

## Weathering the Storm: Preparing for and Surviving Recession

Although Federal Reserve officials expect inflation to slow in the coming year, it is going to take time, perhaps even a few years, according to the Fed's estimates, to reach the central bank's target of 2% annual inflation. After six consecutive months of declines, annual inflation fell to 6.5% in December. Kiplinger's Economic Outlooks states that "The slowing economy is likely to bring the yearly rate down to 3.2% by the end of 2023," but officials expect the unemployment rate to rise to 4.6% before 2024.

In every media outlet, there are speculations that a recession is on the horizon. Most recently, on January 10<sup>th</sup>, the Statista Research Department published that "By November 2023, it is projected that there is a probability of 38.06% that the United States will fall into another economic recession."<sup>1</sup>

However, Alan Greenspan, former Federal Reserve chairman, believes the likelihood of a recession is greater, saying, "A recession does appear to be the most likely outcome at this time."

Given the current economic trajectory, StoragePRO Management has created this white paper to help storage owners minimize expenses, maximize NOI, and remain resilient during a recession.

### Revisit The Budget

Self-Storage owners can start their recession preparation by reviewing their budgets, paying close attention to the expenses that could be reduced or perhaps removed. Operators should look at their monthly recurring charges to assess which elements of the business cost the most, where they can reduce costs, and which charges are necessary to run their business. Perhaps there are subscriptions that can be cancelled or energy-efficient alternatives available that could reduce utility costs. As an example, switching to paperless invoices sent via email eliminates printing costs and postage.

Although many businesses have increased their service fees over the last year to counteract inflation, newer or smaller companies may offer more cost-effective options than their competitors. As such, it may be beneficial to shop around and request quotes from other service providers in the area. For example, if there are four companies in the area that supply dumpsters, take the time to call each one to determine the best price based on the facility's needs. For long-standing business relationships, a phone call inquiring about a contract renegotiation may be a better option.

Line items such as office supplies should be revisited as well. Are these materials being purchased in bulk? If not, tally monthly usage amounts to place a larger order. Buying in bulk reduces the cost per item and may eliminate charges associated with multiple shipments.

## Make Connections

Marketing is one expense that should be carefully managed. To make the most of your budget, you must take your cost per customer acquisition (CAC), also known as cost per lease (CPL), into consideration. Ideally, your CAC (the amount spent to gain a single customer) should be about three times lower than the customer lifetime value (CLV). CLV is determined by calculating the customer's monthly rental rate by their expected length of stay. As an example, if a customer is renting a unit for \$100 and intends to stay for six months, their CLV is \$600, which means the ideal CAC would be less than \$200.

Unfortunately, that CAC amount is only getting higher. Expensive digital marketing channels have increased the cost of customer acquisition, making it more challenging for independent operators to compete with larger self-storage operators.

Though it may seem like a given these days, it is imperative to have a website that can be found in search engine results. To make your facility's website rise to the top of search results, hire a reputable company to handle your SEO. Moreover, if you're not active on social media, it's time to create pages on the most popular sites or hire someone to do it for you. Having a presence on social media can strengthen your brand and enhance your reputation, especially if you are sharing carefully curated content that followers find valuable. Facebook and YouTube are popular industry choices as they enable users to post videos, which many social media users prefer over text-only content. Don't forget to keep your business' listings up to date. Google Business Profile and Apple Business Connect, both of which are free, bring in a significant amount of free traffic to storage owners' sites.

To keep the CAC at a minimum, many self-storage owners and operators rely on low-cost forms of marketing. The COVID-19 pandemic had put some of those efforts on hold, but "guerrilla marketing" is being used once again. Guerrilla marketing, which is defined as the use of unconventional methods to promote a product or service, tends to be inexpensive and creative.

In the past, common guerrilla marketing tactics within the self-storage industry typically included hosting an on-site event for the public, sponsoring a sports team within the community, or delivering bags of "swag" (promotional items imprinted with the company's logo) to local businesses. The most successful guerrilla marketing efforts place an emphasis on making connections with members of the community in which the facility is located, and the key is truly knowing the market. For instance, hosting a corn hole tournament in July may be a flop in a college town if most of the residents leave for the summer. But a back-to-school barbeque in September may be a hit within that same community; goody bags with logo notebooks, day planners, folders, pens, and/or pencils would likely be appreciated by a cash-strapped crowd. Keep this in mind: Any event you host is an opportunity to attract new customers. Even if they don't require storage today, they may need to rent space in the future; the goodwill you foster will be remembered.

Many self-storage operators have found success with charitable programs such as donating a percentage of each rental to a charity, donating free units to nonprofits, and participating in collection drives. Other low-cost tactics include passing out fliers, cross promotions with local businesses, or referral programs that provide customers with gift cards, cash, or other rewards for referring new customers.

Indeed, being an active participant in the community is beneficial to business. People appreciate and support businesses that try to make their communities a better place. To get to know the community, start with the Chamber of Commerce. Those who join their local Chamber of Commerce and attend their meetings/events can cultivate connections that may lead to strategic partnerships and new customers.

Strategic partnerships formed with other community businesses may result in successful cross-promotional efforts, such as an alliance with a moving company in which you recommend each other's business to customers and offer them a special rate. Other partnerships may be as simple as including promotional materials in "welcome packets" that are distributed to a business' new customers, students, employees, residents, etc. However, it is most effective to create customized marketing materials for each partnership that's tailored to their business and their customers. For example, a local realtor could distribute your promotional flyer about utilizing self-storage when staging a home or moving into a smaller house. Or perhaps a poster about making space for a new baby could be displayed at an OBGYN's office. Sidewalk or window art is another inexpensive form of guerrilla marketing used to grab people's attention. Bear in mind: An element of surprise is what makes guerrilla marketing particularly effective, especially when we are constantly bombarded with marketing messages throughout our daily routines.

Another low-cost approach to promoting your business taps into (and helps propagate) word-of-mouth marketing. Considering that approximately one-fifth of renters (19%) first learn about a facility from word-of-mouth, according to the Self-Storage Association's *2020 Self-Storage Demand Study*, it's important to try to encourage others to spread the word about your facility. In addition to requesting online reviews and referrals, you can ask your most satisfied customers if they'd be willing to share their experiences in a video testimonial. With their permission, the video could be posted to the facility's website and social media accounts. Just be sure to tag the customer and make those posts shareable, so the customers can repost on their social accounts.

Speaking of reviews, reputation management has become an increasingly important part of business thanks to the internet and social media. A good reputation can help a business attract new customers and retain existing ones. Like most consumers, self-storage customers are less likely to store their belongings at a location with negative reviews and too few stars. For this reason, it is essential to establish and maintain a brand known for providing superior customer service. A part of customer service is ensuring that all online reviews, especially negative ones, are addressed in a timely matter. Remember: Customers appreciate being heard and acknowledged!

## Paring Down Payroll

Those less expensive marketing methods can undoubtedly save you money, but they require time that you may not have to spare nor wish to pay another employee to perform. Payroll expenses can make up to 25 percent of a self-storage business' budget. Therefore, many self-storage owners and operators have turned to technology to automate their operations, which reduces overhead costs and frees up their time.

There are numerous industry-specific technologies that can automate the repetitive and time-consuming aspects of operating a storage facility. Call centers, kiosks, online rentals, property management software programs, smart locks, online auction websites, and delinquency management tools are some of the options available nowadays. However, incorporating all these options into a self-storage business can be an expensive undertaking. Management companies with economies of scale have become an increasingly popular option for independent owners who want to integrate them into their operations.

Utilizing a call center enables self-storage managers to focus on in-person customers and facility maintenance without the stress of possibly missing incoming telephone inquiries. Call centers also handle after-hour calls that would have otherwise gone unanswered. With 60.5% of customers renting from the first self-storage facility they contact, per the SSA's *2020 Self-Storage Demand Study*, missed calls may mean missed opportunities. Depending on the location of your facility, a bilingual call center may be required to accommodate customers. Alternatively, phone calls can be transferred to a manager's cell phone or left to go to voicemail when the office is closed.

Both kiosks and online rentals can help reduce payroll costs while providing customers with the ability to make reservations and payments at their convenience. Moreover, customers have come to expect these options to accommodate their busy lifestyles, with 9.9% preferring to pay via kiosk and 14.2% preferring to pay via an online payment option, according to the SSA's *2020 Self-Storage Demand Study*.

These days, property management software can automate many of the repetitive daily tasks that managers are required to do, especially when used in tandem with smart locks. From establishing rental rate increases and sending notifications to customers to generating detailed reports, industry-specific property management software can save operators time while increasing profits. As for smart locks, they are designed to automate the overlocking process, eliminating the need to conduct physical lock checks and add/remove yellow and red locks on doors. With overlocks in mind, there are various tools available to assist with delinquency calls and lien sale procedures—both of which can be time-consuming tasks.

## Increasing Income

There are many ways a self-storage business can reduce its expenses, but increasing your income is the best way to boost your bottom line. There are several ways to push up a self-storage facility's profits, including raising rental rates, selling more retail items such as boxes or packing tape, and offering a property protection or insurance program (if permitted in your state).

Raising rental rates is a necessary part of business. To get the most out of your investment and ensure it is reaching its full earning potential, your facility's rental rates should at least coincide with the average rates of its market area. Certainly, properties that have more amenities and better customer service than the competition can justify charging top rates.

It may seem counterintuitive to raise rates prior to a recession, particularly when existing tenants likely have less disposable income, but few (if any) will move out over a rental rate increase. If you don't do it now, it may be too late to recoup the money you're leaving on the table. Moreover, if you can't be competitive with your profit margins, how will you be able to survive—let alone thrive—during a recession? As a rule of thumb, a 10% net profit margin is considered average, a 20% margin is considered high, and a 5% margin is low. Last year, for properties that StoragePRO managed for over a year, the profit margin was 17%. Owner-operators should keep a constant eye on the market and pricing to remain competitive.

Besides rental rates, profits from retail sales can increase your NOI. According to the SSA's *2020 Self-Storage Demand Study*, 34.9% of renters purchased boxes, tape, or other moving supplies from a storage facility's store. Although there is no set markup percentage, most businesses use a 50% markup. If you're not selling at least those basics, you are missing out on the opportunity to pad your bottom line while providing your customers with the convenience of on-site solutions. For facilities with office space to spare, now may be a good time to consider expanding your retail offerings or assembling enticing bundles to include coworking space or office rentals.

Regardless of which items you decide to sell, keep supply chains in mind before placing orders. To minimize potential disruptions, you may need to establish relationships with new vendors or those with strictly American-made products, as Greenspan warns that a conflict between China and Taiwan could cause disruptions. "The sheer amount of world trade that currently flows through that region, and the number of semiconductors fabricated by Taiwanese firms upon which the technologies we enjoy rely, make any conflict [between China and Taiwan] a potential nightmare scenario," he says.

In addition to products, consider offering some easily implemented services, such as package acceptance or paper shredding. Don't forget to charge a fee for those optional services as well as other occurrences. Late fees, administrative fees, lock-cutting fees, and lien sale fees are some of the industry's most common fees. Analyze your operations for opportunities. For instance, you may find charging a 24-hour access fee to be lucrative. It may be time to start charging customers for printed invoices to cover



the costs of office supplies; this could coincide with a push for customers to sign up for autopay.

## **Reach Your Potential!**

Our nation's inflationary pressures will likely have an impact on the self-storage industry—even if it is better equipped to withstand a recession than other industries. What's more, technologies will continue to advance, and customers' expectations will continue to rise, so economies of scale will become even more vital to an independent owner's success. Independents can remain relevant by using cutting-edge technologies and taking advantage of scale to maximize their store's "Total Property Potential".

At StoragePRO Management, Total Property Potential includes increasing the property's value and cash flow. Numerous business elements are utilized to achieve the company's trademarked "Right-Away Results"; on average, StoragePRO clients typically see a 17% increase in net operating income in their first year, and 14% after.

StoragePRO Management offers "PRO-Caliber technologies" of revenue management and business intelligence systems, as well as economies of scale. The in-house services include a bilingual call center, a business intelligence team, proprietary revenue management technology, digital marketing, human resources and a specialized training program, accounting, and a skilled maintenance team. Furthermore, StoragePRO's buying power and good relationships with industry-related vendors help maximize operations and minimize disruptions.

Doing what's best for the client is the basis of The StoragePRO Way. For that reason, StoragePRO Management has three branding options available. StoragePRO clients have the choice to retain their independent brand name. Conversely, they can choose to employ the StoragePRO brand for greater name and product recognition. A co-branding option is available as well.

While StoragePRO does a lot for clients, there's one thing the company will never do: buy a property it manages. It boils down to fiduciary responsibility. Buying properties from property management clients, as some of its competitors do, creates an inherent conflict of interest, because it could theoretically be in the buyer's best interest for a property to underperform, thus driving the purchase price down. That's just wrong, and you should avoid any property management company that suggests otherwise.

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1 - <https://www.statista.com/statistics/1239080/us-monthly-projected-recession-probability/#:~:text=U.S.%20monthly%20projected%20recession%20probability%202020%2D2023&text=By%20November%202023%2C%20it%20is,probability%20came%20to%2026.03%20percent>