

31st Crisis-era Message to Contractors from: Dr Tom Schleifer
Profiting During Business Cycles

Why are business cycles in the construction industry so painful? Because we can't control them. Data has been collected on US economic cycles since 1854 and the ratio of expansion periods to contraction periods has improved dramatically since then. We have enjoyed prosperity because our nation has spent a lot more time in a growing economy than in a shrinking economy. Then why the pain during a down cycle of the construction market? Because profits reduce dramatically, and losses occur more readily. During market declines, some contractors end up giving back some of the hard-earned profits made during expansion. This seems to be widely accepted as the norm because we can't control the market. However, we can control our reaction to it.

Market downturns are, for the most part, unforeseen which further complicates the issue. The primary cause of this is because we aren't looking for them. We can't really claim that market declines are unexpected in that they have occurred, on average, every 10 years since WWII. There are choices: We could train ourselves to see them coming. We could listen to experts that see them coming. Or, after seven or eight years of growth, we could expect a decline any year after that. Market cycles are NOT a surprise. What is surprising is that when asked, some construction professional do not know that the construction market is cyclical in spite of the statistics that confirm it. We might as well embrace the reality that it is the only market we have. I use the term "embrace" deliberately because to disdain or reject this fact flies in the face of reality.

How should we operate during an expected downturn in the construction market? We have proven that operating the same during a declining market as we operate during a growing market doesn't work. So the next logical question must be to determine if there is a way to prosper in a down market? If there is, it will mean adjusting our operations which means change, and we all know how monumentally difficult change is.

I will stop here because to prove the above within the bounds of acceptable statistical probability took years of research. The objective is to establish that the industry is cyclical, and that in order to profit when transitioning between cycles it will be necessary to adjust how we operate. If you are with me this far, you should have enough information to make some decisions. Contractors who understand these realities will find a way to succeed, even if by trial and error.

The solution that I developed, "Flexible Overhead", took years of research. The initial solution was developed in two years. However, because it included downsizing, an element so distasteful to contractors, the research was continued for another three years looking for a solution that would be easier to accept. It took that long to discover and prove that this was the only total and viable solution. If you care to know more about how and why to use the Flexible Overhead processes (which have been discussed in prior messages) it can be found on the website, letstalkbusiness.net. Click on "manual" and go to "Managing Overhead" in the Table of Contents.

Send questions/comments to tom@schleifer.com. To receive the free weekly Crisis Message send your email address to tom@schleifer.com.

Note: Overhead management information is found on letstalkbusiness.net click on "Manual", then Managing Overhead in the table of contents.