

Financial Modeling Enables Struggling Commercial and Industrial Lighting Wholesaler to Recover

Situation

Although this commercial lighting wholesaler had been thriving in 2007, posting sales of \$1 million, the business dwindled significantly by 2009, as the result of the recession and drastic cutbacks by a major client. To deal with the business downturn, the wholesaler maxed out his line of credit and stopped paying himself a salary for seven months—clearly not a long-term solution.

Despite the challenges, the company had a number of strengths: deep industry knowledge and a good reputation, understanding vendors who would carry inventory for extended periods, and new opportunities in the form of tax deductions and rebates for energy efficient lighting. If they could get past their debt, the business could be turned around. To formulate a recovery plan, the wholesaler turned to RAI Stone Analytics® for financial modeling.

Vital Questions

1. What further steps could be taken to manage costs and improve margins?
2. What level of sales would be needed so the owner could resume paying himself a salary?
3. What level of sales would be required to pay off debt and establish a substantial cash reserve?

Key Insights and Actions

RAI Stone Analytics® modeled a number of What Ifs, which allowed the wholesaler to map out a recovery plan.

- The RAI Stone Analytics® report helped the owner re-evaluate his costs and sales margin. The analysis showed that his margins were less than he thought, so he revisited his pricing to improve them.
- In addition, the analysis provided the specific milestones that would need to be met for each level of recovery: a) begin getting a salary again, b) paying off debt, and c) building a cash reserve.
- As a result of setting more realistic sales margins along with the improved business climate (tax deduction and rebates for energy efficient lighting), the wholesaler expects to reliably make his salary and make inroads on his debt by the end of 2010.

According to the wholesaler, “RAI Stone Analytics® What If scenarios painted a do-able picture. My business doesn’t have to make massive changes, just incremental ones to reach our goals.”