

10 Ways to Build Resilience and Turn Adversity Into Opportunity

By Mike Fay and Gabriel Valls

Recessions can create opportunities for construction companies to weather economic headwinds, allowing them to catapult past the competition and emerge even stronger.

Economic recessions are never pleasant. Invariably, every construction firm will experience one in its lifetime. Being prepared for a recession is not about undertaking incredible amounts of planning for the worst. Being prepared is about running a good business.

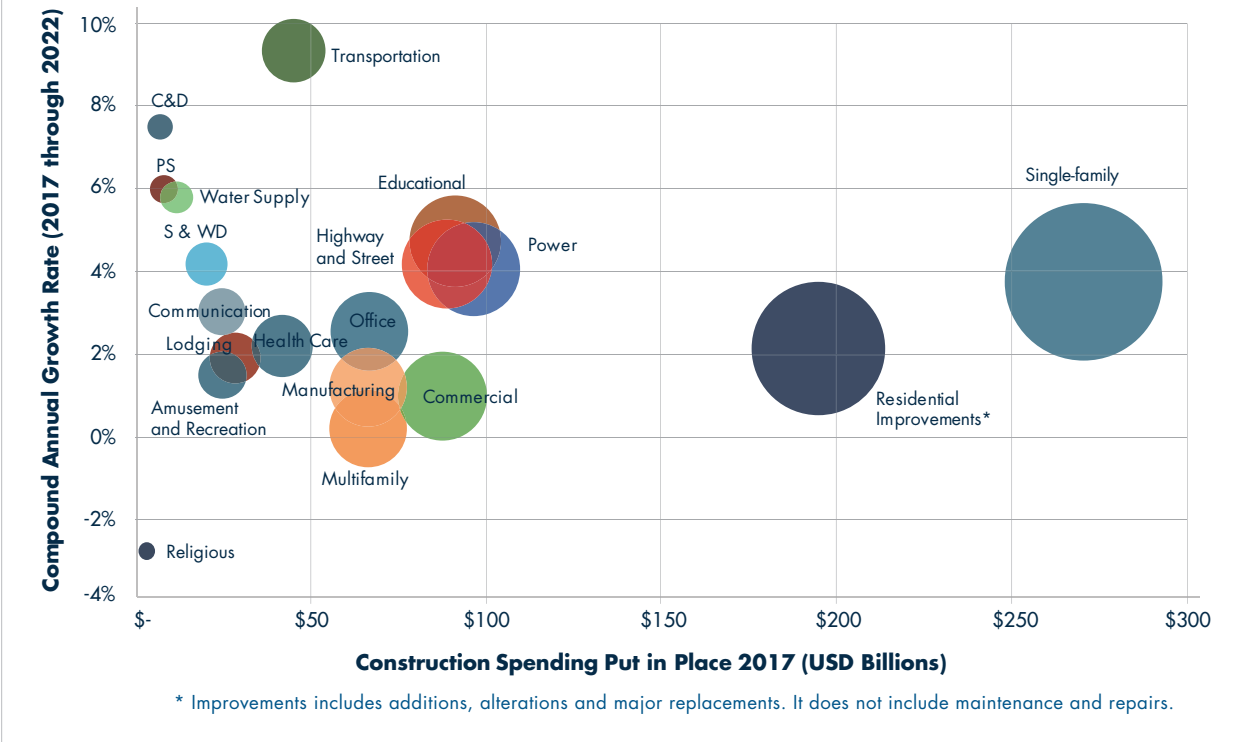
Although the economy appears to be slowing, the construction industry remains healthy. Nearly 80% of more than 1,300 general contractors (GCs) surveyed in the “2019 Construction Hiring and Business Outlook Report” from the Associated General Contractors of America (AGC) said they plan to add workers to their payrolls this year.¹

“Construction is expanding at what I consider a moderate pace,” Ken Simonson, AGC chief economist, told us in January. “It is well diversified at this point. Most segments do seem to be growing, and the industry is certainly at its limit in terms of capacity.”

FMI echoes this trend and expects E&C spending to continue to grow at an anticipated 3% annual rate, with mostly positive, albeit moderately decelerating, growth rates across the residential, nonresidential buildings and nonresidential structures market sectors (Exhibit 1—see the [“2019 FMI Overview”](#) for more details).

¹ “The 2019 Construction Hiring and Business Outlook Report.” Associated General Contractors of America. 2 January 2019.

Exhibit 1. Total Construction Spending Put in Place 2017 and Forecast Growth (2017-2022 CAGR) by Construction Segment



Source: U.S. Census and FMI Forecast

If you are concerned about the potential for a change in economic conditions, how can your firm prepare? By being the best you can be.

A proactive approach today, while projects are keeping you busy and the economy is relatively stable, will do more than help your company become recession-resilient. It can also help catapult you past the competition.

The companies that have weathered financial storms are more than survivors; they come out stronger with every economic downturn. Part of their success, we believe, is that they pay attention to these 10 principles:

1. **Watch your cash.** Cash flow is key to growth and even more important during economic downturns. During busy times, GCs may become more relaxed on billings. Good times can create a false sense of security; late payments from owners seem to be less of a big deal. That's a mistake. Be sure you're constantly staying on top of billings and your receivables. Remember to focus on change orders too, because they can drastically impact a financial position if not paid.

A Forbes article noted that firms in several categories of construction are not only waiting longer on average for customer payments, but also paying their own bills more quickly.² Keep in mind that operating in an industry with typically tight margins means you're even more vulnerable to losses resulting from cash flow. When you float a project, you may easily cut into your profits, while acting as a lending institution and without the advantage of collecting interest. GCs cannot afford that, especially during a recession.

² Biery, Mary Ellen and Sageworks Stats. "A Downside for Contractors in the Building Boom." Forbes. 10 December 2017.

2. **Bank on good relationships with your lenders.**

Don't underestimate the importance of securing lines of credit in good times, when you need it least. Best-in-class GCs cultivate long-standing relationships with bankers who understand construction and who have a history in the space. Obtaining sufficient lines of credit serves as a safety net, maybe to qualify for a future project or to fund an element of work during a downturn. It may feel counterintuitive, but always ask for credit when times are good rather than bad. It will make all the difference.

3. **Prequalify your subcontractors.** As a GC, your fortunes are always tied to the people you hire. Considering that a single subcontractor's contract can exceed \$100 million, subcontractor default can have huge consequences to your balance sheet and reputation. [Applying diligence and discipline to prequalification](#) is crucial. Be sure your subcontractor shares your mindset, that its staff is qualified and that it is well-capitalized. Remember that in good times the subcontractor may be able to hide a layer of problems with profit, but how well are you protected when a recession hits? Surety bonds and subcontractor default insurance can certainly help once a problem arises, but the best remedy is to avoid the issue altogether, which requires a strong prequalification program.



Stay on top of your aggregation risk too. Your goal is to monitor your exposure to any one subcontractor. The best GCs are constantly pairing their workloads with subcontractors that are capitalized well enough, both with human capital and money to ensure a successful outcome.

4. **Prequalify your owners.** This is incredibly important and one of the most overlooked steps in the industry. GCs need to choose their owners carefully, seeking those who will pay on time and appropriately. In a recession, the stakes are even higher. When a job goes bad, even if it has nothing to do with you, do you want to work with an owner who blames you for it—or one willing to help you through it? One outcome could cost you millions in losses and lost time while fighting all the way through the project, while the other puts collaboration on the table and the chance to build a stronger working relationship for the future.
5. **Monitor your portfolio and the related economic trends.** Examine the mix of business you have, looking at where you think the market's going versus the kind of work you have. If you're not watching your mix of work, you could literally see your revenue drop by three-quarters in a year. We don't necessarily believe diversification is the solution. It's more about finding the

right balance for your organization, people mix and culture. Be forward-thinking and determine your next steps if you see your niche space drying up. This will give you ample time to redirect your talents and portfolio, to market yourself into something similar, where your experience translates well.

6. **Marketing always makes sense.** It seems counterintuitive, but marketing is even more essential in a recession than when the economy is strong. Having good cash flow, a solid relationship with lenders, a strong base of subcontractors and a good view of the business landscape will allow you to promote yourself as a market leader. A Business Link article rightly notes that in down times, shortsighted companies view marketing as an expense, not an investment.³ Moreover, while your competition may reduce its visibility by cutting these costs, your proactive approach will stand out even more.
7. **Embrace technology and innovation.** Implementing technology and being innovative are even more important when the market gets turbulent and should be part of your firm's basic business practices. The construction industry has traditionally been a slow adopter of new technology, but the labor shortage has compelled many GCs to consider technology to improve productivity.

In the aforementioned AGC survey, many respondents said they are increasing investments in labor-saving technologies and techniques. Some 32% are investing in methods to reduce on-site work time, such as lean construction, virtual construction techniques or off-site prefabrication, and 28% are investing in labor-saving equipment, including drones, robots and 3D printers. The survey reported that 42% of respondents will increase their IT investments in 2019. Note, however, that in each category, the adopters represent fewer than half the respondents, which clearly indicates this is a way to stand apart from the majority of your peers.

8. **Maintain your top talent.** Retaining your best employees is always important, but during a recession, you need people who can do more with less, maintain the morale of your organization, and—particularly at the management level—make good decisions during a downturn. The problem during a recession, however, isn't that employees will leave you; your people will want to keep their jobs. The real danger is whether you have the money to keep them. This goes back to your cash flow. Ample funds allow you to retain your top talent. They can also put you in a better bargaining position than your cash-strapped competition, which may lay off much of its staff. You might even be able to pick up projects that those companies can't and hire some of their quality employees.
9. **Be strategic about benchmarking.** Best-in-class GCs continually strive to enhance what they are doing. They want to know how they compare to other companies in their state, in their region and across the country. Benchmarking against peers is critical yet challenging. The comparison to peers helps validate where your firm is relative to others, and the challenge lies in your ability to recognize the need for constant self-improvement. Without benchmarking, companies operate in a vacuum and strongly believe in their own infallibility.

The aggregated data that sureties collect, for example, can help construction firms benchmark themselves and drive continued improvement. Ratio comparisons are a good way for construction firms to dig deeper and gain stronger insights to adjust their businesses as needed.

³ Townend, Ryan. "The Importance of Marketing in a Down Economy." Business Link. 12 October 2016.

- 10. Choosing public over private: Proceed with caution.** Surety can help focus your lens when looking for a way to shelter during a recession. When economic times are tough, publicly funded projects protected by surety bonds offer some respite from the traditional falloff of privately financed projects. However, there are pitfalls to shifting focus from private to public. The public works arena requires specialized knowledge and expertise. A more intimate knowledge of federal acquisition regulations can drive better results with change orders and ensure that pay requisitions are paid in a timely manner. The political climate also adds to the challenge, with government shutdowns exacerbating the complexity.

These 10 principles are relevant in any economy. Follow them successfully, and you'll have cash, maintain talent, develop a robust portfolio and build solid relationships that will make you more competitive than ever.



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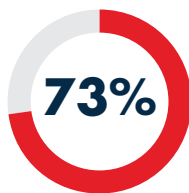
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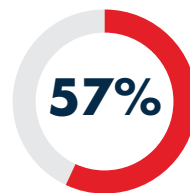
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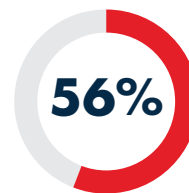
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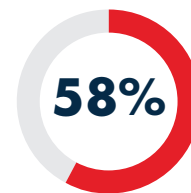
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