

PREPARING FOR LEAN TIMES

*Strengthen your business relationships in good times —
it'll pay off when times are tough*



If you have been in business for a while, you know that times are not always good. The first sign of a slowdown may come from a conversation with an architect, who tells you how little work is on the boards. Then someone with whom you have been planning a project for six months decides to postpone construction indefinitely. Before you know it, your workload is so low that you can't keep all your people employed, and you're faced with the hard task of laying off some of your crew.

What can you do to survive in lean times? I always read articles like this

looking for the one thing that will put my business in perfect operating condition. Unfortunately, there are no instant cures for a bad economy or a struggling business. Mainly, it is the things you do *before* times get rough that pull you through.

A case in point is Winans Construction, the company my wife and partner, Nina, and I started 15 years ago in the San Francisco Bay Area. We benefited early from the healthy California economy, and business remained steady, even as the recession moved through the rest of the country. At one point, I truly thought

we were insulated from the problems other areas of the country were experiencing. By early 1991, however, I realized I was wrong. Work started drying up and leads dropped off, just after we had purchased and begun remodeling a building to house our offices.

Two years later, after some of the most challenging times we've ever faced, new house construction in the Oakland fire area has brought work back to our company, and our business has finally begun to recover. We survived, but not because of any magic formula. Instead, it was the steps we took when times were good that kept

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by Paul Winans

us going, steps that positioned us to overcome the inevitable hard times.

Stand By Your Subs

General contractors are only as good as the people they choose to help them. In hard times, you depend more on your subcontractors and suppliers, so make sure you have good relationships in place before work slows.

You may not have thought about it this way before, but you are always working on the credit that subs and suppliers extend. When you pay an electrician three or four weeks after the work is done, for example, you have used an interest-free loan. You were allowed the use of that money because the electrician thought you were a good credit risk.

The same is true of your suppliers. Most lumberyards invoice you once a month for materials that were delivered weeks before. And if you pay "early," you can take a discount off the bill. The terms of this type of credit are much more favorable than you could get from any bank, even in the best of times.

It only takes a couple of late checks from customers to create a cash flow problem. When that happens, the group of subs and suppliers you have consistently worked with will do what they can to help you survive. After all, you've been a regular source of business. If you can't pay them according to the customary terms, talk to them about your circumstances and propose a payment plan. Many subs and suppliers are getting stiffed outright by other builders (times are tough for everybody, not just you). Any news from you is good news.

Avoid low-bidders. I'm sure you have gotten bids from subs and suppliers whose prices are too good to be true, or who have a telephone area code you never saw before. This kind of low-bidding is more prevalent when work is slack and competition is fierce, and many builders are tempted to work with these untested resources. Like every "quick fix," however, it comes with hidden costs. For one thing, you don't have the credit you are used to with your regular subs and suppliers. The new people are not committed to the success of your company — they just want to get paid *right now*. It's also difficult to get new subs and suppliers

to respond to callbacks. This might be one of the reasons their price was so good to begin with.

Here's a good example of why I believe a long-term relationship with subs and suppliers is essential. We once installed 28 brand-name windows in a house built in an area that is sometimes subjected to 80-mph winds. Four of the windows leaked, and despite our best efforts, we could not resolve the problem to the customer's satisfaction. When the customer called in a specialist to make the repair, our supplier kicked in nearly \$3,000 to pay for it. We had a similar experience with a tile subcontractor who spent nearly \$3,500 of his own money to repair a leaking tub installation.

Low prices can help when work is slow, but real value must be built up over a period of years. Find a few good subs and suppliers while business is booming; they'll stick by you when business fizzles.

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Playing With Pros

The construction business is way too complicated today for you to try to succeed without outside help. Tax and legal issues, credit and contract requirements, and financial forecasts all require the guidance of professionals. When times were good and we didn't "need" help, we established strong working relationships with a lawyer, an accountant, a banker, and a business consultant. When the slowdown came, we were able to collect on our investment. Here's how we did it and why I think it worked.

Legal advice. I used to think that, since I was a good, capable person running a business based on my integrity, I wouldn't need a lawyer. Time has proved me wrong.

A good example is the help we got from our lawyer while negotiating insurance work after the Oakland Hills fire. In the most recent case, it was three years after the fire and we had done five estimates, but the insurance company our client was negotiating

with still wouldn't settle. When the client finally accepted our suggestion to use our lawyer in the negotiations, the insurance company settled within six weeks. We signed a contract for the new house shortly afterwards, something I'm sure we would not have done without our lawyer's help.

But this wasn't the first time we called on our lawyer for help. We had established a relationship with him long before the Oakland Hills fire, using his expertise mainly to avoid disputes. We asked him, for instance, to read important letters before mailing, and we sent him our contracts to review. It's cheaper to invest in this kind of advice up front than to wait for a problem to arise. As a result, our lawyer became familiar with our company over a period of time, so that when we needed him most, he wasn't working blind.

On account. Our business is incorporated now, but even when we were a sole proprietorship, we closed out the bookkeeping by hiring a certified public accountant to prepare a year-end statement. But our accountant is more than a number-cruncher. He owned a business earlier in his career, so he had experienced first hand some of the same problems we were having. During the slowdown, when we were caught up in day-to-day business pressures, it was helpful to get a fresh point of view from someone who was one step removed from the details.

Our accountant's professional expertise was also invaluable when we were planning a networked computer system. Not only did he advise us on the actual equipment, but he helped us weigh the effect of this substantial investment by comparing the pros and cons of leasing, borrowing, and an outright cash purchase. Now that business is picking up again, we're recovering more quickly because of the system he helped us build.

Bank on it. Even if you are very good at running your business, you won't always have the money you need to pay all your bills, meet payroll, and pay your own salary. Of course, I never thought it would happen to us, especially when business was booming. Most people think the same way. They go to the bank only when there's a crisis. Fortunately, our accountant encouraged us to secure a

STAY INFORMED

During a downturn, it helps to have the benefit of other people's experience. One way to find out what works and what doesn't is by reading business columns and features in trade magazines. But I also read several local publications regularly, because they tell me things the national rags don't. In the *San Francisco Business Times*, for example, I once came across a bankruptcy notice for a subcontractor I was about to hire. When I found out that the person I was accustomed to doing business with would not be a part of the restructured business, I decided to find a new sub. Similarly, listings of federal and state tax liens and mechanic's liens can help you steer clear of trouble. A sub with a lien on his company is strapped for cash and distracted by his legal problems. He may demand early

payment, and may not serve your needs well.

It also helps to be informed on local economic and business issues. In our area, many of our customers work in the fields of computers and biotechnology. They like to talk about their work, and it's good for business if I can speak knowledgeably about their industry.

Local publications can also help keep you abreast of the ways business regulations are changing. In California, for example, workers compensation is in the news almost daily. By following the story, I can find out how legislation will affect our costs.

Reading routine. If you're like me, you don't have time to read all of the publications that turn up in your office. Here are some suggestions for ways to get the reading done.

- Skim the magazines looking for arti-

cles that are appropriate to your responsibilities. If you find something of interest to other people in your company, use a hi-liter or sticky note to mark it, then pass the magazine on. Discard everything else.

- Set aside one hour a week and read as much as possible in this one sitting. Whatever you don't get to, save for next time.
- When the pile gets too big, do another "sort and dispose," or just throw it all away. The world won't end if you don't read this stuff.
- Read selectively. If you start on something that is inappropriate or not useful, stop and move on to something else.
- Put this system into place when times are good. It will become a habit you can rely on when work slows down.

— P.W.

line of credit *before* we needed it, and while the business was healthy. Shortly afterward, when our receivables diminished and our cash flow suffered, we were able to prop up the business temporarily with the funds available to us through the line of credit.

The relationship we had established with our banker made it all possible. We made a deliberate effort to get to know her, inviting her to our office to see how we operated, and talking with her about our short-term and long-term goals. It paid off. When the bank targeted businesses for a new line-of-credit program, *they called us*. The deal wasn't advertised, and it would not have happened without the prior relationship.

Maintaining a good relationship with a banker is an inexpensive investment in your company's future. Unlike an accountant or a lawyer, you can get all the financial advice you need without ever paying the bank directly. Since the bank profits from the money you deposit and from the interest you pay on loans, bankers are always interested in helping you solve your business problems.

Outside help. As our business matured, we began to feel that our own limitations were holding us back. Without knowing exactly what we needed, we began to look for a business consultant. Interviews with a couple of different consultants showed us that the range of services and fees was mind-boggling. We eventually began working with a firm recommended to us by a builder we respected. When our contact there left to start his own business, we followed him.

During the hard times, when it was sometimes difficult to see beyond the immediate press of business, our consultant slowed us down and kept us focused on the big picture. He helped us reflect on all that was still good about our business, and encouraged us to hold on for the positive times just ahead.

But our consultant was more than a cheerleader. He convinced us we needed a business plan, then made sure the actual writing got done. He also led the way when we reorganized our personnel. Not only did he help us see that we had a few employees who weren't holding up their end, but he participated in the interviewing of prospective employ-

ees. His advice resulted in what we believe is a better work force.

Be prepared. All of these business professionals — lawyers, accountants, bankers, and consultants — can help you survive in lean times. But don't wait till times are tough and you're desperate for help to engage their services. Look for these people while your business is healthy, and build a strong working relationships *before* the economy hits the skids.

How can you find them? One way is to ask fellow contractors who they use. Then call a few of the names on the list and do a brief interview. Now that *you* are the paying client, remember what your customers have taught you: Negotiate and ask "stupid" questions. "What exactly are you going to do for me and why does it cost so much? Why should I hire you?" (Have you ever heard these questions before?) Get to know these people well before you place substantial responsibility for your business and life in their hands. ■

Paul Winans is partner with his wife, Nina, in Winans Construction in Oakland, Calif.