

Nonresidential construction to hit bottom this year

How to prepare for and remain profitable in 2010

Source: Institute for Trend Research
Compiled by Sahely Mukerji

Nonresidential construction lags the overall economy by about one year, which means that the downturn—Phase D (see below)—in commercial and office building construction will continue through 2010 through early 2011, says Jeff Dietrich, senior analyst, Institute for Trend Research, Concord, N.H. Nearly every segment of nonresidential construction will fall 20 percent to 25 percent below 2009 levels. (See Commercial Glass forecast article, XXX, on Page XX.) Permits this quarter are down more than 50 percent in commercial and office building construction, a harbinger of what lies ahead. Here's how to remain profitable through Phase D, Dietrich advises:

Cut fixed and variable costs. Reduce inventory. Re-negotiate lease agreements and union contracts. Put capital equipment purchases and expansion plans on hold. Tighten the reign on delinquent accounts receivable. Assess vendor strength, so as not to be honoring their warranties should they fail. Focus on your

core business and core products. Get rid of high-maintenance, low-paying customers who have no margins but require a lot of time. Manage your backlog through pricing and delivery. Remain aggressive in sales and be competitive in pricing.

Also, maintain a positive attitude. Communicate often with employees.

Use cash judiciously to investment in technology to improve efficiencies. Grab market share should a competitor fail. Look to purchase additional space for future expansion at bargain prices and interest rates later in 2010. Upgrade the skills in your work force.

Note: the transition from B-C phases is very tricky for most businesses—beware of your overhead!

Nonresidential construction

Prices

Production

New Orders

Phase A: Advancing

1. Add sales staff, training
2. Revisit competitive advantages (customer's perspective)
3. Build inventories; increase prices
4. Improve efficiencies
5. Capital Expenditure plans

Phase C: Caution

1. Avoid linear projections
2. Conserve cash
3. Stock A items; watch C items
4. Workforce reductions
5. Manage backlog with pricing and delivery

Phase D: Down

1. Selective advertising
2. Review lease agreements
3. Consolidate departments
4. Reduce all costs
5. Combine departments

Phase B: Best

1. Eliminate potential bottlenecks
2. Spin off undesirable operations
3. Pursue "what's next"
4. Expand into new markets
5. Sell at the top of the cycle

