



Surviving a Slowdown

by Stephen Posey

Sooner or later, most building and remodeling contractors experience a slowdown in business. The housing market is given to unpredictable swings, and any number of factors can affect the amount of work available. A rise in timber prices or interest rates, a series of bad winter storms, or a dip in consumer confidence can all produce a temporary lull in sales. Whatever the reason, the result is usually the same: the phone stops ringing, business dries up, and potential customers all but disappear. Here are some suggestions for riding out the inevitable downturn.

Keep a Lid on Overhead

Tracking overhead costs is never more important than during a slowdown. Without a clear idea of what it costs to run your business, it's hard to figure out how much money your company is spending just to stay in business.

A good accounting system distinguishes between direct costs and overhead. Direct costs include labor and materials, and project overhead, such as an on-site telephone and tool rentals. General overhead — office rent, utilities, license and bonding fees, insurance premiums, salaries, and so on — represents the amount of money it takes just to stay in business. When times are slow, take a look at your company's monthly general overhead costs, and find ways to reduce the "nut."

Some overhead costs, like license and bonding fees, office rent, and utility bills, don't change much month to month. But other costs can be reduced. Keep an eye on fuel consumption, for example, and limit unnecessary trips. Recycle office supplies such as copier paper, folders, and notepads. Limit fax transmissions and monitor phone time, particularly on expensive cellular units. Reducing the cost of such items will make a small

dent in your company's monthly overhead, but the savings over a year can be considerable.

It's also a good idea to periodically compare your estimated and actual costs for jobs completed. Are you charging enough to provide a cushion for the next slowdown? Or are your numbers too high, pricing you out of a tight market? Now is the time to make the kinds of adjustments that will improve your bottom line when business picks up again.

Living Through Layoffs

Few contractors enjoy laying off employees, particularly good ones. A company that can provide steady work week after week usually has a stable, satisfied work force and high rates of productivity. There are times, however, when reducing the work force — and with it the associated payroll and insurance burden — is the fastest way to cut operating costs.

To maintain good relationships with those employees you want to hire back when business picks up again, try to find ways to help them out. Some contractors place their people with other companies on a temporary basis, while others encourage laid-off workers to take on small jobs of their own. You can help out by letting your laid-off employees charge materials to your supplier accounts or rent your tools at a nominal rate.

Some builders worry that helping laid-off employees with their own small jobs will backfire and create another competitor. While it's true that some laid-off employees will end up starting their own businesses, it is much more likely that an employee who takes on the responsibility of completing a job on his own will come back to work for you with an improved understanding of what it means to be in charge. And the happy customers they worked for while they were laid off will act as referrals for you.

Though the "rank and file" may not realize it, the boss is usually the first person who gets laid off when business is slow. Many contractors reduce or suspend their own salaries in favor of keeping their employees working. Contractors with a short-term credit line can borrow funds to help tide them over. These kinds of loans often carry higher-than-average interest rates, however, and should be repaid as soon as possible. But judicious use of a credit line can pay off when business picks up again.

If you usually spend your time in the office, heading back into the field when work slows down can really reduce the overhead burden of your salary. It can also do wonders for the morale of your employees. If you can't get all your paperwork done at night, spend one or two days a week in the office and the rest in the field. Be sure to set up an answering machine to handle calls when you're not in. Then return the calls promptly.

Seeking New Work

A builder I know in Flagstaff, Ariz., takes a different approach to the seasonal drop in construction activity in his market. Instead of shutting down for the winter when business is slow, he looks for ways to subcontract with other general contractors, hiring himself and his employees out to do piecework. He specializes in finish carpentry, and he takes on smaller jobs that other contractors pass over. Rehabbing doors, installing new hardware, and making cosmetic improvements to houses for sale are all projects he has done to keep his company busy.

The local college has also proved to be a consistent source of jobs for this builder. Most universities and other public institutions maintain a list of local tradespeople. Contractors can sign up to be notified of jobs being put out to bid. To get these jobs, you may have to satisfy additional bonding and insurance requirements, but the payoff in steady work can make the expense worthwhile.

Market to Previous Customers

Resist the temptation to race all over town frantically looking for work, and don't invest a lot of money in an aggressive advertising campaign. A well

thought-out program of customer follow-ups may serve your needs much better.

A builder I used to work for in Oakland, Calif., discovered that the largest percentage of his business came from repeat customers, and the second largest percentage came from referrals by those same customers. He decided to stop a costly print advertising campaign, which hadn't produced any jobs, and focus instead on marketing to people who already knew his work. He sent out a postcard to all of his long-time customers, with a photograph of a recently completed project on one side and a simple greeting on the other. Then he followed up with a phone call. The strategy paid off in increased

referrals and more negotiated bids.

Professional organizations can be helpful, too. In the San Francisco Bay Area, the Contractor's Splinter Group holds a monthly dinner meeting for its members. Participants get a chance to commiserate with their peers, exchange information, and keep one another apprised about upcoming projects. While it may be tempting to forego the expense of events like this in slow times, the payoff could be a job lead from an unexpected source. Other contractors can do a lot of good marketing for you.

Don't Worry, Be Happy

Above all, it's important to stay

positive and circulate. When business is bad, it's easy to get caught up in a self-fulfilling prophecy of gloom and doom. Get out and renew your contacts with design professionals, architects, and engineers. A brief letter followed by a phone call helps to keep your company's name in circulation and may result in the opportunity to bid on a job. Make it a point to contact people you haven't worked for as well as the ones you already know. Greater exposure increases the likelihood that your efforts will pay off. ■

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