

STEVENS
CONSTRUCTION
INSTITUTE, INC.

MANAGEMENT ADVISORS TO CONSTRUCTION CONTRACTORS

Managing in Our Down Construction Economy

By Matt Stevens

As we tend to be slightly negative as an industry and as a society, it is important to look objectively at the current condition of the U.S. construction market and what actions contracting organizations might execute.

Whatever your informal view is of our current economic situation, remember that business markets expand and contract but rarely stay the same. In the future and in the past, economic recoveries occur. Each of us is hopeful one is now emerging.

For each construction professional though, the current economic climate has to be a concern. The industry has changed much since 2008. Our firm sees chaos to our business environment in the coming years. Our political leaders have intruded greatly in the last decade. There is more change to metastasize regardless of next November's results.

As we solve our own personal wealth building, we are sensitive to years of negative profit and equity decline. Bad years are hard to make up. Many of us have had a couple already.

For the construction contractor to continue to survive, there are several approaches and philosophies to consider. Here are a few:

- Contractors' response has to be the same today as in the past – a renewed focus on financial conservatism, planning at all levels, quality mindfulness, marginal employee reductions, careful marketing, detailed estimating and the like. It is ironic and also comforting that this will never change, regardless of the causes of any slowdown.
- Contractors cannot be speculative in their business. There is too much uncertainty. The market can move in 360 degrees of direction and you can only move in one. Companies should stay working closely with their associations, surety partners, insurance professionals, financial institutions, attorneys and others to stay savvy about clients who are “kicking tires,” developers who want to “share” their risk and politicians who “want to help.”
- In this current business climate, the niches in construction contracting are the critical ingredient to a secure business. They have two crucial ingredients: 1) profitable and 2) defensible. Finding them can be a leverage point to a higher

Stevens Construction Institute, Inc. is a Management Research, Advice and Education (MRAE) firm for construction contracting businesses. We focus on strategic, operational and human resource improvement of these organizations.

return on investment. Once a niche is exploited, the company will possess a deep skill in discovering and penetrating another.

The data shows us why. In the last 40 years, we have 3 times as many contracting firms competing in an industry that is the same in real (1995) dollars according to the U.S. Census and Commerce Departments. If you feel crowded, more than ever, your observations and gut feel are exactly right. However, your grandfather was also right. It was a more profitable and fun business in the 1960's.

- Niches are around us and have special characteristics. Finding them is hard, but profitable research. These characteristics are what you search for in quantitative and qualitative data. Once niches are found, internal and external practices have to be adopted to keep these sheltered business places from being easily discovered and penetrated by the competition.
- Currently, most contractors' client lists are being pared down to a valuable few customers. That is, those who want good construction services pay well and are serious about using the contractor's end product. Some construction firm have migrated to public work and for good reason: government checks don't bounce.
- Ultimately, the current environment will be healthy for the construction industry. Some of the companies who were late arrivals and don't love this business will go away. That is great news for those who enjoy the challenges and the unique nature of construction. (Lately, I know several older contractors who are smiling more than you would expect.)
- Stay focused on where you are financially. The stress of a cash flow problem is not the singular reason to lay off core employees. Cash flow is an important metric to anyone in construction. However, another important measure is gross profit per man-hour. Since we are in a variable-cost business this makes economic sense.
- Keep core employees together - both field and office. This is your means of production. If you see a bleak outlook and a decision has to be made, most people I know cut back on their personal financial needs, including paying themselves last. This ensures that when the economy improves, they will be quick to catch the wave of growth again and thus profit. Contrast this to others who, once they have contracts in hand, will have to rehire or, even worse, find new employees. All of whom will need training and will make a higher number of mistakes.
- Collect your accounts receivable as much as you dare. Mature business people know that money is a company's life's blood and your legal and ethical attempts to collect it are forgivable. Your fair pursuit should be forgotten in the months to come. Any firm who might have an issue with this is an indication of something. As has been stated before by the late Harold Geneen, there are 10 rules of business. The first three are to not run out of cash – and the rest do not matter.

- Use your financial ability to pay as a strategic weapon. Some firms have the ability to pay in a timely fashion regardless of the economy. This is stellar financial management in action. However, in any economy, it should be considered that payment should be made differently. Not all of your project partners act the same toward you. So treat them differently. Don't pay them the same, especially the ones who are a drag on your business. Negotiating on the basis of your strength to pay is not a new idea.
- Build a high wall around current clients. Raise the bar of what they should expect from any new entrant. Some of this is just communicating all that you do for your clients who might be unaware. Some of this is adding a new benefit. Of course, the former is less expensive.
- Don't participate in this economic slow period mentally. In any business, you have to believe your best days are ahead of you. Construction is no different. Conversely, not believing this makes it true. Remember, your employees and their families are looking extra hard for any signal of trouble. The same for suppliers and clients.
- The number of qualified leads is the reason you will land a good project. Keep conversations going with people who are decision makers and have budgets, needs, wants, and treat you with respect. At some future date, they will have a deadline to meet for constructing a project. Keep yourself at the client's table. Talking does not cost you a dime.
- Experienced construction firms know that our service is a basic necessity to human life and our vibrant business will be back in the near future. Nothing gets built well without savvy contractors. Sophisticated (and many times wealthy) construction service buyers know this. They are value buyers, have shorter qualified bidder's lists and always have money regardless of the economy. This is an economic reality to believe.

In any slow period, some contractors earn their first stripes while others revisit once familiar territory. Successfully managing through a down economy will only make a construction firm stronger and more profitable when good times return.

Matt Stevens is president of Stevens Construction Institute, Inc. *Management Advisors to Construction Contractors*. He has been doing so since 1994 and has been in the construction industry over 35 years. His books are published by **McGraw Hill**, *Managing a Construction Firm on Just 24 Hours a Day* (416 pages) and *The Construction MBA*. (464 pages, *May 2012 release*) His firm, Stevens Construction Institute, Inc. is located at www.stevensci.com. Matt may be reached at mstevens@stevensci.com.

Stevens Construction Institute, Inc. is a Management Research, Advice and Education (MRAE) firm for construction contracting businesses. We focus on strategic, operational and human resource improvement of these organizations.