable now.**

We've lost nearly 5 million jobs in the last year with more to come. Look ahead to the 09/10 winter and we've got some significant challenges. In fact, 2010 looks like it'll be more challenging than 2009. It's going to take some time to rebuild jobs. Unemployment forecasts are over 10% nationally for all of 2010 and into the first half of 2011. In the interim, unemployment benefits will be expiring. It's very likely there'll be less money flowing next year. Be profitable now; be profitable this year. Don't go into 2010 with a loss. Preserve and protect your strength. You'll be glad you did.

TAKE 2: OPPORTUNITIES ABOUND

A call came in recently from a client who asked, "How do we get a bank to lend us money to buy a business that's losing money - when we lost money last year?" The better question is, "How do we shore up our business as fast as possible so we can capitalize on the opportunities opening up in our market?"

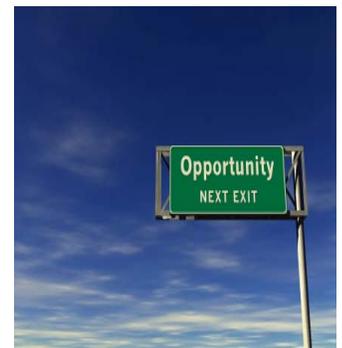
Get your house in order first.

Ensure your ability to expand without jeopardizing the core business unit. Strengthen your systems and processes that drive your business. For example, look at your Special Order process and the dollar amount of your "Special Order non-returnable" items and you've got a quantified opportunity for improvement. With Sops growing as a percentage of total sales for most in the industry it'll pay big dividends to nail this.

When you've got your foundation solidified, look at expansion opportunities be they new physical locations, additional products or services or geographic markets. Have clear, well-thought out criteria in place with which to measure all these "opportunities." Just because something is a great "deal" doesn't mean it's a great deal for YOU. Be crystal clear on what kind of growth makes sense for your business and your market's).

What kind of growth can you execute successfully and quickly? What kind of profitability must the growth opportunity have *at a minimum*? What geographic markets, products and/or services fit your long-term growth and profit goals? Have these criteria staked out so you have a yardstick with which to assess future growth opportunities. Deal Fever can set in quickly. Hold on tight to your yardstick when 'opportunity' comes knocking.

Along with new business opportunities, we are experiencing unprecedented access to top talent . As you identify the market opportunities that fit your



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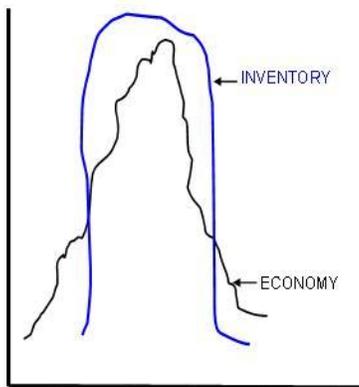
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TAKE 2 CONT'D: OPPORTUNITIES ABOUND

strengths, consider the talent you'll need to execute that business. Do you have all the right people? Objectively assess your people and the needs of the business. Make changes where needed. Your stewardship responsibility is to leave the company better than you found it. Make the personnel changes required to successfully grow the business. Don't sacrifice the whole for the sake of a few.

TAKE 3: FOUNDATION FUNDAMENTALS

Priority #1 is to generate and preserve cash. Period.



Any market downturn stresses cash flow. Adjusting to rapid market swings is incredibly challenging for the LBM industry. We're not known for moving quickly. And with this asset heavy business that's a tall order. Yet, that's what's on tap (still) for all of us.

Manage your working capital. Most companies have been doing an excellent job managing receivables. Many have overlooked inventory. Some are even growing inventory by enormous amounts. 'Prices are low so let's stock up' is a common refrain. While there are times and products with which that makes sense (i.e. roofing in 2008) challenge your assumptions rigorously on all expenses—including inventory.

The market moved so quickly that almost every business in all industries became heavy with inventory. The lag time in responding to the market ensures waste in inventory. Do you really want to tie up so much capital in your inventory? Chances are excellent that those dollars can be put to a higher value use elsewhere.



TAKE 4: FOCUS & DISCIPLINE

No question there are a number of things you, your people and your company can do right now that are good and helpful to the business in many ways. **Focus on what matters most, RIGHT NOW.** Let the rest go. Keep it clear. Keep it simple.

Start with what your customer needs most. The market change is challenging your sales force and requiring them to use a different skill set (prospecting, qualifying, etc.). That applies to most of your customers as well. What's most important to many right now is **'help me get the job'** not 'fill my order.'

Generally, most customers will be grappling with limited access to jobs and/or decision makers, skills to get and/or do the job, lack of time or lack of funds/financing. You and your team may be well positioned to help your customers overcome these barriers to getting business. Get and keep your sales team focused on how they can help your customer win business.

DISCIPLINE REQUIRED. Sales Management is the name of the game today. And it's a new animal. Whereas we've relied upon the \$\$s generated to suffice for accountability with sales teams, it's not nearly as effective today. Sales staff are overwhelmed, frustrated and concerned. Reliance upon past behaviors that produced results is no longer effective in this market. Manage the activity and the sales results.

Communicate activity & sales expectations. Set daily targets for number of prospect calls and new business pitches to existing customers. Manage the activity! Clearly identify current credit requirements; the type of business you want and in what geography you want it. Don't let your sales team chase rabbits. Keep their efforts focused in the areas that you can service best and that have the highest ROI for your organization. Activity management is paying BIG dividends for many of our clients. It can work for you too.



TAKE 5: WHAT HAVE YOU DONE LATELY?

What have you done to improve your business in a CONCRETE & SUSTAINABLE way?

Perhaps the greatest opportunity afforded in this downturn is to improve your business in a significant, if not dramatic way. Every industry and business has this opportunity. But the opportunity is particularly great for the LBM industry. We're not known for our adoption or use of technology or cutting edge business management practices.

Don't let this window of opportunity close without making several BIG strides. Great places to make improvements include inventory management and accuracy, material handling/distribution or restructuring your company and profit model.

Whatever you choose to focus on, make permanent system fixes. No band-aids here! Permanent system fixes are process based. And a process is never complete without an audit step included. Processes can be measured—and therefore performance can be managed. Processes drive reliable and consistent performance, regardless of which employees happen to be involved on any given day.

A great place to start is by asking, "What gets in the way of getting it right the first time?" You'll see a handful of common themes in the answers. Better yet, use your OTIF (on-time and in-full) data to prioritize your efforts & uncover system weaknesses. You'll **improve service and lower operating costs**.

No question, the market is as challenging as it's ever been. Yet, keep your folks focused on making improvements to the business every day. The opportunities for reducing operating costs and improving customer service are staggering. Be ready to hit the ground running when the market turns with a tight, well managed business in every respect.



TAKE 6: MONEY IN THE BANK

Who's your banker? In this environment be sure you know your banker, the banker's boss and the boss's boss. (These days that can change on a daily basis.) Manage this relationship. How strong is the bank? Ask. Interview your banker. Pay close attention to the development projects they've backed and their other customers. Those may be your biggest indicators to the bank's true health. Be proactive and have another source on the hook. Secure relationships that understand your business and value your patronage. Banks are stressed and lines continue to be pulled. Be prepared & hope it's not needed.

THE BOTTOM LINE...

While markets can vary drastically from one to the next, the need to move decisively and FAST remains.

- Treat this as your **'new normal'** and get your business profitable at the current sales level.
- **Update your contingency plans.** Know what changes you'll make and when you'll need to make them (i.e.: at \$XX in sales, we'll pull the trigger on the next contingency plan—layoffs; mothballing facilities; selling real estate, etc.)
 - **Get creative.** Who/what businesses use the products and services you sell? How can you **leverage your core competencies** to new customer channels that fall in or close to your core?
 - Keep a close eye on your sales/employee and gross profit/employee ratios. Know where you want to be and where you NEED to be. Manage the business to those numbers.
 - **There's still a \$450+ billion market out there.** There IS business. Find your market opportunity and grab it.



GIVE US A CALL. WE CAN HELP.