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# NAVIGATING THE NEW ECONOMY

## Plotting a Course Through Tough Times

**By Marge Axelrad**

*With contributions from Cathy Ciccolella and Deirdre Carroll*

NEW YORK—With new tides churning the U.S. and global economy, American optical retailers and eyecare professionals are grappling with slowing consumer expenditures and a cool financing climate, an atmosphere that is requiring a clear-headed examination of business planning and day-to-day operations.

In the midst of daily headlines about the country's unprecedented fiscal crisis, transition plans of the President-Elect and virtually hourly updates on the financial woes of companies in every sector, the eyecare and eyewear communities are not immune from the slowdown. They are trying to focus on staying positive and taking charge of the things they can control, like managing expenses, finding efficiencies to

streamline their business and fine-tuning ways to continue to stoke their relationships with customers and patients.

**Vision Monday** continues to "monitor the pulse" of the market, via reader business surveys (see the latest on page 31) and through interviews with retailers and ECPs around the country to get a read on their attitudes and tactics for the short- and near-term. In this Special Report, we have also gathered some expert advice and recommendations to help business leaders plot their course through some rocky waters (see pages 32 and 33).

Optical's business fared fairly well through the first half of 2008, but the consumer slowdown for some optical retailers began in late summer and, for most, hit hard in October. Buffeted by the financial, credit and housing markets' woes and the seesawing of the stock market, consumers have held back.

As a result, retailers and ECPs are implementing steps to stay on a positive track. Some have been hit harder than others; several are reporting sustained business, **VM** has learned.

Al Bernstein, president, Nationwide Vision, with 60 stores in Arizona, related, "The Phoenix economy has been bad, and business is very tough. Our laser business has been down by about one-third, and sales in our stores began slowing in September. Our eye exam volume for eyeglasses is down about 5 percent this year, although contact lens exams are running ahead of last year."

Bernstein told **VM**, "We realized we had to react, so we came up with several initiatives to change the complexion of our business: In managed care, we reduced the discount on our discount plan and raised exams fees. We changed some pricing and eliminated some vendors if we weren't getting the margin

we wanted from them, while replacing them with more competitively-priced fashion product."

He added, "On Oct. 1, we closed our contact lens department, reducing \$150,000 in labor costs, and went to online-only for CLs, through ABB Concise. Now we only stock trial lenses—that eliminated \$500,000 in inventory we previously carried.

"Those initiatives gained us \$3.3 million in savings—which means financially this will be one of the best years in the company's history through a very difficult time. We also have stopped our planned store expansion program. We will open one more store by the end of 2008, and open and move just one additional store in 2009. We trimmed marketing dollars."

At Luxottica Retail, executives discussed the climate during the company's Oct. 28 conference call about its Q3

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*Continued from page 29*  
results. Comp store sales in Q3 were down 6.6 percent for LensCrafters and Pearle, worse for Licensed Brands stores. Comp sales also declined about 4 percent for Lux Retail's sun segment.

Kerry Bradley, COO, Luxottica Retail, commented, "July was strong, then we saw a sudden downturn. There are fewer people in the market for eyewear, as some people choose to delay purchases. People are spending on one great pair of premium eyewear, but the multiple-pair business is off. We're seeing a pullback in the 'uninsured' market, especially in areas like the West Coast where the housing market is most depressed."

Noted Bradley, "We've got to continue finding ways to drive our sales and market share. For LensCrafters, the story will be lenses, for Pearle frames and lenses but also insurance." New ad campaigns will break in '09 for both LC and Pearle, with media mix changed to slightly more

**"We realized we had to react, so we came up with several initiatives to change the complexion of our business."—Al Bernstein, Nationwide Vision**

TV advertising, he noted, adding, "Even in these tough times of watching costs we're still going to attract sales."

Among other optical retailers, sales reports range from "fine" to "challenged."

Cleve Barham, owner, Fine Eyes, Ridgeland, Miss., said, "Business is doing pretty well. We're in the conservative South where the economy always seems to stay the same. We don't see real highs and lows here and we never have, so the current national economic situation is just par for the course."

"We are moving into a new store and have been having a moving sale which has really boosted business. Through July we were 3 percent to 4 percent down for the year. We started our moving sale in August and it was the biggest month we've ever had. Due to construction delays, our move didn't happen when we thought it would so we just carried the sale over and were 62 percent up in September, 40 percent in October and for the first half of November we are already up 25 percent, which means we are actually 10 percent up already over last year."

Barham added, "The new location is much more visible than our current one and located in a 'specialty store' area with other high-end retailers. So I am actually bringing in new lines to match the higher end location, like David Yurman, Lilly

Pulitzer and Salt. Also with the new location we are going to tap into a younger demographic, 18 to 35 year olds. To keep the momentum going we'll probably have a Grand Opening sale."

Lance Snarr, CEO, Thoma & Sutton Eye-Care Professionals, with 22 stores in Ohio and Kentucky, noted that store traffic "has trended up every month this year compared to last year. Traffic softened in September, up by only 1 percent compared to last year, but rebounded surprisingly strong in October and so far through November."

When asked if consumer buying patterns had changed, Snarr reported, "Surprisingly, and I really mean surprisingly, our average sale reached its highest level on record in October, as did our AR percentage. So far anyway, customers are continuing their trend of the past few years to buy up."

He noted, "We've worked hard over the last few years to upscale and improve our frame selection and in training our opti-

cians in presenting and explaining the benefits and features of AR coatings, Transition lenses, Free Form progressive lenses, etc. We still offer basic products and frame lines, but customers are responding well to our higher-end offerings."

Rachel Sivi is co-owner of Real Optics, Des Moines, Iowa, which operates 21 locations under the Vogue Vision Centers, Younkers Optical Centers, EyeMart Optical Outlets and One Hour Optical names throughout the state. She said, "I've become very conservative with what I buy and we have no back inventory so we refresh often. At our Younkers locations, we rolled back prices and have three sales a month. Our Vogue locations are doing really well though we have seen a bit more slowing down in some of the smaller towns. To date, we are totally in-line with last year and are actually ahead this month over last year."

She noted, "We cut back on advertising before the economic slowdown. We are still doing some advertising but we are being smarter about it; instead of spending on print or television ads we are doing more direct mailers, really targeting our customer base, making sure they know

**"Surprisingly, and I really mean surprisingly, our average sale reached its highest level on record in October, as did our AR percentage." —Lance Snarr, Thoma & Sutton Eye-Care Professionals**

about our sales, to get them to come back in and get new glasses."

Ira Haber, president/CEO, Europotics, with four stores in Denver, commented, "The undercurrents feel dreadful, more so than the following numbers will show: Through Sept. 21, we were having a good year. In the first nine months of 2008, we were up about 8.5 percent from the same period in 2007. October was down 4 percent from Oct. 2007. The period from Nov. 1 to 16 was down 9 percent from the same period in 2007."

He reported, "More people are putting new lenses in their existing frames, not surprising since we tend to sell a better quality frame. Frames purchased are not less expensive than what we have previously used, but discounting is more prevalent. We are making more multiple pair sales because we started our year-end sale early."

On the West Coast, Dimitri Grunhauser, co-owner, Spectacles for Humans, San Francisco, said, "We've been a little slower than normal but nothing too bad. We're not an insurance environment, we don't participate in medical plans, so we are truly a retail location and we've seen that with our customers, optical usually comes before other things they may spend their discretionary income on. We're in a good area; the Silicon Valley is pretty well-to-do so we'll be okay in the long run."

"We have changed our buying a little bit, we aren't buying as indiscriminately. We're being more picky, especially with new product. We won't get all six colors, maybe just three. We also choose to work with flexible partners, like Cutler & Gross who we just had a trunk show with, and Dita, who we have one with in the Spring. It's our selection of product that attracts our cus-

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**"We expect there will be growing recognition of the need for yearly eye exams as more emphasis is placed on preventive measures and health wellness plans continue to become more popular."**

**— Jackee Smith, Co-Op Optical**

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and all of the related businesses are leading to fewer people with vision benefits. The challenge will be to attract and retain the cash customer.

It is up to us today to make sure that the patients who do have vision benefits realize that it is in their best interest to continue to care for their eyes and to utilize our products and services when they do." ■

# Amid Economic Woes, ECPs Look for Bright Spots

NEW YORK—As the U.S. sinks deeper into the now official recession, most optical retailers and eyecare practitioners appear to be holding their own in terms of current sales as well as prospects for the early part of 2009, according to a **VM** survey conducted from Oct. 24 to Nov. 4 by Jobson Optical Research via the Internet.

These eyecare professionals who responded to **VM's** survey reported that their sales in the third quarter of 2008 wound up either 5 percent or more ahead of the same period last year (reported by 41.4 percent of the survey respondents), or equal to last year's third-quarter sales (indicated by 21.2 percent of the respondents). For this year as a whole, 42.9 percent said they anticipate that their businesses will finish 2008 5 percent or more ahead of 2007, with another 20.7 percent expecting to close out this year even with last year's volume.

But the realities of today's financial conditions cannot be ignored: more than one-third (37.4 percent) of respondents to this latest survey said their third-quarter sales were 5 percent or more below the same period last year, and 36.5 percent said they expected their total sales for calendar 2008 to be 5 percent or more lower than in calendar 2007.

By comparison, when a similar **VM** survey conducted in August asked retailers and ECPs about their overall sales during the first six months of 2008, 47.2 percent of those survey respondents said their first-half sales wound up 5 percent or more ahead of the same period last year, while another 31.6 percent reported sales volumes even with last year's first half. Just 21.2 percent said in August that their business in this

year's first six months was down by 5 percent or more compared to last year.

And, tellingly, when asked if they were seeing consumers' purchasing decisions affected by the recent economic and financial pressures, a whopping 88.7 percent of respondents to the October/November survey said they had experienced such an impact.

thalmic frame volumes during that period.

Sales of premium lenses appeared more positive. In this most recent survey, 40.4 percent of **VM's** respondents said their premium lens sales rose by 5 percent or more today compared to last year; another 35 percent said their sales of premium lenses were even with the same period in 2007. Just 24.6 percent

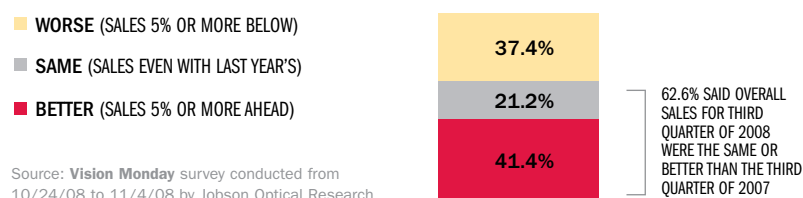
the respondents (48.2 percent) had said the number of eye exams performed in their store or practice was running 5 percent or more ahead of the first 6 months of 2007 in the first six months of 2008, and another 36.8 percent said the volume of exams performed during this year's first half was even with last year's rate. Only 15 percent of the August survey's respondents reported a lower volume of exams in the first six months compared to last year.

And what about the all-important bottom line? Some 38.9 percent of the respondents to last month's survey anticipated their profit picture for 2008 would be ahead of last year's; another 18.2 percent said they expect this year's profits to stay even with 2007 levels. However, 42.9 percent of these ECPs told **VM** they expect their profits to be down for this year compared to last.

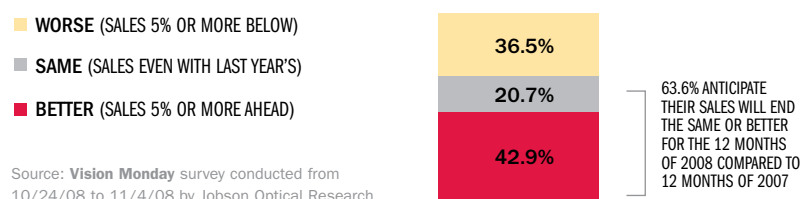
As for their outlook for the first half of 2009, 32.5 percent of the October/November survey respondents said they expect their sales to be 5 percent or more above the comparable period this year in next year's first six months; another 39.9 percent expect their sales to be flat in 2009's first half. However, 27.6 percent of these retailers and eyecare practitioners told **VM** they anticipate a drop of 5 percent or more in sales during the first six months of next year.

—Cathy Ciccolella

## How did your overall sales for the THIRD QUARTER (July thru September) of 2008 compare to the third quarter of 2007?



## What do you anticipate today about how your sales will end for the 12 months of 2008, compared to the 12 months of 2007?



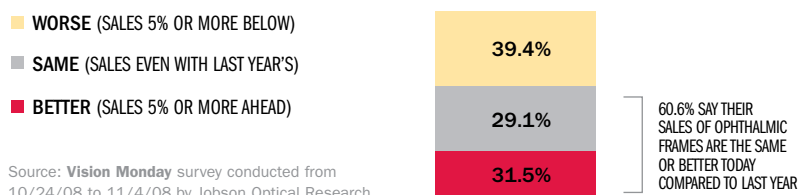
As for specific product segments, 31.5 percent of respondents to this latest survey reported an increase of 5 percent or more in their sales of ophthalmic frames today compared to 2007; another 29.1 percent said their frame sales were holding even with 2007 levels. But the largest segment—39.4 percent of the respondents to the October/November survey—reported a drop of 5 percent or more in their oph-

thalmic frames today compared to last year's.

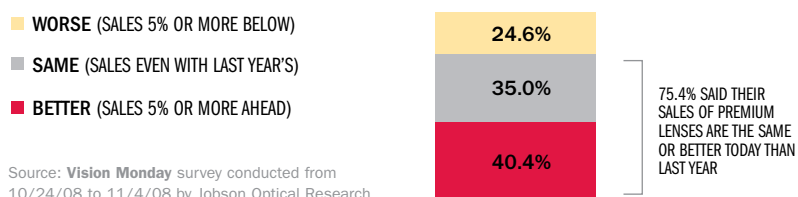
The economy is also impacting the rate at which consumers have been getting their eyes examined in recent months. More than one-third (34.5 percent) of respondents to the November survey said the number of eye exams their practice or store has been doing in this year's second half is running 5 percent or more ahead of the same period in 2007, and another 34.5 percent said their exam rate is holding even with last year's second half. But 31 percent of the respondents said their exam rates in the second half have been 5 percent or more below the comparable period last year.

In **VM's** August survey, nearly half

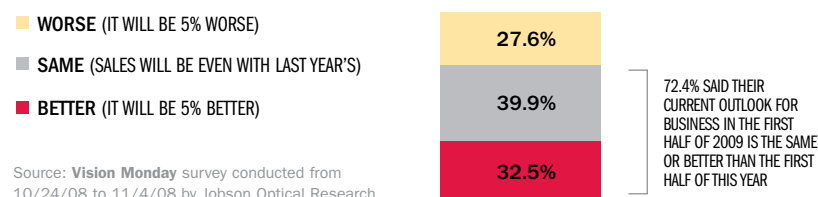
## Specifically, how do your sales of ophthalmic frames today compare with last year?



## Specifically, how do your sales of premium lenses today compare with last year?



## What is your current outlook for your business in the first half of 2009?



## > VM ON THE WEB

This is the second part of **VM's** coverage of how the economy is affecting business. To read results and analysis of our first reader survey conducted in August, go to **VisionMonday.com** in the **VM Reports/VM Cover Story** category to access the September feature "How's Business." Take part in our current How's Business Survey which is now active on **VisionMonday.com** and let us know your projections for 2009. Results and comparisons of all three exclusive surveys are being compiled now and will be posted later this week on **VisionMonday.com**.

# INTO THE STORM: MANAGING YOUR BUSINESS IN A FINANCIAL CRISIS

By Hedley Lawson, Jr.  
Editor, Vision Monday's  
Business Essentials

NEW YORK—Everywhere you go and everything you read seems to focus on the same theme regarding these difficult economic times and the onset of a recession in the U.S. and globally: "There is nothing we can do but to save more, spend less, and work longer."

It seems everywhere you look and everything you hear echoes a powerful dose of the doldrums and, for some, despair.

Instead of stating, and restating the obvious, here are some new thoughts and ideas to help you stay ahead of the curve as opposed to being weighed down with the continuous stream of negative news from every corner of the media about the economy.

We hope you will find some good tips and themes for your review and renewal as you walk the path not traveled in many years—or ever before—in your business.

## Contingency Plans

Although most companies have taken action in advance of the current financial crisis, a sizable number of U.S. and European companies are unprepared to manage their workforces during an economic downturn. According to Watson Wyatt's 2008 Global Strategic Reward Survey, about one-third of U.S. firms and 20 percent of companies in Europe failed to make contingency plans in advance of the current global financial crisis.

Of those companies that made contingency plans, organizational restructuring was the

most popular option that was considered by nearly 70 percent of companies in the U.S. and Europe, followed closely by staff reductions and slowing the rate of salary increases. Other options considered include early retirement, reduced workweeks and sabbaticals. Watson Wyatt reports the research is based on input from about 1,400 companies in 37 countries.

So here are some additional ideas for managing in a down economy:

- Get out of denial and embrace reality. Attuned executives and business owners have a higher probability of surviving major economic downturns.
- It's better to be frugal now than out of business later.
- Stay positive and stick with the basics: business development, customer care and satisfaction, closing sales, doing exceptional work.
- Communicate regularly with your employees. Let them know what's going on and how good or bad the numbers look. Update them frequently and consistently.
- Invest only in must-haves. Make the company party a potluck as opposed to a dinner out.
- Transition your poor performers and keep only your absolute best employees.
- Have a family initiative to bring extraneous spending to a halt. Try to cut your personal spending to a minimum.
- Take responsibility for business development and involve yourself in closing important transactions. Spend at least one hour a day visiting current and past clients.
- Track your pipeline carefully. Figure out why you're losing some busi-

ness, and set a goal of closing everything in your pipeline.

- Consider taking on work you may have turned down six months ago. Work with a new business philosophy: all business and revenue is good business and revenue.

- Do work yourself, and get your management team to do the same. Give everyone multiple jobs and tasks.

- Know that this, too, will pass. ■■



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## The Importance of Employee Engagement

NEW YORK—Many business leaders today have not experienced or managed businesses during a serious financial crisis like the financial crisis we are now in. Regardless of one's experience, executives, managers and business owners all seem to be seeking help dealing with today's crisis of confidence in the economy, especially when it comes to employee engagement and talent management.

A phrase often used, mainly in sports, is "The best defense is a solid offense." Put another way, when it comes to your business, don't wait for something to

happen to you; take the initiative and have the conviction to make something positive happen. So before simply considering downsizing, right-sizing, cost cutting, deferred investment, or reductions-in-force, pause to consider some of the following points:

**Avoid knee-jerk actions.** While the financial experts debate the cause of the global financial crisis, executives and business leaders cannot wait for a uniform explanation of what has happened and what prognosticators believe will happen in 2009. Accept that we are in a recession and that it will take time

to recover from it.

Difficult economic times often result in strategies such as hiring freezes and job cuts. There also tend to be cuts in spending on new or ongoing initiatives such as training and other efforts that may not show immediate financial returns.

Few would argue that well-thought-out cost cuts are not a logical starting point, but cost-cutting as a knee-jerk response can be self-defeating. A Perth Leadership Institute white paper noted that "short-term cost cuts often end up hurting long-term sustainability of profits and compet-

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## THE BOOKSHELF

### Five Books to Read In a Financial Crisis

As the economic situation intensifies, some readers are turning to bookstores for advice on how to manage their own finances, as well as books that offer sweeping views of the larger economy and the forces that are reshaping it.

Below are the top-five selling books for the week ended Oct. 18 at Barnes & Noble Inc., the country's largest book retailer as measured by revenue.

1. *The Forgotten Man: A New History of the Great Depression* by Amity Shlaes. A look at what happened during that other crisis.
2. *The Partnership: The Making of Goldman Sachs* by Charles D. Ellis. An inside look at the famed investment-banking firm.
3. *Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism* by Kevin Phillips. Mr. Phillips documents the unraveling of the U.S. economy.

4. *The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means* by George Soros. An analysis of the issues behind the crisis and their implications.

5. *The World is Curved: Hidden Dangers to the Global Economy* by David M. Smick. An inside look at what went wrong with the banking system here and abroad.



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## Recognizing the Importance of Employee Engagement

*Continued from page 32*

itiveness ... [and] morale and employee loyalty suffers.”

**Communicate often and fully.** Managing and engaging talent in this very different business environment is a challenge. Few companies have a clear understanding of what to do during a global financial crisis let alone a crisp plan to avoid unfavorable consequences to the business. Consequently, executives who become true talent leaders by managing and engaging talent well during downturns have a clear competitive advantage for their companies.

Successful business leaders take pains to frequently communicate to all employees regarding business strategies and objectives prospectively. Clear communication helps the entire team understand the actions their senior leaders are taking and the results they are collectively achieving. Absent frequent and clear communication, the unknown that often causes fear, leads to many questions that are only answered by what employees “think, feel or believe,” not what they know. Astute leaders avoid that scenario by communicating as often and as purposefully as possible. This results in enhancing teamwork and engagement by encouraging everyone to work productively and collaboratively during difficult times.

As such, today's business leaders have to communicate to their employees that things are bad and, without everyone's full engagement in the business, things may not improve.

**Invest in Customer Value.** During difficult times comes another opportunity that communication can foster during a slowdown: the opportunity to speak openly to all employees about challenges faced

by the business, and to share insights across the organization so everyone knows how to create superior customer value. This can be particularly advantageous because research has shown that the companies most likely not only to survive slow times but also to thrive during them are those that invest in enhancing the value they provide customers.

Some experts suggest that employers use a slowdown to pick up outstanding talent and then aim their skills at the accounts of competitors. The idea is for companies to leverage their competitive edge in the business, not simply to win customer loyalty from lower prices, but through higher quality, or a unique selling proposition to prospective customers.

**Position Human Resources as the Business Leader.** HR is not just an organization function. Finding and keeping the best talent when money for compensation and rewards programs is less available requires thoughtful strategies and skill. To support the efforts of talent leaders, HR must become engaged and lead the organization in strategic initiatives designed to more fully engage employees, build and grow talent, and devel-

op metrics to measure and chart business improvement.

Finally, here are a few additional initiatives to employ to maximize employee engagement and talent management:

- Account for investments associated with people programs by tying them to the financial performance of the business.
  - Create recognition and rewards programs to reinforce the efforts of your most valuable and highest contributing talent.
  - Encourage an organizational culture that embraces learning and holds managers and employees equally accountable and ensure that their learning initiatives are shared throughout the organization.
- As executives, managers and business owners, you can provide the impetus your

company needs to take the initiative to be creative with the resources you have. If leaders need a rallying call for these trying economic times, view the recession as an unparalleled opportunity, not as fate without a solution. ■■



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## Leaders Must Communicate in Difficult Times

NEW YORK—With so many businesses in turmoil, it is more important than ever for company leaders to communicate clearly to employees. Unfortunately, according to a new study, that's not happening.

Employees tend to assume the worst if executives do not keep them posted during bad times, and rumors and gossip can adversely affect employee and team morale. According to a new survey from communications firm Weber Shandwick Worldwide, one of the world's leading global public relations firms with global offices, more than 70 percent of 514 workers surveyed said they are not getting enough communication from their company leaders about the financial crisis and how it affects their company and their future.

Most employees are saying that their senior management is not speaking to them about the crisis, says Harris Diamond, CEO of Weber Shandwick. More than half the workers surveyed said “they've heard nothing during this crisis.”

The lack of frequent and clear com-

munication and information from company leaders may translate to an uncertain outlook. Some 70 percent of employees surveyed expect the current economic and financial problems to negatively impact the company they work for over the next year. Another 62 percent of them said their company would have trouble meeting its goals; about a quarter believe their company will have to lay off employees. Why do they hold these beliefs? Likely because their company leadership is not communicating with them; they are drawing their own conclusion absent factual and clear communication about the financial crisis and how their company plans to compete during difficult financial times.

Many top executives may not be deliberately keeping employees in the dark, Diamond said. He believes that company leaders may be consumed with guiding the company through the economic turbulence. Other managers may not know yet what steps they will be forced to take,

so they are unclear what to communicate to employees until those decisions are made. In any event, Diamond warns that silence is a big mistake.

“The problem is, when [employees] assume the worst, they are demotivated,” he said. “They're not necessarily sure anybody is in charge, they make assumptions and in many cases they decide to leave.” The departure of skilled talent and a fearful, demotivated organization can be very damaging for a company trying to navigate through a tough economy, he noted.

Mid-managers and supervisors need to communicate clearly and frequently as well. “Organizations that equip their front-line managers to address conditions and times like what we're now facing, will have greater alignment with business objectives, a greater sense of urgency and a higher level of performance and retention of key people during a downturn,” according to Diamond. “It's critical.” ■■

### > VM ON THE WEB

## MONEY MATTERS

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about how the economy is affecting your practice and one of your most valuable assets—your employees. Look for the Money Matters Special Edition of Business Essentials, now online only at [VisionMonday.com](http://VisionMonday.com).

## Q&amp;A

## How Wholesale Labs Can Mitigate the Economy's Impact

With Thomas F. Puckett



*Thomas F. Puckett is managing director and CEO of HPC Puckett & Company, a San Diego, Calif. firm specializing in mergers and acquisitions of wholesale optical laboratories. VM asked Puckett to share his observations and insights about how the economic crisis is affecting wholesale laboratories, and what labs can do to minimize its impact on their business in 2009. —Andrew Karp*

**Vision Monday:** What is your short-term (next six months) and medium-term (next 12 to 18 months) outlook on the current economic crisis?

**Puckett:** Our experience is that 2008, up until October has been a growth year for the optical laboratories we monitor. October was not noticeably different than Oct. 2007. We are however, expecting November, December and the first quarter of 2009 to be down but to what extent we are not certain. After that, nobody can predict what's going to happen, however, conditions and corresponding sales will be tied to the economic conditions, consumer confidence and government policies such as tax rates.

If I was to project where the industry as a whole is heading, I would say that from Nov. 1 through at least June, 2009 we may be off compared to the prior year.

**VM:** What should independent wholesale lab executives do to minimize the impact of the crisis?

**TP:** What I recommend to independents to mitigate the effects of the economy is to really review the expense side of their business to see where they can become more efficient, while at the same time leveraging the business that they have to increase the job average.

At the wholesale level as well as with mass merchandisers we should see greater emphasis on more profitable and add-on sales to each customer. If fewer patients are buying, labs need to help ECPs increase the amount of and profitability of the product mix.

Labs should also look at creating more lens and frame packages. They need to develop relationships with

frame vendors if they don't already have them.

"In the managed care arena, labs need to do more to retain patients. For example, about 30 percent of VSP prescriptions written by VSP doctors walk out the door to retailers and the like. Wholesale labs that are VSP contract labs can help these doctors by offering them economically feasible products, such as frame and lens packages and bundles including quality AR coating and or second pair discounts. The same principle applies to non-VSP labs.

Wholesale labs with vision plan contracts or that have Federal or state contracts, such as with the Veterans Administration, will be less affected by the economic downturn. Those contracts provide a more reliable work flow and can also be a door opener to ECPs that might be more inclined to pass along other work to the contract lab.

**VM:** What should independent wholesale lab executives do to manage their businesses more effectively in 2009?

**TP:** Our firm is fundamentally opposed to having a wholesale lab take on too much debt. We are trying to get clients to take a serious look at any capital expenses they undertake. If they're going to make a capital expenditure and incur more debt, or use their working capital, they want to make certain that the corresponding revenue and

profits are fully scrutinized.

However, they can also factor in possible changes in the tax laws. The next administration may implement a 50 percent Federal tax rate. So why not make capital expenditures that are going to build your business if you're can buy it at 50 cents on the dollar?

With state taxes, the rate might be even better. You might be looking at purchasing equipment after tax for as low as 40 percent to 45 percent when Section 179 deductions are incorporated into the formula. That is not to say that a lab should buy something just for the sake of buying it, but rather consult with their tax specialist to consider the after-tax cost and associated increases to revenue and earnings.

To also preserve cash, labs need to seriously consider continuing to outsource services such as premium AR coating, digital surfacing and the like. If they do put in the technology to produce these services in-house, the lab should start small, then build into larger equipment

We're looking for clients to try to be as economically savvy as possible. Historically, companies that survive during recessions are ones that have adequate working capital. If you incur too much debt or do not cut your expenses as revenue declines, then you get into a shortfall.

**VM:** How will the change in administrations in Washington affect lab owners

as far as taxes and regulations are concerned?

**TP:** The consolidation trend in the wholesale lab sector is still going strong. To date, in 2008 HPC Puckett & Company has closed nine transactions, two of which have not yet been announced, with four additional transactions that will close before the end of 2008. We believe that this activity will continue well into next year, despite economic conditions. The one caveat is if the Bush tax cuts are not rolled back, we should see greater volume. If the Bush tax cuts are repealed and nothing else happens, and the capital gains tax increases from 15 percent to 20 percent, we would expect to have the same volume of transactions in 2009.

If the capital gains tax is increased to 28 percent, as mentioned by President-Elect Obama in the campaign, then we think transactions will slow in 2009. The primary factor in determining activity is the connection between valuations that sellers are willing to sell for and purchasers are willing to spend. The market currently has a record number of strategic purchasers and a very favorable tax climate. If the post-tax proceeds to sellers or the underlying enterprise value, which is a direct result of historical earnings are adjusted, then there may be a resulting disconnect between the valuations and a slowing of transaction activity. ■■