



# RESET 2020

Solutions & Techniques to Maneuver Through  
Economic Constriction

American Subcontractors Association

WEBINAR

May 7, 2020



**“Yield curve points to recession in about 22 months”**

<http://www.investmentnews.com/article/20180607/FREE/180609925/yield-curve-points-to-recession-in-about-22-months>

Bloomberg News 6-7-18 (2yr/10yr)



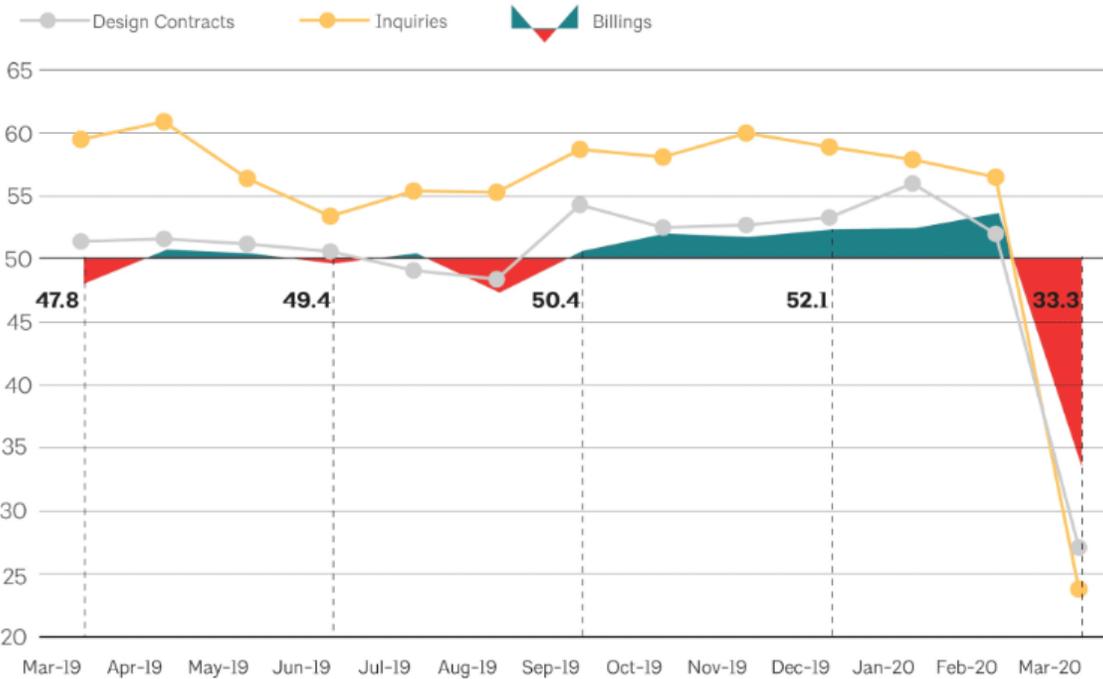
# Largest Single Month Decline EVER

## National

Architecture firm billings see historic drop from February to March



Graphs represent data from March 2019–March 2020.

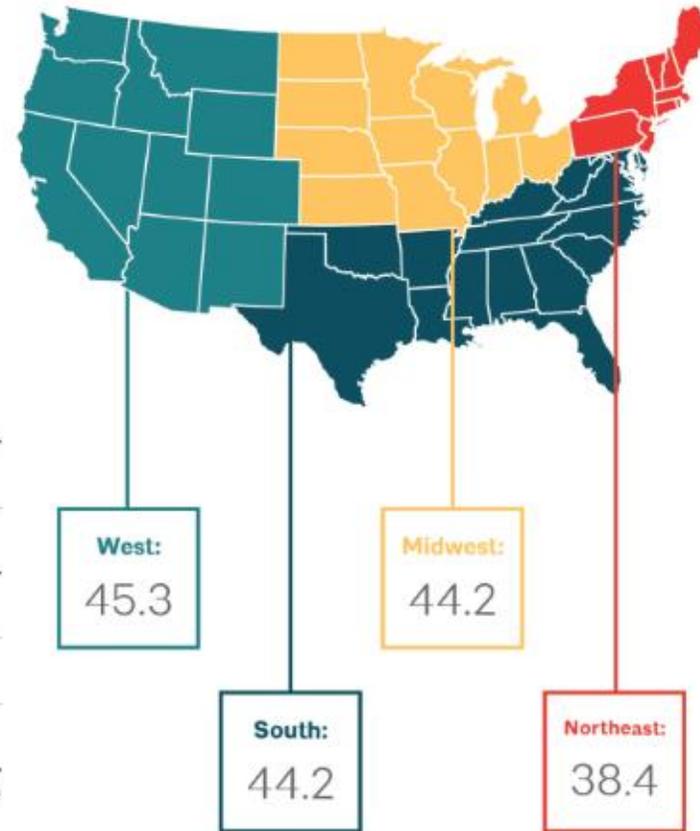
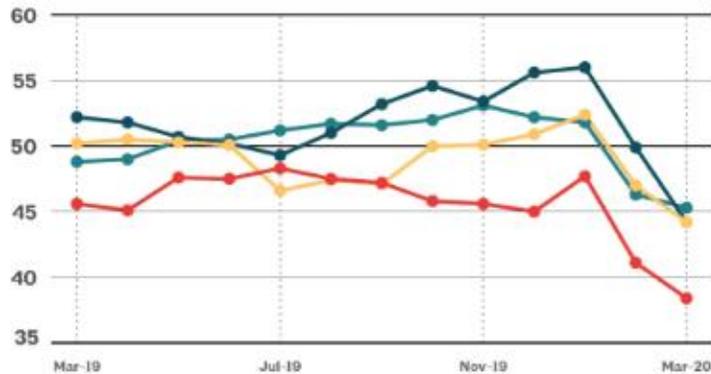


# Largest Single Month Decline EVER

## Regional

Business conditions soften across the country

Graphs represent data from March 2019–March 2020 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



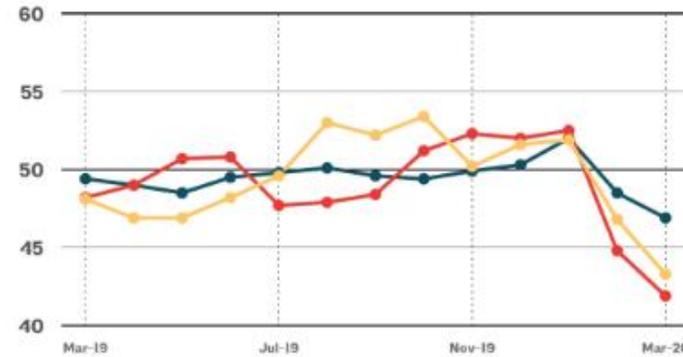


# Largest Single Month Decline EVER

## Sector

Firms with an institutional specialization see slightly smaller losses than other firms

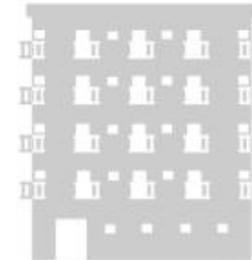
Graphs represent data from March 2019–March 2020 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



**Commercial/Industrial: 41.9**



**Institutional: 46.9**



**Residential: 43.3**



## Construction Connect List of Delayed Projects by State

[https://www.constructconnect.com/delayed-projects-report?utm\\_source=itb&utm\\_medium=email&utm\\_campaign=SU-EM-CC-Delayed-Project](https://www.constructconnect.com/delayed-projects-report?utm_source=itb&utm_medium=email&utm_campaign=SU-EM-CC-Delayed-Project)

## NORTH CAROLINA

| DELAYED STATUS | REVISED BID DATE | PROJECT NAME  | CATEGORY          | STAGE       | VALUE         | LOCATION           | PREBID MEETING | START DATE | TIMELINE DELAY | FREE ACCESS   | PAYING SUBSCRIBERS  |
|----------------|------------------|---|-------------------|-------------|---------------|--------------------|----------------|------------|----------------|---|---|
| Delayed        | 05/08/2020       | HVAC Equipment Cleaning   | Educational       | Sub-Bidding |               | Raleigh, NC        |                | 07/01/2020 | 30-60 Days     |    |    |
| Delayed        | 05/08/2020       | HVAC Installation and Repair  | Educational       | Sub-Bidding |               | Raleigh, NC        |                | 07/01/2020 | 30-60 Days     |    |    |
| Delayed        | 05/08/2020       | HVAC Installion and Repair  | Educational       | Sub-Bidding |               | Raleigh, NC        | 03/26/2020     | 07/01/2020 | 30-60 Days     |    |    |
| Delayed        | 05/08/2020       | HVAC Systems Water Treatment Preventative Maintenance   | Educational       | Sub-Bidding |               | Raleigh, NC        |                | 06/30/2020 | 30-60 Days     |    |    |
| Delayed        | 05/08/2020       | HVAC Water Treatment Installation and Repair  | Educational       | Sub-Bidding |               | Raleigh, NC        |                | 07/01/2020 | 30-60 Days     |    |    |
| On Hold        |                  | I-26 From Tennessee State Line To Mile Marker 9 Pavement and Bridge Rehabilitation            | Bridges / Tunnels | Conceptual  | \$9,900,000   | Mars Hill, NC      |                |            | Indefinite     |    |    |
| On Hold        |                  | I-26/US 74 WBL and EBL Over Green River Structure Nos 440112 and 440108                       | Bridges / Tunnels | Conceptual  | \$14,000,000  | Hendersonville, NC |                |            | Indefinite     |    |    |
| On Hold        |                  | I-40 Buncombe County Bridge Rehabilitation From MP 37 Haywood Buncombe Line                   | Bridges / Tunnels | Conceptual  | \$3,400,000   | Asheville, NC      |                |            | Indefinite     |    |    |
| On Hold        |                  | I-40 Durham County From US 15/US501 to East of NC 147   | Roads / Highways  | Conceptual  | \$27,100,000  | Durham, NC         |                |            | Indefinite     |    |    |
| On Hold        |                  | I-40 Durham/Wake Counties East of NC 147 to SR 3015 Airport Boulevard Pavement Rehabilitation | Roads / Highways  | Conceptual  | \$5,272,000   | Durham, NC         |                |            | Indefinite     |    |    |
| On Hold        |                  | I-40 From Mile Marker 105 to Mile Marker 112 Pavement Rehabilitation                          | Bridges / Tunnels | Conceptual  | \$4,000,000   | Morganton, NC      |                |            | Indefinite     |  |  |
| On Hold        |                  | I-440/US 11 to SR 2000 Wake Forest Road in Raleigh Interchange Improvements                   | Bridges / Tunnels | Conceptual  | \$8,900,000   | Raleigh, NC        |                |            | Indefinite     |  |  |
| On Hold        |                  | I-77 From I-495 to NC 150 Construct Peak Period Shoulder Lanes                                | Roads / Highways  | Conceptual  | \$46,900,000  | Charlotte, NC      |                |            | Indefinite     |  |  |
| Delayed        |                  | I-85 From 0.2 Mile West of NC 16 Brookside Boulevard to I-77 Pavement Rehabilitation          | Bridges / Tunnels | Conceptual  | \$21,000,000  | Charlotte, NC      |                |            | >180 Days      |  |  |
| On Hold        |                  | I-95 at US 421, SR 1808 and SR 1709   | Bridges / Tunnels | Conceptual  | \$203,700,000 | Four Oaks, NC      |                |            | Indefinite     |  |  |



# Ed Zarenski.com

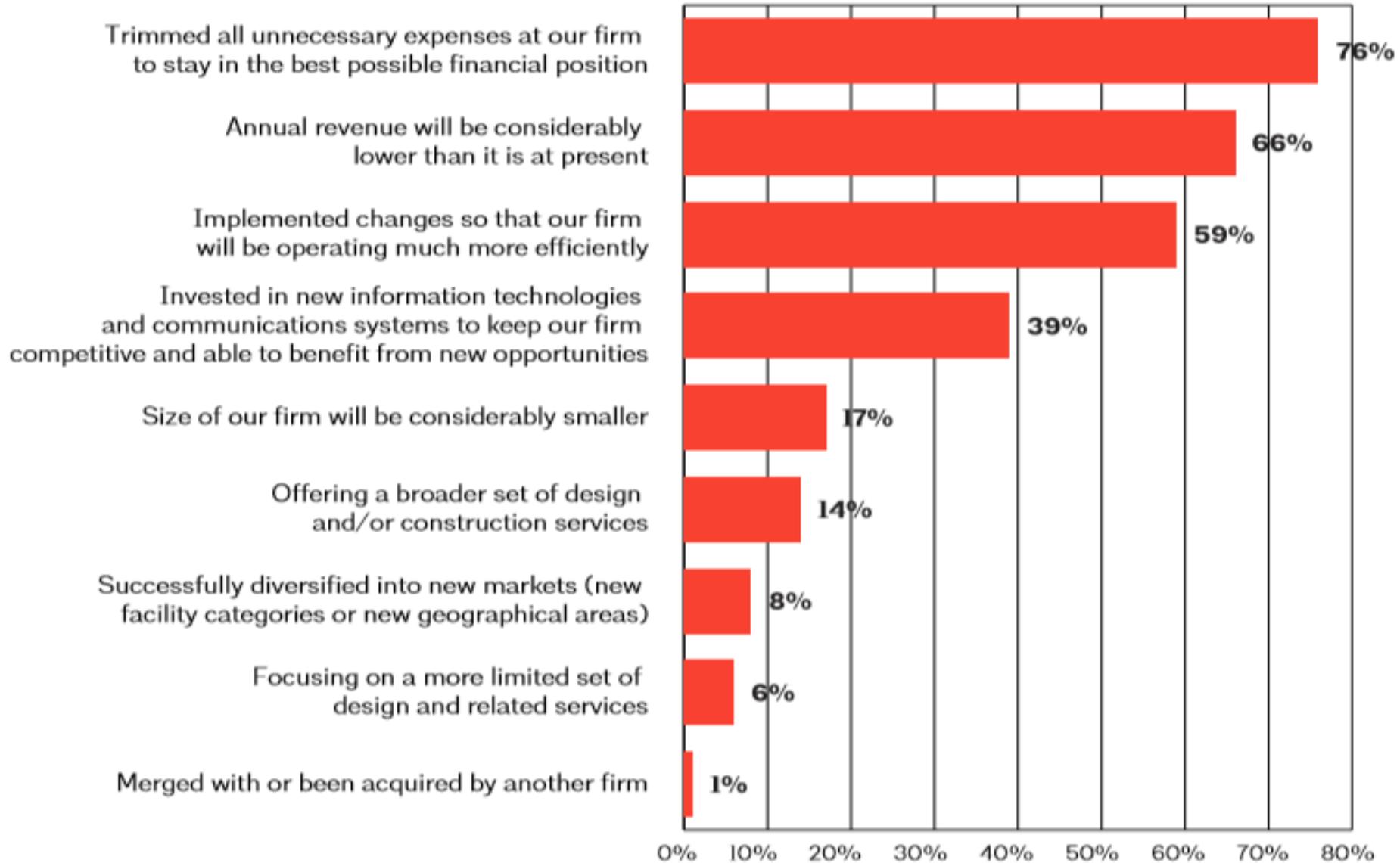
## Pandemic Impact 1-6

- Estimated 10-12% of all Construction Stopped - \$10-12 Billion in One Month
- Municipality Budget Cuts due to Tax Revenue Loss
- US Manufacturing Output Posts Largest Drop Since 1946 – Supply Chain Shortages & Delays
- 35% AGC Respondents Received Cancellation Orders by Government and Statewide Agencies
- ABI Index Dropped 33% in March
- Firms Predict A 15% Decline In Billings April 2020 (Lost Month)

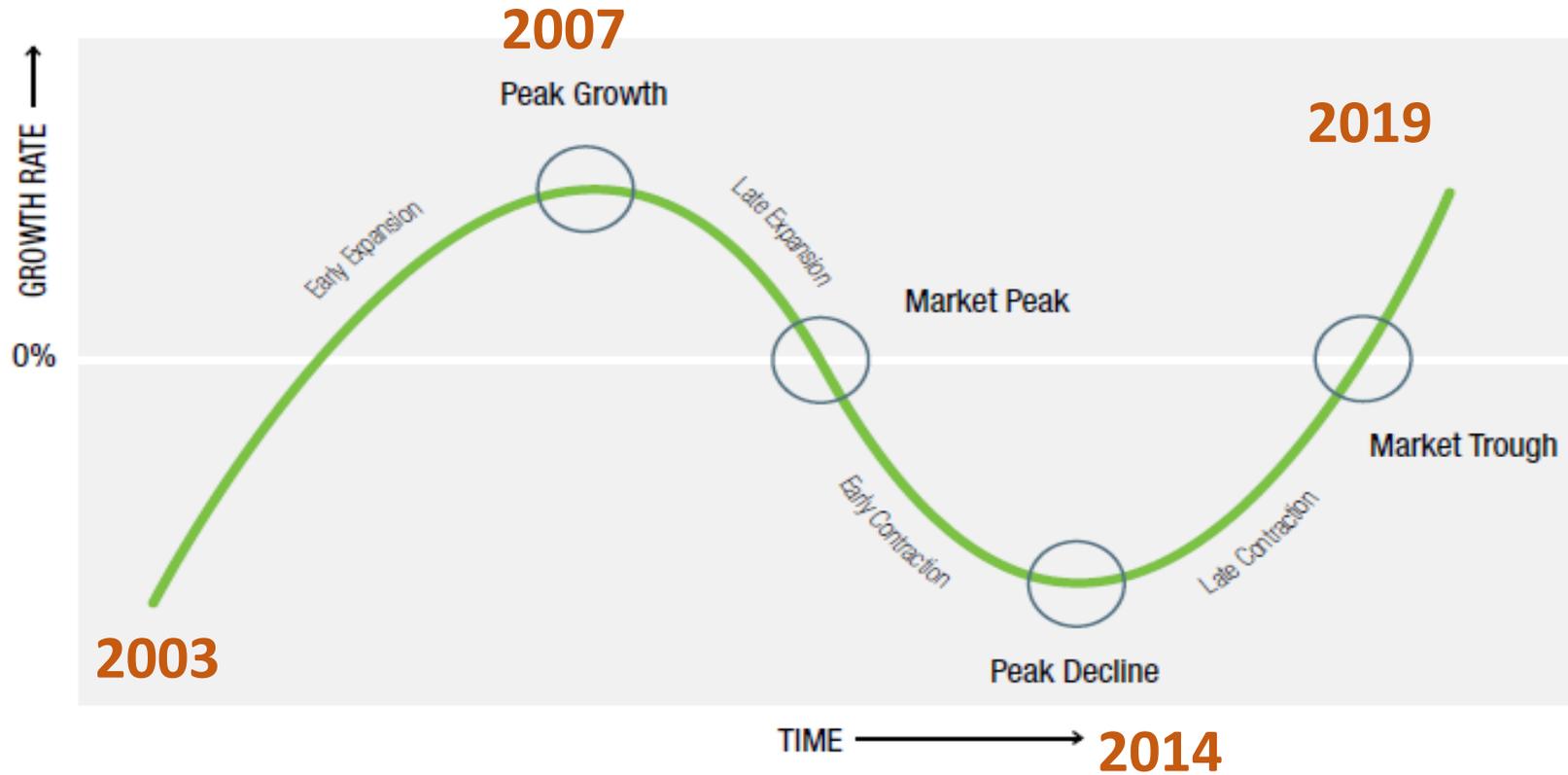
# Practice

## Architecture firms expect considerable belt tightening by the end of the year

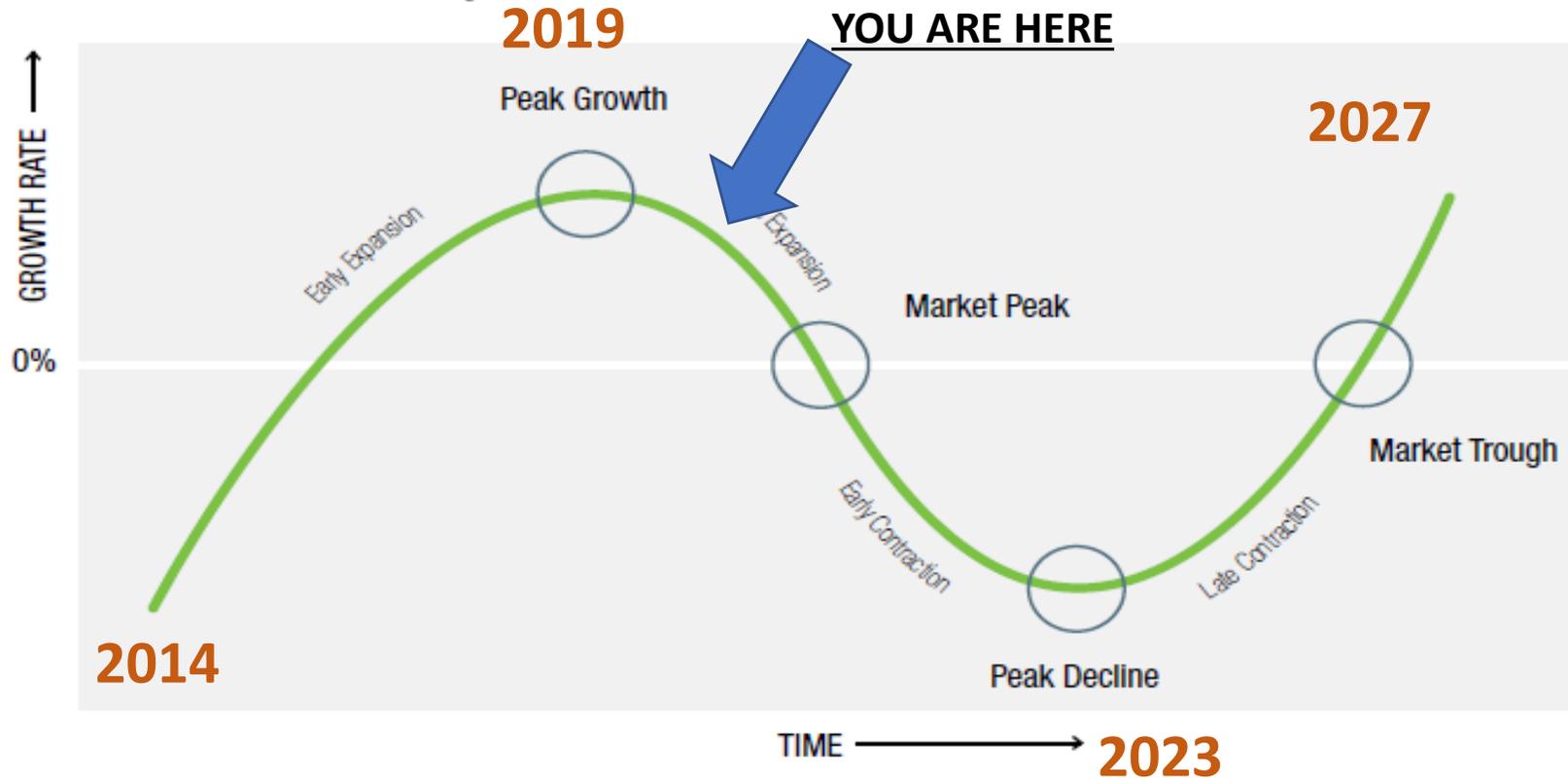
units: % of firms that expect to see given change in their firm by the end of 2020, multiple responses permitted



## Phases of the Business Cycle



## Phases of the Business Cycle



Growth Strategy



Maintenance Strategy



Recession Strategy

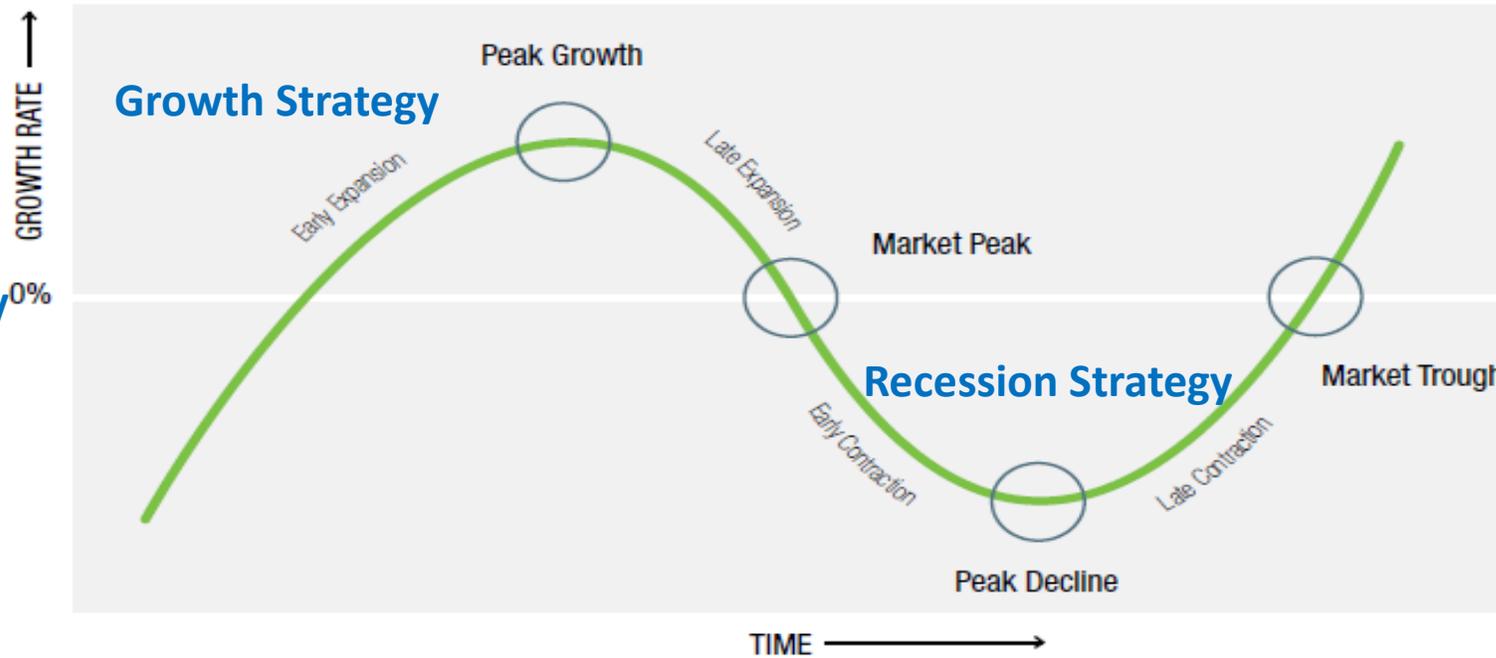




# Growth, Maintenance & Recession Strategies

## BUSINESS CYCLES

### Phases of the Business Cycle



Phases of Business Cycle: [AIA.org/white paper/ABI Index](http://AIA.org/white paper/ABI Index)

Growth Strategy, Maintenance Strategy, Recession strategy M.A. Surety, LLC

Growth Strategy

Maintenance  
Strategy

Recession  
Strategy

Companies are moving from **Growth** or **Maintenance** Cycles into **Recession**

**Growth** to **Recession** Cycle has farther to fall than **Maintenance** to **Recession** Cycle



- Lag Time to the Economy
- Backlog Runoff & Replacement Velocity



# CASH FLOW NEUTRAL



# Creeping Costs

- Material Price Increases
- Material Delays
- Supply Chain Shortages & Interruptions
- Increased Costs in Safety Requirements
- Lower Work Force Productivity
- Demobilization/Remobilization
- Restocking of Inventory
- Resurgence

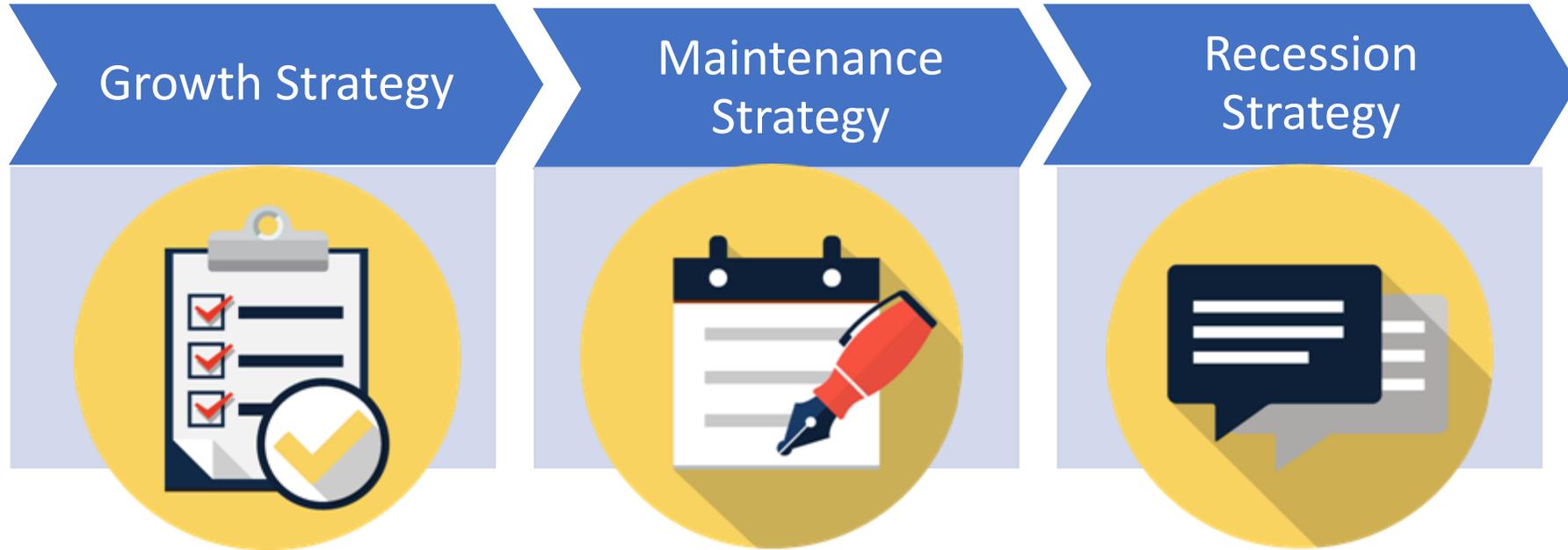


“A CONTRACTOR CAN ONLY CONTROL *TWO AREAS* ON THE INCOME STATEMENT:  
OVERHEAD AND PROFIT IN THE FIELD.”

- Martha Ann Marley

- Decrease in Revenue
- Decrease in Gross Profit
- **Increase in Creeping Costs**
- **Decrease in Labor Productivity**

# RECESSION STRATEGY





# Human Resources

**A Players**

**B Players**

**C Players**



# A Players

Easy to Retain in **Growth**

Difficult to Retain in **Maintenance**

Necessary to Retain in **Recession**



## B Players

Easy to Retain in **Growth**

Necessary to Retain in **Maintenance**

Not Necessary to Retain in **Recession**



## C Players

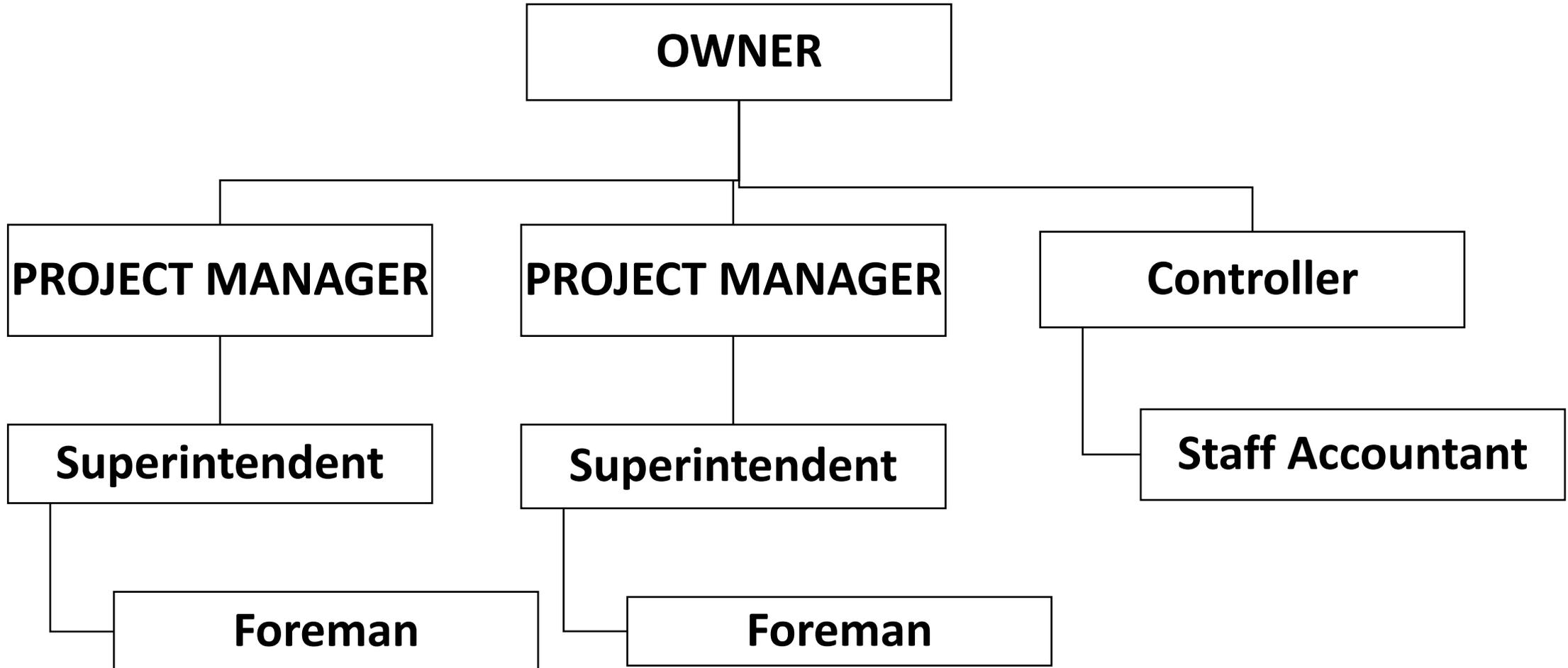
Easy to Employ in **Growth**

Not Necessary to Retain in **Maintenance**

First To Go in Recession

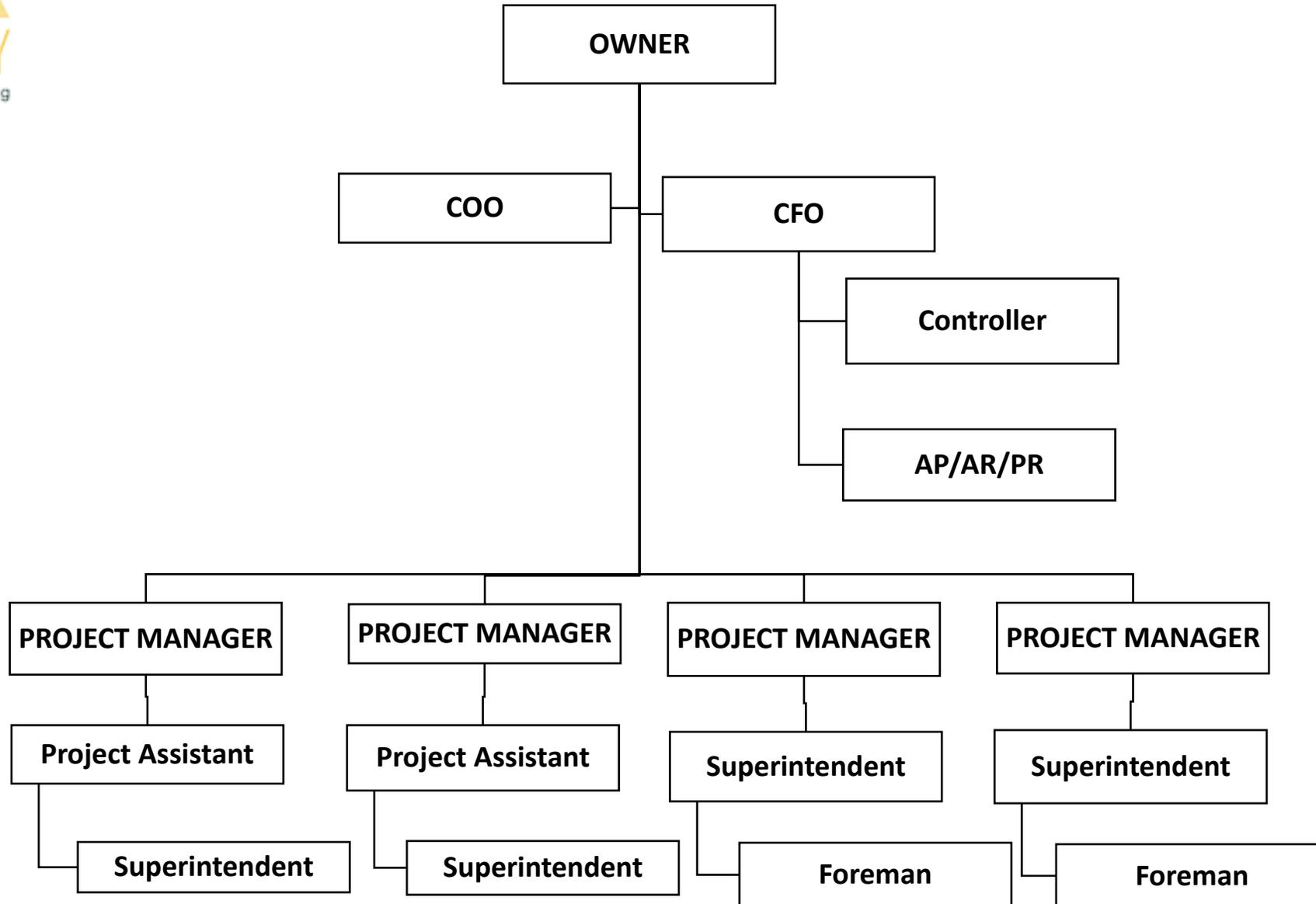


# \$500K Overhead Structure





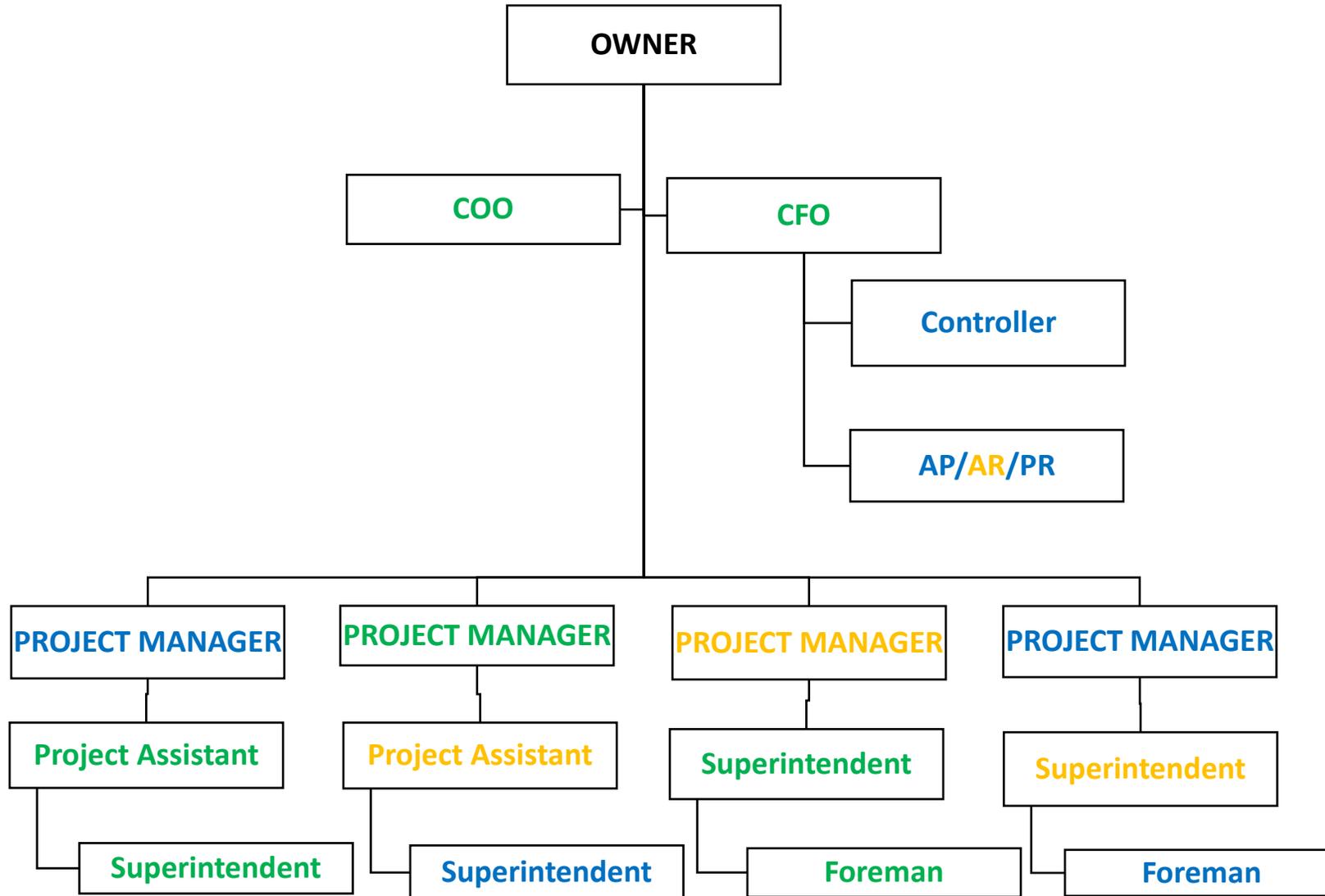
# \$1.5M Overhead Structure





# \$1.5M Overhead Structure

## A B C Players

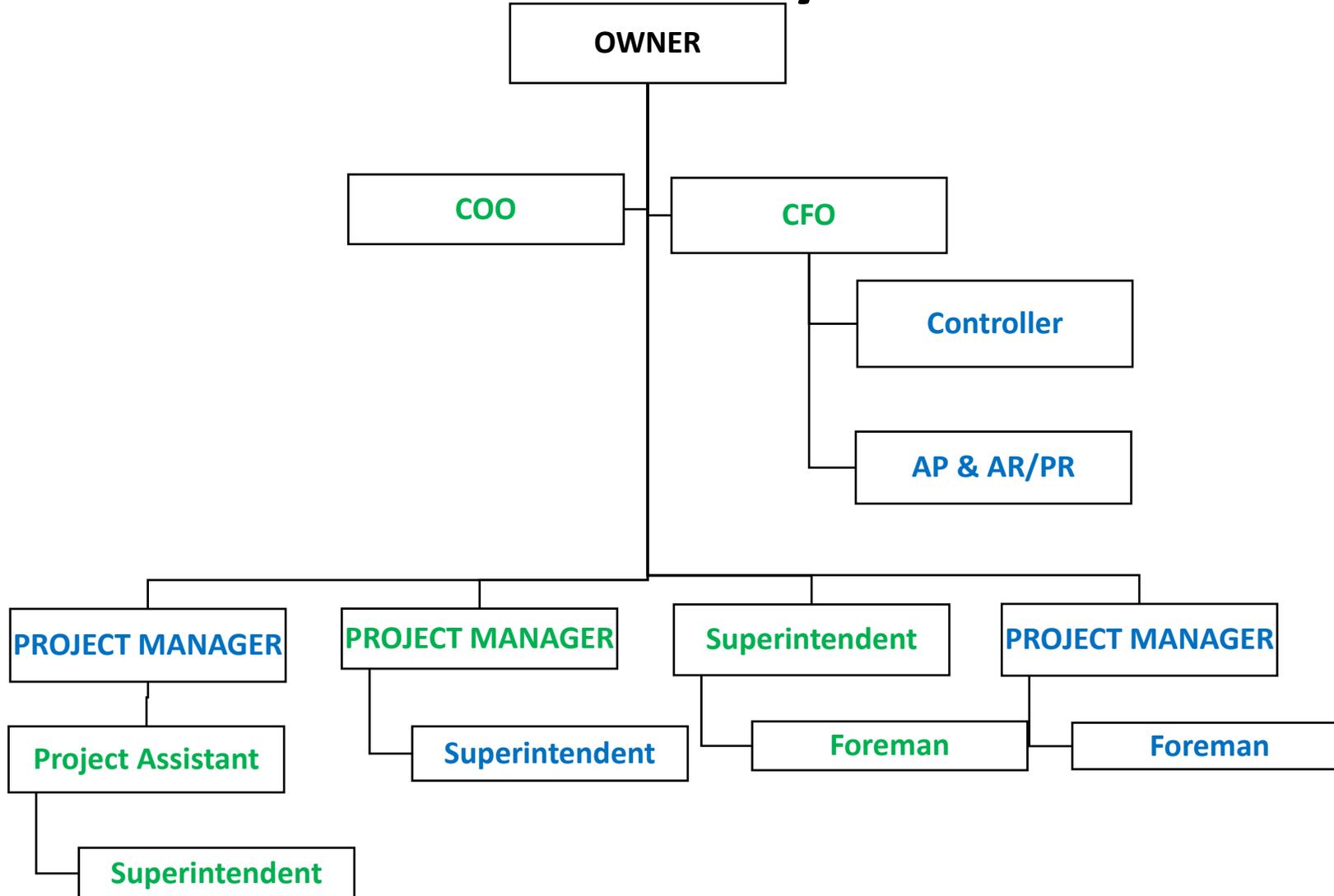




# Case 1

## \$1.2M Overhead Structure

### A B Players





# Case 1

## 20% Revenue Decline

## 1% Profit Margin Decline

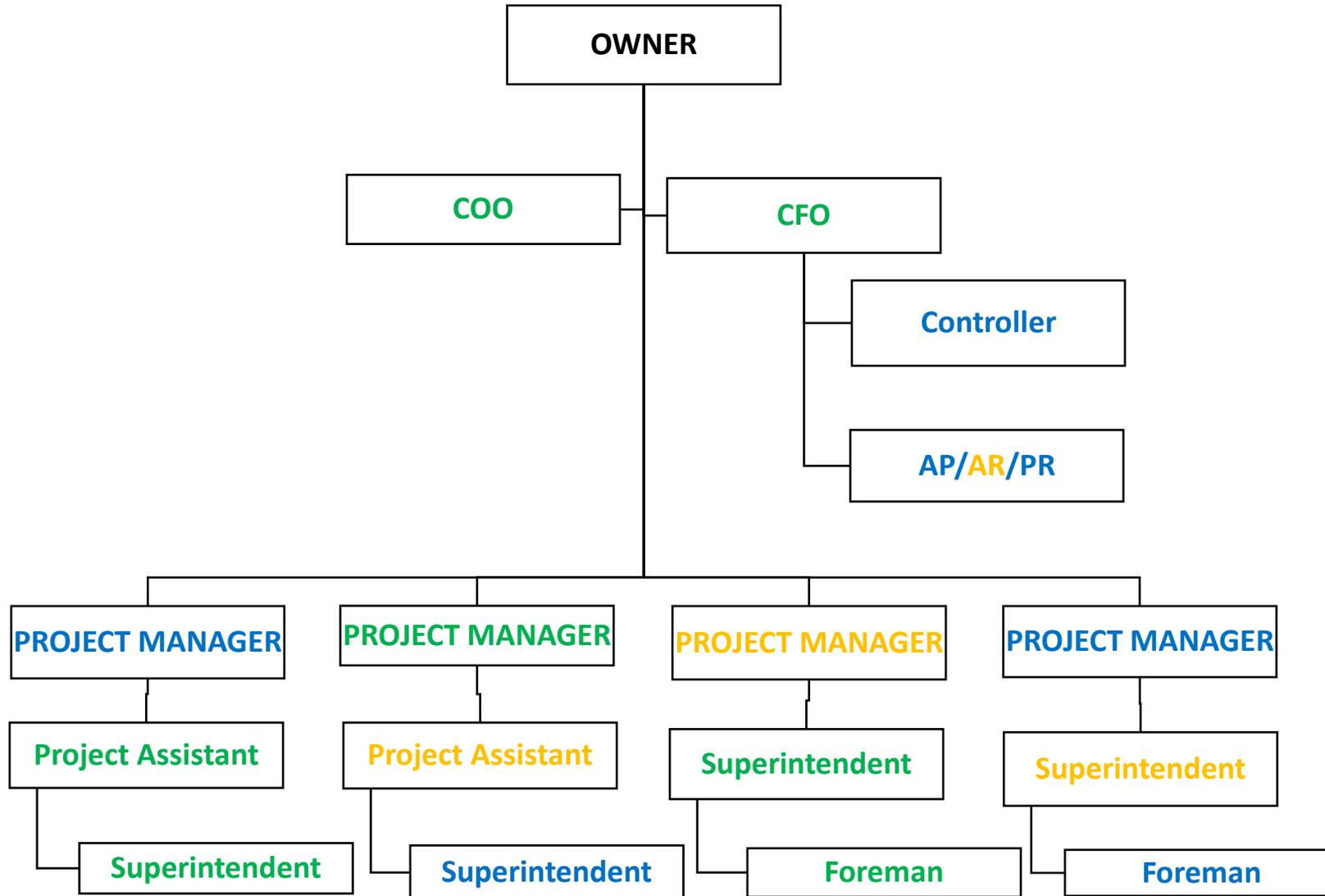
In \$

|                           |          |          |
|---------------------------|----------|----------|
| Revenue                   | 30M      | 24M      |
| Gross Profit              | 2.4M(8%) | 1.7M(7%) |
| Overhead                  | 1.5M(5%) | 1.2M(5%) |
| Income                    | 1.1M     | 500K     |
| Gross Profit Per Employee | 133K     | 129K     |
| Revenue Per Employee      | 1.7M     | 1.9M     |
| Breakeven Point           | 19M      | 17M      |



# \$1.5M Overhead Structure

## A B C Players

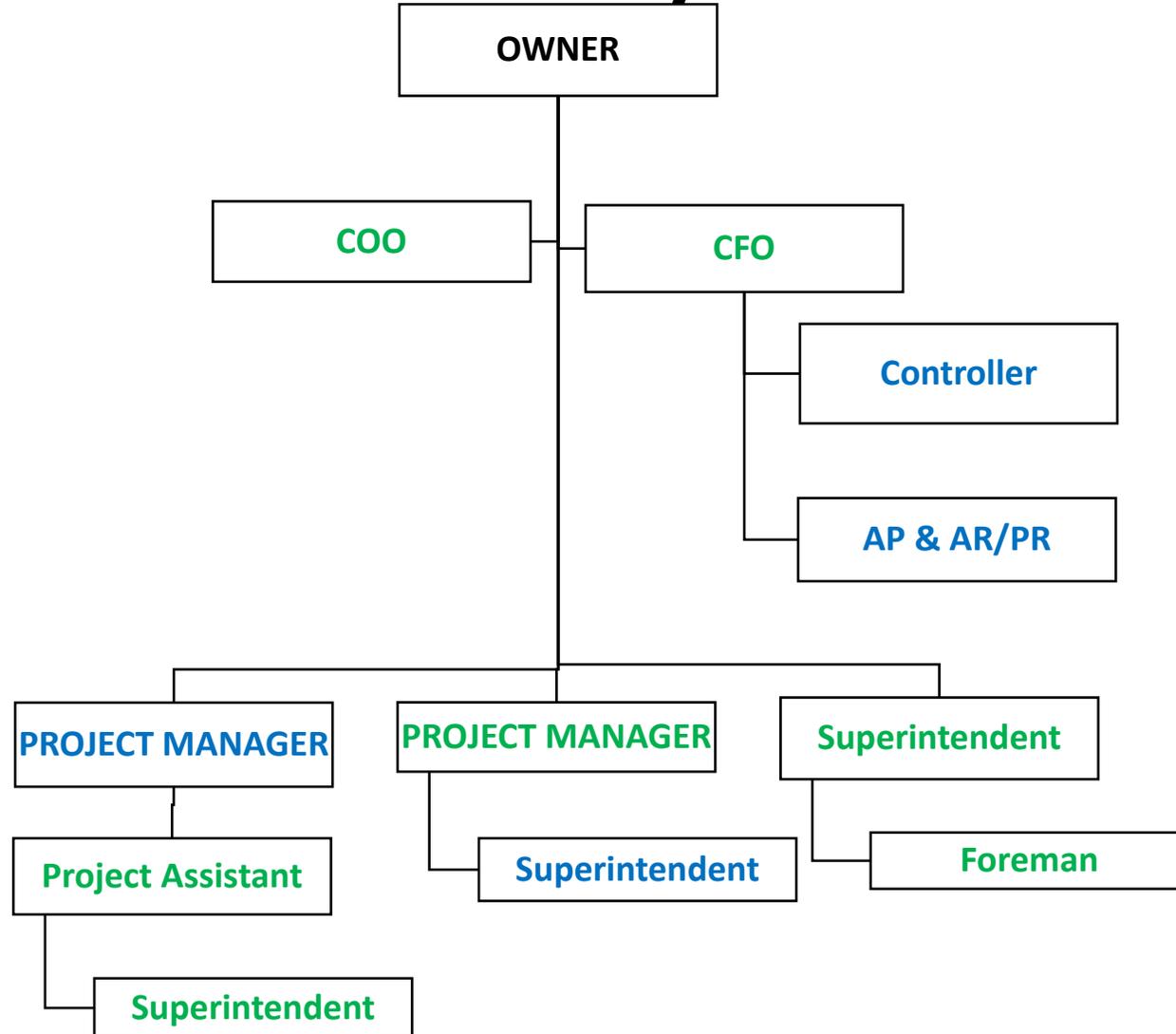




# Case 2

## \$1M Overhead Structure

### A B Players





## Case 2

# 30% Decrease in Revenue 2% Decline in Gross Profit Margin

In \$

|                           |          |           |
|---------------------------|----------|-----------|
| Revenue                   | 30M      | 21M(-30%) |
| Gross Profit              | 2.4M(8%) | 1.3M(6%)  |
| Overhead                  | 1.5M(5%) | 1.0M(5%)  |
| Income                    | 1.1M     | 300K      |
| Gross Profit Per Employee | 133K     | 118K      |
| Revenue Per Employee      | 1.7M     | 1.9M      |
| Breakeven Point           | 19M      | 16.6M     |



# Lag Time & When To Adjust

- Break Even Point: 
$$\text{Annual Revenue} = \frac{\text{Overhead}}{\text{Gross Profit \%}}$$
- Available Gross Profit: Total Estimated GP – GP Recognized To Date



# Lag Time & When To Adjust

## Financial Measures

- Revenue Per Project
- Revenue per Employee
- Gross Profit per Employee



# Lag Time & When To Adjust

## Cost To Complete & Runoff

- Increase/Decrease in Open Projects
- Billings Forecast
- Cash Flow Forecast



# Blind Spots

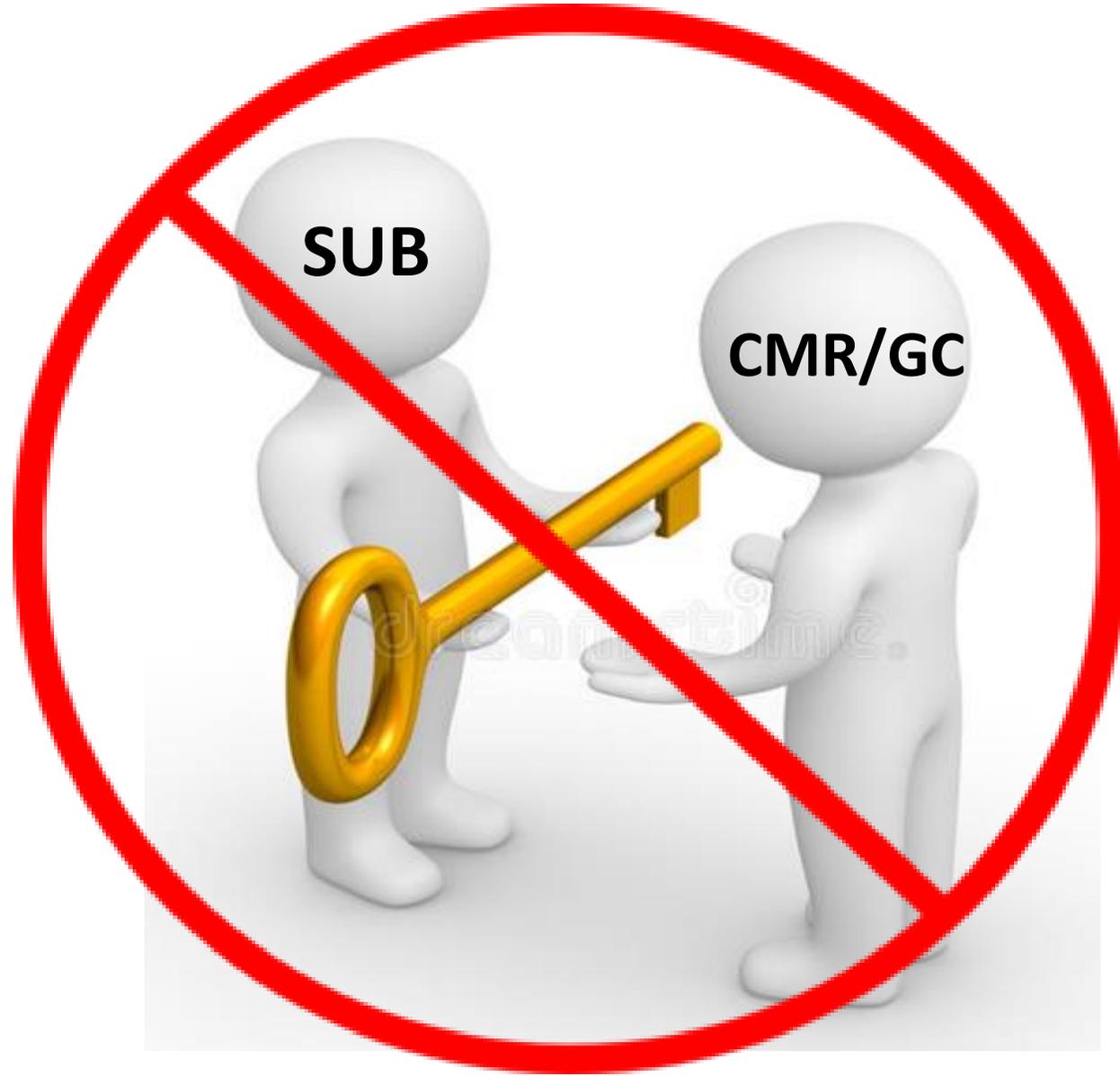
- Risk Transfer
- Crisis Leadership

# Risk Transfer = Risk Acceptance

Intentional or Unintentional



# RISK VS. REWARD





# Principles

- Establish Principles – Define Your Line in the Sand
- Demand Fair & Reasonable Contracts
- Engage in Transparency
- Create Collaboration Circle not Hierarchy Pyramid



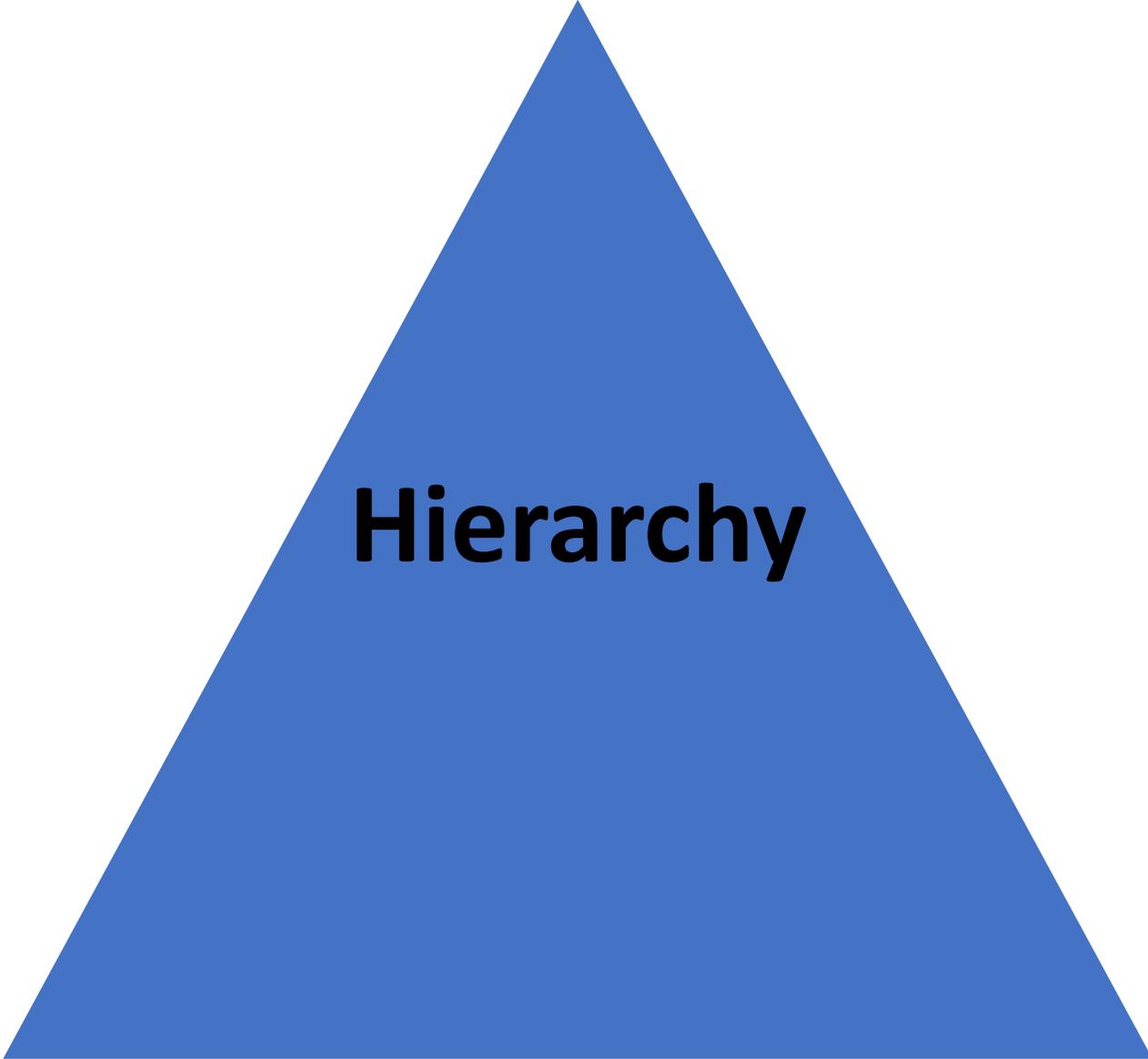
Establish Top Deal Breakers

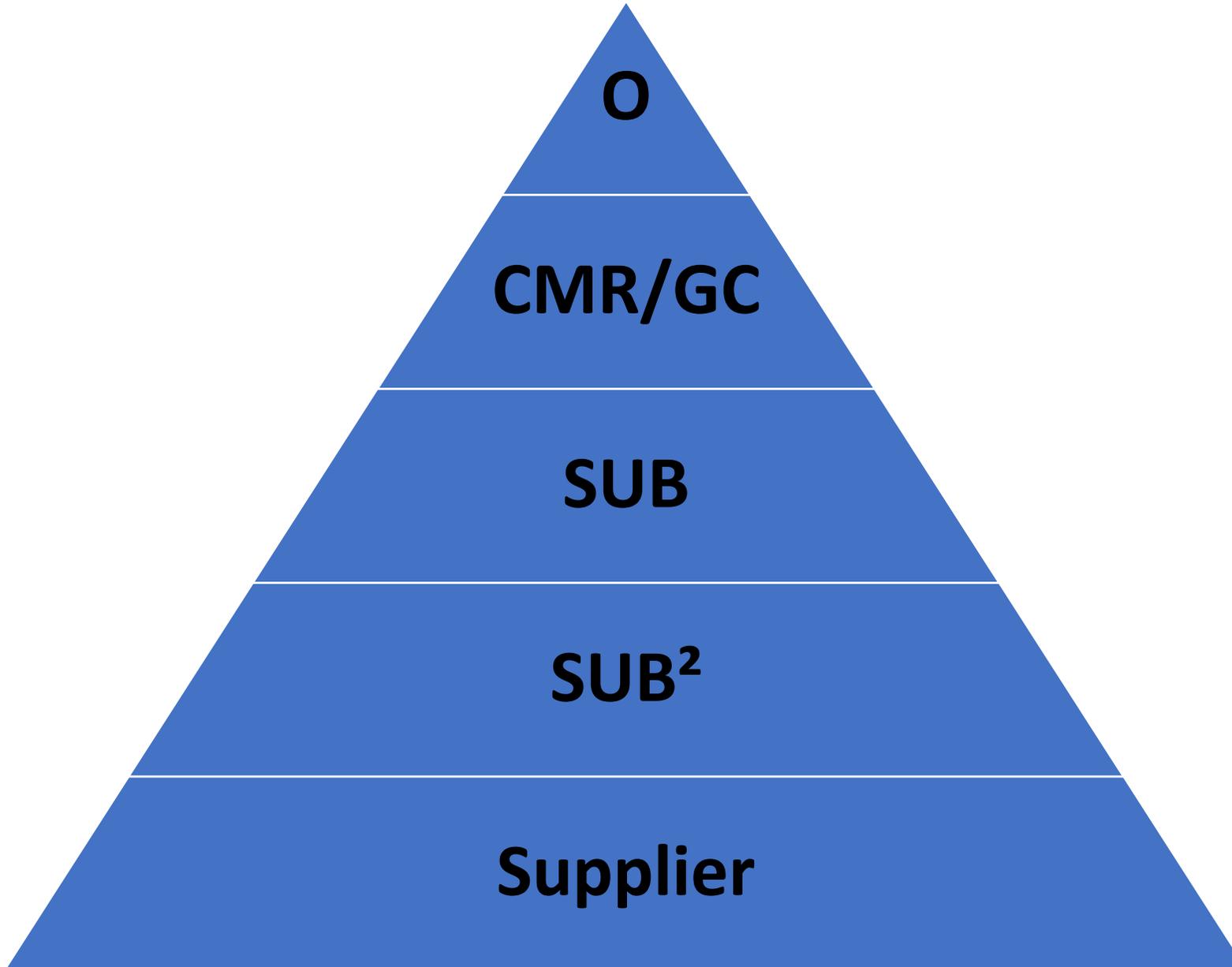
Negotiate Effectively

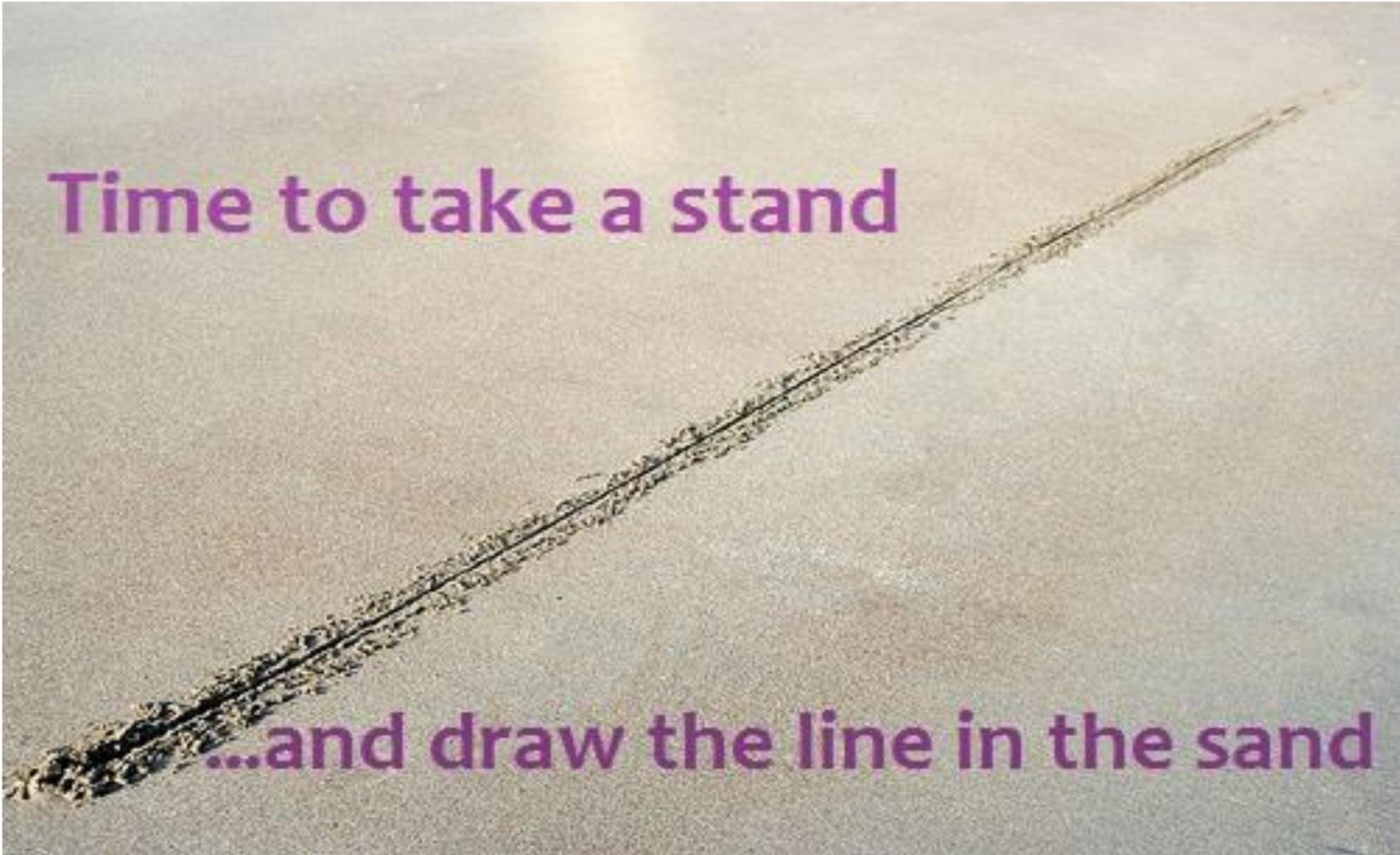


# REASONABLE PEOPLE DRAFT REASONABLE CONTRACTS

Owner shall not be liable to Contractor for extended overhead or any other delay damages, due to shortage of labor, materials or other causes of COVID-19.





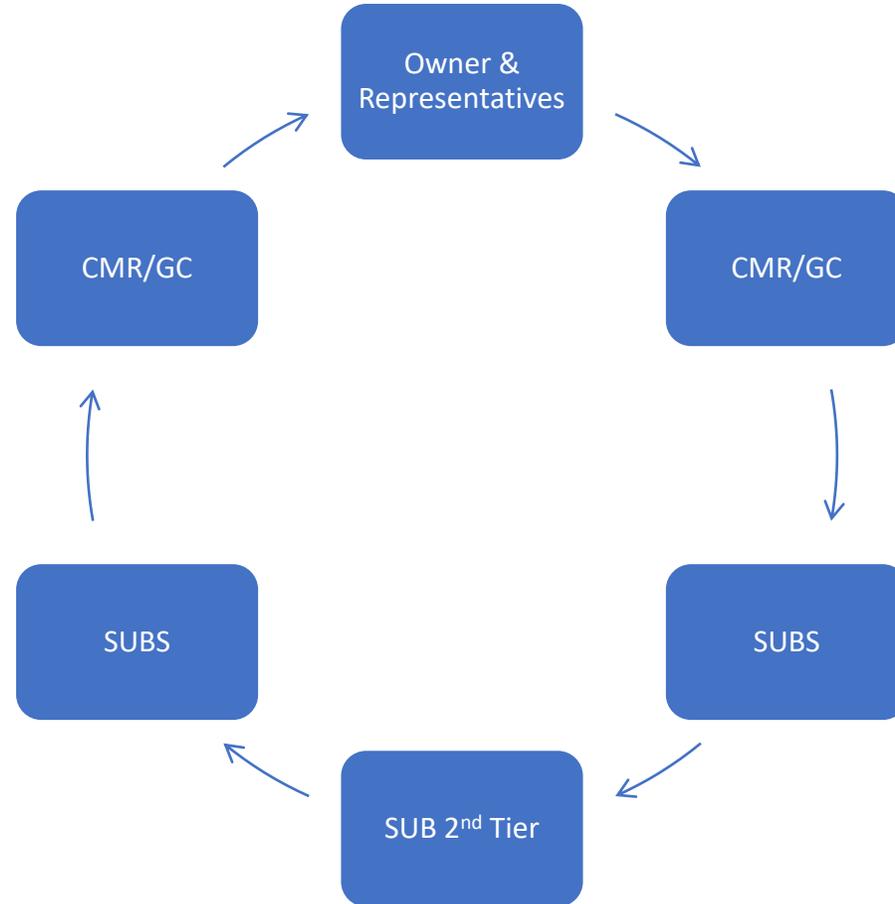


Time to take a stand

...and draw the line in the sand



# Collaborative Circle of Communication





# Blind Spots

## Crisis Leadership

## Leadership



Ego



Emotional  
Maturity



Imagination

# THE HUMAN SIDE OF CONSTRUCTION®

## EGO



### Healthy

- Humility
- Competent
- Wisdom
- Humble
- Experience

### Unhealthy

- Arrogance
- Ignorance
- Numb to Risk
- Invincible
- Undisciplined

# THE HUMAN SIDE OF CONSTRUCTION®

## Emotional Maturity



### MATURE

- Proactive
- Service To Others
- Seek Growth
- Unity
- Present NOW
- High State of Self Awareness

### IMMATURE

- Reactive
- Service To Self
- Avoid Rejection & Discomfort
- Separation
- Life in the Past
- Unconscious

# THE HUMAN SIDE OF CONSTRUCTION®

## IMAGINATION



- Key to Power
- Reduces Perceived Limitations
- Fosters Non-Judgmental Social System
- Creativity Drives Profit



## DISCLAIMER

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