

Good morning, everybody, Dennis Engelbrecht, Digging Deeper.

Today, I want to talk about what to do in the case of a possible industry, slowdown or recession. We're not certain we're headed that way, but a lot of the early indicators are looking like we may have a slowdown in the general economy and possibly a slowdown in our industry.

So, what have we learned from the past and what can we do going forward? And one of the things I just read really surprised me, almost swept me off my seat, but I always knew from our last recession that the folks who cut hours and cut pay and cut benefits, that was very demotivating and, probably if there's something you can avoid, that's it. But what I didn't understand is that layoffs are almost always bad for the company. And this was kind of interesting so, the article quoted Sandra Susher was with the Harvard Business School and some interesting studies around this, but a couple of the things they found, one was a 1% downsizing led to a 31% increase in voluntary quits.

Wow, just think about that. Just a 1% downsizing led to a 31% increase in voluntary quits. Another study showed that the survivors of a downsizing, there was a 41% decline in job satisfaction among the survivors. So, again, as we face this going forward, about 70% of overhead is in people and people cost. So, how do you reduce overhead? How do you cut overhead? How do you cut people? If you can't lay off people, you can't cut hours, you can't cut pay, you can't cut benefits. What do you do? Or how can you approach this situation and still try to get leaner? Should you hit the tough times?

Well, here's a couple of ideas. First of all, just a comment. Usually over these good times that we've had, and we've had a pretty long extended period of increasing construction revenue across the industry now for really, we're being about 11 years, which may be the longest growth period for our industry ever sustained. So, it's been pretty good. It's been pretty good for profitability and all of that. So, one of the things that naturally happens during these periods is we do get a little bit lazy in terms of really watching the pennies or being efficient to making sure we're efficient. I know for some of you, that's just not in your nature, but for many of us, it just happens. Overhead just tends to grow and fill the space that it can.

So, couple of things to think about. First of all, without layoffs, there's always natural attrition, right? You always have some people that are moving on for whatever reason or retiring or whatever. And one of the things you can do with natural attrition is not higher, right? See if you can find ways to combine jobs, transition people internally, maybe from one job that's not as demanding into the next job that is demanding and see if you can combine positions there. So, very simply, using natural attrition and a hiring freeze oftentimes can get you five or 10% of the way anyway, because you probably have a five or 10% natural attrition going on.

The other thing to do, of course, is to always look for any efficiencies. And by the way, don't wait for the recession to be right there in your windshield. These are things that you can start doing now so that you'll be slightly leaner and more effective by the time we get to this. One of the great things about the construction industry is we usually lag the general economy. So, if there is a downturn, it's likely still 12 to 18 months away. So, you've got time to look for in efficiencies now. And in looking for any efficiencies, I've got several suggestions. One is around the people issue again; you may have some people that are more trouble than they're worth.

All right. What do I mean by that? More trouble than they're worth. Well, maybe they require so much management, they need somebody constantly directing them or looking over their shoulder where you're eating up a whole lot of management time. And of course, that's a higher paid employee, likely the manager versus the rank-and-file employee. So, look around and see if you have some people that are more trouble than they're worth.

The other thing to look for is, do you have any people that bring down the attitude of the team? So, just think of a field worker, and maybe you got a crew of six out there, and if you put one bad egg out there, they may be doing the basic work that they need to be doing, but they may be causing a 10 to 20% lack of productivity among the people around them

just because they don't like working with them, or maybe they're a little bit dysfunctional and they don't do their job well, and that keeps the material and whatever you need to get the job done from being in the right place at the right time, making you more inefficient.

So, do you have any of those? Do you have any folks that are bringing down the attitude or productivity of the team? And then this probably happens more in the office than in the field, but do you have anybody in your organization that people tend to work around? And when I say work around, maybe this is where you should be going for your advice, or you should be putting your work to the next place or whatever, but you tend to want to give it to somebody else because that person's unpleasant, or they're going to have a criticism more. They're going to make life difficult for you. So, there are folks in the organization that people work around. So, look for those that may be more trouble than their worth. Bring down the attitude of the team or that people tend to work around. And if you have those folks, maybe that's one of those addition by subtraction situations.

The other thing to look for, not directly involving people of course, it does involve people in the end, is redundancy. Look for any processes you may have. Probably the simplest thing is, do you have anything where somebody's filling out a form and then they hand it to another person, and they put it into computer? Just the very simple thing. It could be somebody writes out a budget and then gives it somebody else who inputs the budget. Well, in this day and age, there's just no reason the first person can't be putting it in directly into the system. And I hate to say it, there's still a lot of that going on out there. So, that's probably the most common redundancy that's happening out in the construction world, is still somebody doing it in paper and somebody transitioning it, or somebody doing it in one system and somebody having to transition it into another system. So, look for that redundancy.

Probably the biggest impact you can have, and this may be difficult, you may already be doing it, but see if you can include more overhead into your direct expense. So, what do I mean by that? Well, I'm going to talk about labor rates for example, and fully burden labor rates. If you have the ability or you tend to charge labor rates in your contract, make sure that everything that goes into that worker is included in that. And, that may include their tools, may include their office, their technology, transportation, could be in there, even bonuses. And again, some contracts you may not be allowed to do certain things but try to build those labor rates.

Some of the most profitable companies that we've worked with overburden their labor rates and thus reduce their overhead. And then what happens when they grow those labor rates produce even more and I've even seen companies that have so-called negative overhead, meaning they've actually burdened enough to pay for the entirety of the company's overhead. Now, that seems like a crazy situation, but that's one side you certainly shouldn't be under burdening your labor rates or all of those aspects that go into the tools and all of those other things that go into a person being able to do their job, make sure at the very least that everything's included. Now, I do have one warning as we get to a recessionary environment, when you start to do less work, you have fewer labor hours, and you get less coverage of that indirect overhead that you had now burdened into those labor rates.

So, that's where sometimes people get an unexpected negative surprise in these downturns is by reduced labor hours, you have less of that overhead coverage covering all the indirects that you may have been able to put into there. The other thing, look for more folks that could be directly reimbursable into jobs. Many of you are on construction management contracts. Obviously if you're in a hard bid world, there's less benefit to overburdening and higher labor rates and all of that. But if you have the ability in your contracts to include more reimbursables, try to get more people actually included in the job itself, so they come off of overhead.

And then finally, there's just general wastefulness and not really, wastefulness is as much as, you can make high class decisions, or you can make a little more efficient decisions. One example might be you like to take the whole group off for a retreat every year planning retreat, let's just say, well, instead of taking everyone off to a fancy resort and having a

couple nights dinners and rooms and all of that and the travel expense, maybe you do it in your office this year, or you do it over several days in the office. So, you eliminate the travel and all of events. Maybe you're going to the AGC convention or the ABC convention and usually take four people in spouses. Well, maybe it's just you and your partner who go this year to be able to save expense. Company party, maybe you get management to do the cooking and serving versus hiring a caterer.

These are all just little things. But when you do these kinds of things to be more efficient, again, the people make the big impact. So, these are all little things, but you want to look at these things because these things send a message. If you want your employees to be efficient and you want them to be frugal, they need to be able to look up at management and see that they're doing the same.

So, sometimes these little things aren't a lot of money, but they do send a message and they do make sure then everybody, if they do have to see a layoff or they do have to see that you've let somebody go, that sort of thing. They see a perspective where management's made good decisions and then hopefully their loyalty and support in productivity and all of that stays the same. So, again, realizing that layoffs can be damaging, certainly may need to still do that, and you want to do that the best way you can, but it is difficult. So, look for all those different ways you can possibly start to get efficient now and be ready going into a recession. So, perhaps you can keep your whole team together and come out the other side with your full capabilities.

Again, Dennis Engelbrecht, Digging Deeper. Thanks for tuning in.