

Boom and Bust – Surviving the Downturns

by Jim Cumming

If you take a look at construction activity over several decades, you will see a chart that looks like the roller coaster in Santa Cruz. There have been some high highs, like the early 70's, late 70's, mid 80's, and just recently; followed very shortly by some low lows, like the mid 70's, early 80's, early 90's, and right now. Interestingly enough, since 1991, residential construction has been on the upswing with a few minor dips along the way. Check this graph out at:

<http://www.nahb.org/generic.aspx?genericContentID=45409>

So, only those who have been around for a while know what it's like to go thru the valley in which many residential contractors find themselves today.

What to do? What to do? The veterans saw this coming and started socking away money to survive the valley. Recently, they and everyone else started paring down their operations. There were employees who were hired only out of necessity who have been let go and contractors have been scrambling for work to keep their longtime employees busy. Even these key employees have had their hours cut back to help survive the cash crunch. Some have let everyone go. (Not a good decision in our view.) What if the market starts coming back? They won't be ready while others will. They will have to put out an extraordinary effort to get ready for the coming upswing. Yes, folks, it will come back. It always does. That's just the nature of any industry, especially ours.

Non-residential contractors seem to still have lots of work; as do public works contractors, and several high-end residential companies in the bay area (especially Silicon Valley). Will that last forever? The answer is no! What goes up will come down! Public work contractors are watching California go through a budget crunch, and while there is still plenty of committed money to spend, there will come a time in the not-to-distant future when that will get turned off. Ditto the commercial sector. There are lots of commercial projects to fill the need for all this residential building that has taken place in the last few years. If residential construction has come to a standstill, what makes us think that commercial won't follow with its own slowdown?

What to do? What to do? If you are one of the fortunate folks with plenty of work, realize that there are peak periods followed eventually by slowdowns. Try to think of your profit over a five or seven year period vs. just one year. In the last part of the building cycle, consider investing some of those profits rather than spending them.

If you are in the downturn and want to stay in this business, redouble your marketing efforts and sharpen your estimating pencil to get work to keep your core employees busy until this thing starts again. Most veterans will work and even lose some money to keep these people on board. Remember how much time, money, and effort it took to get them in the first place?

There are other things to do in the "valley". These activities will keep everyone occupied and sharpen the organization for the next upturn. We suggest developing systems that will make you more efficient and profitable when business starts to get good again. Remember, only a short time ago when you didn't have time to sneeze let alone upgrade your internal systems? You will have to invest some money to do this; a hard thing to do when cash is in short supply! You will also have to invest some time, but you have plenty of that. Here are some things you may want to consider:

1. Marketing
 - a. Call all your clients and say “hi”. Let them know you are looking for work and would appreciate any referrals. You may want to mention that “now is a good time to do a project at a good price”. You will have to put this in your own words so it sounds appropriate. Be sure to get their email addresses so you can send interesting news or links to places on the internet that they might want to see.
 - b. Call your clients 3 or 4 times per year to keep in touch. You may want to track birthdays and anniversaries and send them a card.
 - c. Set up a website. We have found that www.homestead.com will set one up for a pretty reasonable cost and provide you with a tool called SiteBuilder to maintain it and keep the information up-to-date. Refer to your website in everything you print or send... business cards, letterhead, invoices, emails.
 - d. Read *Duct Tape Marketing* for more marketing ideas. Great book!
2. Training
 - a. Business Skills
 - i. Estimating
 1. We do a Best Practices seminar at various venues around Northern California where new estimators can learn a few of the basics. Even seasoned estimators can brush up on skills.
 2. If you are a Master Builder user, we do a one-day hands-on workshop specific to the program.
 3. Sage offers online and live training for Estimating Standard and Estimating Extended.
 - ii. Project Management - We also do a Best Practices seminar for Project Management and a Project Management Workshop using Master Builder
 - iii. Accounting – We do a 2-day “Bootcamp” workshop for Master Builder users and a 1-day Best Practices seminar that discusses construction accounting at a high level.
3. Policies and Procedures
 - a. As a company grows it is imperative that policies and procedures be documented.
 - b. Templates written in MS Word are available for a reasonable fee at www.copedia.com.
 - c. Job Descriptions should be created for every position in the company. Templates for these can also be found at www.copedia.com.
 - d. Procedures should be in place for:
 - i. Billing and Collections
 - ii. Taking on new clients
 - iii. Estimating and Bidding New Jobs
 - iv. Payment of bill to subs and suppliers
 - v. Hiring new employees
 - vi. Terminating Employees
 - vii. Evaluating Employees
 - viii. Acquiring and Evaluating Equipment and other Fixed Assets
4. Look for ways to cut overhead without cutting to the core.
 - a. Unload assets like vehicles, heavy equipment, and inventory (be sensible about this!)
 - b. Move your office to a smaller space and pay less rent
 - c. Cut hours to 3 or 4 days a week

- d. Trim benefits for the time being
 - e. See about lowering insurance premiums (higher deductibles?)
5. Look for money that is “falling through the cracks”.
 - a. Bill for everything you can, including change orders
 - b. Make sure T&M charges are properly tracked and billed
6. Go to your suppliers
 - a. Ask for larger product discounts
 - b. Ask for payment discounts
 - c. Ask for better terms like 60 days instead of 30 days.
 - d. Ask them to do some of the work your estimators and project manager might do, like take off and pricing.
 - e. Use Purchase Orders to verify quantities and prices
7. New Systems
 - a. Estimating – Replace your old Excel spreadsheet with one of Sage’s offerings like Master Builder Basic, Standard, or Extended. Your estimators can double their productivity with these tools so that you will be able to bid more jobs when the market comes back. More estimates usually translate to more jobs and more profitable margins. *More money is made with estimating than any other part of the business.*
 - b. Project Management – There are lots of offerings and they all require training/setup. Master Builder does a pretty good job for small to medium-sized operations.
 - c. Accounting – Master Builder is used by over 8,000 contractors to provide them with accurate and timely information to keep jobs on track and evaluate profitability. Sage Timberline Office is used by over 16,000 contractors to track the needs of larger operations.

LCC specializes in the “Business Side of the Construction Business”. Our expertise and fine systems by Sage help any organization do business better and keep money from “falling through the cracks”. Let us help you help yourself.