# THE HIDDEN PERILS OF A HOT MARKET

Brisk business means increased revenue, happy salespeople, and satisfied shareholders. If you're less than prudent, it can also spell danger

By Bob Schultz, Contributing Editor

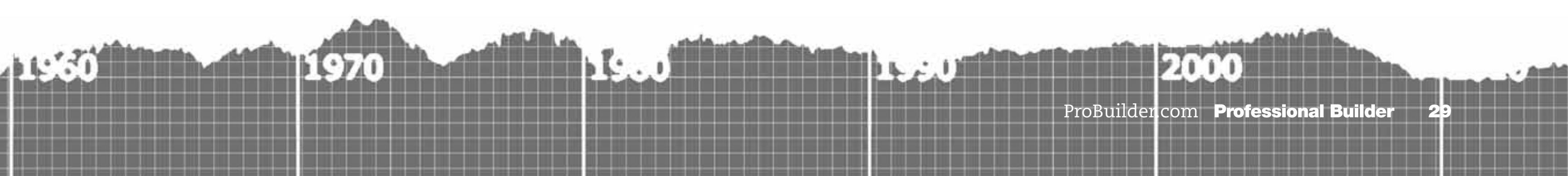
A look at a graph of housing starts (page 30) reveals a repeating pattern over the last 50 years. Very simply, the graph line goes up, and then it goes down. Right now, we're experiencing an uptick. But consider these words from entrepreneur and Microsoft founder Bill Gates: "Success is a lousy teacher. It seduces smart people into thinking they can't lose."

During industry down times, builders either went broke or retooled to regain their place in the market. Those that recovered did so by focusing on the fundamentals and mastering the skills needed to excel, many of which were developed by necessity in difficult markets. Builders that survived also got vigilant about numbers, from overhead to marketing costs to sales conversion ratios to new hires. Generating sales revenue and reducing unnecessary costs became the only choice for companies that wanted to make it through.

## BULL MARKETS POSE RISKS

In up times, sales get better, but here's the catch: Up times are when builders can be the most vulnerable. Why? To paraphrase an old saying, a rising market lifts all builders, and usually, conditions improve for everyone. Even if a company does nothing differently, it will make more sales by default. This creates vulnerability because it can lull builders into a false sense of security.

We've all seen times when a great basketball team plays the underdog and gets trounced. Or when a football player on his way to the goal line does the happy dance a few yards too soon, fumbles, and loses the ball. Similarly, in good markets,



it's easy to lose focus. Making sales at a reasonably good pace can be seductive. Success can lead to complacency.

Now back to that Bill Gates quote. Those who spend time on boats know the saying that smooth seas don't make skillful sailors. Likewise, good market conditions alone don't make for highly skilled salespeople or marketing experts.

Great market conditions can even have a counterproductive effect. I started in sales during the boom times of the early 1970s in Florida, working for developer Ken Bering, who created a master planned community called Tamarac. Retirees from the Northeast flocked there. I was one of 25 salespeople who were all making money hand over fist. Then the boom ended and sales dropped by 80 percent. We were totally blindsided.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## IN HOT TIMES, KEEP A COOL HEAD

If we'd known then half of what we know now, it may not have happened. In that spirit, here's some advice about staying smart in a bull market.

- **Stay on the lookout.** When the market is hot, proceed as you would in leaner times. Think about the market share you could gain. What you're doing while the market is good will dramatically affect how well you will do when the market declines.
- **Don't buy into hype.** This calls to mind the expression coined by former Federal Reserve Chairman Alan Greenspan in the mid-1990s, who described the run-up to the tech bubble as being a time of "irrational exuberance." Stay grounded. Stay real. Stay rational.
- **Don't confuse paycheck size with skill level.** In the first month of the 1973 downturn, a consultant hired to turn things around at Bering's company told all of us that we were some of the highest paid unskilled labor he had ever seen. Sadly, he was right. Our skills were nowhere near what they should have been, but we were still making money. Be sure to evaluate your sales team based upon their provable skills and sales processes. Video evaluation is a useful tool for assessing interactions.
- **Beware the lowering of the bar.** I've recently seen ads for new-home sales representatives. One read, "Looking for rock star salespeople." Another company stipulated, "Two years' experience and able to think outside the box." But what about a great attitude and being highly coachable? And don't forget about PHD (professionalism, hunger, and drive).

## WHEN BUSINESS IS BOOMING, KEEP EVALUATING

You may be lucky and have salespeople who have been through downcycles or who at least understand that hot times can pose risk. You may have staff who appreciate the value of strategizing for lean times in an upcycle. Here are questions to ask yourself:

- **How are my salespeople performing?** If you could trail them and be a fly on the wall during their customer interactions, do you think you'd be pleased with what you see?
- **Do I know the numbers?** If you were asked about the conversion ratios of each of your salespeople, as well as sources of traffic, would you know? If not, is there someone in your operation whom you could ask, or a source you could consult to get a quick answer?

If you answered yes to both questions, congratulations: You're poised to take whatever market share is left from those who aren't as well prepared when the market slows. (Remember: History repeats itself, so it's only a matter of time before a slowdown.) Now, regardless of market conditions, ask yourself this question, and ask it frequently: Doing what I'm doing the way I'm presently doing it, how many sales and how much revenue am I missing? Why am I missing that sales and revenue, and what's my plan to fix the situation? **PB**

*Bob Schultz, IRM Fellow, CSP, is president of The International New Home Sales Specialists. Want to discuss your market position? Write him at bob@i-nhss.com with the subject line, Hidden Perils.*