



Preparing for the Next Downturn





Today's Speaker:

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Teeing Up the Presentation:

- Not **if**, but **When**
- Today's **Theme**
- The **Big Challenge**
- How to **Be Prepared**
- **Questions & Discussion**





When?

Economist have accurately predicted **5 of the last 13 recessions**

Inverted yield curve may no longer be a good leading indicator

Since WW II no recession has started **in an election year**



When?

Who knows?

So what do you do now.....



Today's Theme

Run your business likes the **next downturn is going to start soon!**

You will be prepared when it happens and, in the meantime, you will **make more money.**

But you must overcome **The Big Challenge....**





The Big Challenge:

Strong Backlog & Profits Breed Sloppy Management





The Big Challenge:

Yes, everybody is very busy, but....

the penalty for not being prepared will be severe!





How to Be Prepared

- Have Strategic **Product Diversity**
- Adhere to Construction Company **Best Practices**
- Improve **Internal Processes** Now
- Implement **New Technology** Now
- Practice **Plus/Minus** Budgeting





Strategic Product Diversity

- Avoid “**Spray and Pray**” Business Development
- Focus on **3 to 5** markets
- Focused Markets should be **Economically Diverse**
- Track the **Economic Drivers** of Focused Markets



Construction Company Best Practices - Operations

- Adhere to the **One Out of Three Rule**
- Adequately **Staff Jobs**
- Contract with **Competent Subcontractors**
- Mandatory **Monthly Job Cost Reporting**
- Closely Manage **Change Orders**
- Promptly **Closed Out Jobs**
- Perform **Post Project Reviews**





Construction Company Best Practices - Operations

Adhere to the One Out of Three Rule

1. New **Product/Owners**
2. New **Geography**
3. New **Employees**

Should only have **one** of these at a time





Construction Company Best Practices - Operations

Jobs are Adequately Staffed

- **Competent** Field Personal
- **Enough** Project Management





Construction Company Best Practices - Operations

Contract with Competent Subcontractors

Good Trade Skills

Solid Project Management

Strong Financial Capacity





Construction Company Best Practices - Operations

Evaluate Subcontractor Bonds

Obtain **Written Verification**

Quality of Surety

Remember: **Bonds are not Easy to Collect!**





Construction Company Best Practices - Operations

Mandatory Monthly Job Cost Reporting

Stand and deliver meetings **every month!**

Senior Management attends meetings

Quarterly all PM's Attend Together

Hiding Bad News is not tolerated





Construction Company Best Practices - Operations

Change Orders are Closely Managed

Field Supervision be **alert for C.O. Cost Events**

Use **Automated** Change Order Logs

Discuss Status Change Orders at **Monthly Job Cost Meetings**





Construction Company Best Practices - Operations

Jobs are Promptly Closed Out

Significant **Profit Fade** frequently occurs during Closeout

Provide **Adequate Resources** for proper Closeout

Tie prompt Closeout to **Compensation**





Construction Company Best Practices - Operations

Post Project Reviews are Performed

Occurs for all Jobs over a **Certain Size**

Lessons learned are **Documented**

Documentation is easily **Searchable** and **Accessible**



Construction Company Best Practices - Finance

- Verify Sources of **Project Funding**
- Review Key **Contract Clauses**
- Analyze **Subcontractor Bonds**
- Relentlessly Pursue **Collection of Receivables**
- Collect **Lien Releases** as required
- Establish and Maintain **Business Partner Relationships**
- Control **Debt**





Construction Company Best Practices - Finance

Verify Sources of Project Funding

Obtain written **Verification** of funding

Beware of “**Sole Purpose**” entities

Verify that funding is enough to cover base contract and potential **Change Orders**





Construction Company Best Practices - Finance

Understand Key Contract Clauses

Dispute Resolution

Avoid Broad Form Indemnification





Construction Company Best Practices - Finance

Continuously Pursue Collection of Receivables

For each project, **assign collection responsibility** to a specific individual (usually the PM)

For each project, **understand customer's payment process**

Weekly Past Due Report





Construction Company Best Practices - Finance

Collect Lien Releases

- Know the **Lien Laws** of the States where you Operate
- Pay attention to **Second-tier** lien rights
- Strictly adhere to **Notice Requirements**
- Know **Customer's** Lien Waiver requirements





Construction Company Best Practices - Finance

Establish and Maintain Business Partner Relationships

Bank

Surety

Key Vendors





Construction Company Best Practices - Finance

Control Debt

- Use extra Cash to **Pay Down Debt**
- Avoid **“Yellow Fever”**
- Discourage company **“Toys”**



Internal Process Improvement

Now is the time to **Improve Key Company Processes**

- Make staff levels more scalable
- Resources are available now
 - People
 - Cash





Technology

Now is the time to Upgrade Technology

- Make Operations more Efficient
- Attracts Young Employees
- Resources are available now





Plus/Minus Budgeting:

- Start with finalized **Annual Budget**
- Recast Annual Budget with **20% less Revenue**
- Recast Annual Budget with **20% more Revenue**





Plus/Minus Budgeting:

- Encourages Flexible Budgeting
- Identifies Core Employees
- Highlights Overhead you can do without





Key Take Away: Start Preparing Now!

- Develop Strategic **Product Diversity**
- Adhere to Construction Company **Best Practices**
- Improve **Internal Processes** Now
- Implement **New Technology** Now
- Practice **Plus/Minus** Budgeting

