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Contingency Plan Key to Surviving Economic Downturns

By Jayme Dill Broudy, SPECIAL TO CEG

It'd be great if the economy (and your business) chugged along at a steady, predictable pace with no surprises or slowdowns. Great indeed, but entirely unrealistic. The world is going to throw you curves and it's best to treat them as the rule rather than the exception. Slow periods are just as normal as moderate and red-hot ones. While you can't control these external gyrations, you can control how you prepare for and react to them.

Plan to Plan

If the water's already rising, it isn't a great time to start thinking about a flood-escape strategy. Any decisions you make in reaction to an immediate threat are likely to be disproportionate, and can be ineffective and/or damaging because there's no time to consider all the factors and options. How many not-so-brilliant decisions have you (all of us) made in the heat of battle? The key to surviving downturns is to be prepared for them (in a variety of ways) in advance.

Problem is, this is far easier to say than do (Got that retirement plan set up yet? How about the exercise program your doctor's been nagging you about?). Humans are overpoweringly driven by short-term gratification so whatever's in front of our noses at the moment almost always takes precedence over long-term issues.

From a business standpoint, this means we'll always let today's operational issues take precedence over vague things like an economic downturn that may be months or years in the future. This tendency, however, provides a huge opportunity: if you're the only one (or one of the few) who resist the urge to focus only near term and instead invest consistently to insure long-term viability, the inevitable downturn will wash away competition and leave you positioned to prosper. Darwin is at work in the business jungle.

So what does "invest to insure long-term survival" really mean? It means spending manpower in two major areas: Creating a bulletproof infrastructure for your business that insures that you are the most efficient operator, and formulating detailed contingency plans to use when the slump hits. In a big firm they'd hire outside consultants or reassign a few operations and finance people to a task force, but a smaller business has to bite the bullet and do it with existing staff.

Be Efficient and Productive

The key to productivity is producing consistent, high quality results through the use of formalized systems and processes (rather than depending on people to get it right). This means everyone using the same playbooks that contains the specific standards, operating procedures, job duties and performance criteria, and that an organization chart and detailed job descriptions specify who is responsible for what.

Make no mistake: this is a significant effort. It requires identifying all your Key Business Processes (from site surveys to machine maintenance to paying a bill) and documenting each one so that almost anyone can follow the procedure and get the desired result.

How does this make you the most productive? When the intelligence of your business is captured in systems and processes (instead of in somebody's head), your results are more consistent and predictable and you can achieve them with lower level employees. Think: high school kid and French fry machine. Employees become more interchangeable, training becomes simpler, and mistakes fewer.

It also means that the business's most critical resource (that would be you, the owner) is able to let the business operate without continual supervision. You can instead focus on strategic issues that keep you ahead of your competitors.

Understand Your Business

Before you start creating plans, you'll need to know in detail how your business works from both an operational and a financial perspective. What's your break-even revenue with current overhead expenses? How about if you cut overhead by 30 percent? What are your Key Operating Processes? What business segments are most profitable? Which cause the most equipment breakdowns, customer complaints, employee issues? What equipment is most profitable per run-hour? Which is most maintenance intensive? Don't know? Time to learn. It's very hard to tune an engine for peak performance if you don't know exactly how it works.

Contingency Planning

The objective is to create two or three operating plans that will allow you to rationally scale down your business and remain solvent and/or profitable. Each plan includes a detailed analysis of manpower, equipment, overhead, pricing, cash management and expense structure to insure they'll produce predictable results at various revenue and profitability levels.

If business drops to level "x" for 90 days, we go to Plan 1. If it drops to level "y" for 90 days, go to Plan 2, etc.

Because your business is comprised of many interdependent parts, you'll be doing a lot of "what-ifs" for a variety of factors before you come up with the right structures for your final plans. There are thousands of possible combinations, and different plans will be right for different contractors. What's important is that you'll make decisions based on a clear understanding of their consequences rather than incomplete data, intuition, or fear.

Diversify

Don't go buy a winery, but investigate ways to use your existing equipment and crews in new ways. Do all segments of your market slump concurrently or are some up when others are down? If the latter, see how you can enter the balancing segment. If you've been exclusively working road construction, look at agricultural or residential development work. Beach erosion remediation? Mines or quarries in the area? Ask the people who sell the big equipment. They know many ways to use equipment you may not have imagined. But analyze the alternatives ahead of time so you can pull the trigger when the time comes.

Copy the Successes

Don't feel obligated to reinvent the wheel (or track). If you see ideas, processes, and/or systems working for others, incorporate them into your business. In particular, find the long-lived competitor in your area who's made it through many ups and downs. Learn his operating practices, then copy them shamelessly (within legal limits). At the same time, guard your own Best Practices manuals and processes vigorously. When you become top dog, the competition will be looking to copy your successes.

Cash Is King

You can be the low-cost, highest-productivity player. But if you don't have adequate cash reserves or cash flow, you'll still be in trouble when the slowdown hits. It's tempting to reinvest cash as soon as you get it. But if you're caught overextended you'll be selling the 'dozers wholesale to cover your payables and loans. It's a balancing act to spend enough to advance your business while stockpiling cash as a buffer against downturns. But he who does this best survives to hunt another season.

How much cash reserve is enough? That depends on your operating efficiency, contingency plans (since you can, for example, survive on less cash if you've implemented severe cost-cutting measures), and how long a downturn will last. More cash is better, but a rule of thumb is to have at least enough cash to fund yourself through one year. Sound like a lot? Compared to almost every one of your competitors it is. And that's exactly why the one who has it is the one who survives.

Prospering in the Downturns

When the slump hits and you've positioned yourself as a top-flight operation with a strong cash position, you're at a huge advantage. As weaker competitors leave the market you have the opportunity to hire their best employees, take over their clients, even buy their equipment at fire sale prices. Like the animals who survive the toughest winters, you'll find less competition and a plentiful hunting ground as the economy improves. This may sound harsh and it's your choice whether to exploit your competitors weakness; but at least you'll be in a position to choose.

Economic downturns may seem ominous. But short of an asteroid wiping out the country, they're always temporary and actually provide great opportunities for the savvy business leader. Like the stock market, somebody's making money whenever things change in any direction, not just in the boom times. It's not a tragedy: it's an opportunity!

In summary:

- Be the most efficient player
- Prepare detailed contingency plans
- Have a strong cash reserve
- Watch cash flow like a hawk

Become really proficient at these things and you'll not only survive the slumps, you'll profit from them. And, you'll sleep much better knowing that, whatever happens, you're prepared.

(Jayme Dill Broudy is the founder and principal of Contractor's Business School, a coaching, training and consulting firm specializing in helping contractors produce more profit in less time. Since 1993, Jayme has worked with hundreds of contractors in many specialty areas to build successful stand-alone businesses. Visit www.contractorsbusinessschool.com or call 800/527-7545 to get the FREE CD "10 Key Strategies to Build a Business that Works.")