Good morning, everybody. Dennis Engelbrecht with The Family Business Institute, Digging Deeper.

Anybody who reads the news today can't help but start to have a fear of the next recession, the next economic recession, and then perhaps the next commercial and institutional construction recession, and worried about the effects that's going to have on you and your business. All of those worries are certainly reasonable. At the same time, a lot of the construction industry leading indicators are still white hot. The Dodge Momentum Index just a couple of days ago came out, it's at a record level, not just a high level, a record level. So, the amount of business in the pipeline for commercial and institutional construction is still quite high. So that recession, at least for us, is hopefully not immediately in our windshield. But you're not wrong to be thinking about it and thinking about what comes next.

In fact, what I want you to do at this time is really to dust off the recession playbook and think about the lessons learned from the last recession. First, and this is quite important, even if we don't hit an economic recession or a construction recession, even if things just slow down a bit, that's going to be inconsistent in how it hits many of you out there. One of the lessons from the last recession is there's inconsistent timing and effect on different companies based on whether you're doing private or public work, whether you're working in sectors that are interest rate sensitive, whether you're working in a sector that's maybe more consumer demand oriented. I'm thinking of the auto industry in Detroit and Michigan, going back in the 2000s who got hit extraordinarily and didn't recover for a long time.

Also, there's sort of the law of; the gravity saying is what goes up must come down. Well, previous hotspots are areas too that could be pulling back in. Just read an article this week about the fall off in housing in North Texas. And again, that was one of those super-hot areas. So, what goes up may have the tendency or the chance to really fall as well. Oil, and oil dominant and oil affected areas, we've seen oil rise to unprecedented rates. Well, if we go back in time and you hit a recession, one of the first things that gets hit is the demand for oil. So that has the chance of totally reversing. And that of course has caused early recession a number of times in a number of oil sensitive areas. There's always net migration. So, the Sun Belt tends to weather these things better than other areas. The whole area from the coastal through the Sun Belt, no guarantees there.

College towns in government areas, capitals of cities tend to weather recessions a little bit better because those institutions that carry those economies tend to be more consistent in recession. So, the other thing to think about is the size of your company. Some of you with smaller companies have quicker turning work. You don't have backlogs that go out a long period of time. So, when things dry up, all of a sudden that work may become hypercompetitive or may go away to a certain extent and you don't have the benefit of time that comes with that greater long-term backlog that might come from larger projects or big government work, things like that. So, what is the answer for you? What should you be doing now to think about the potential risks that could be headed your way? Well, the first thing and I think there's still time, is to build that solid long-term backlog best you can. Do that now before pricing margins go down, which it will when it gets more competitive and some of the work goes away.

So, to the extent that you can add to your long-term backlog, particularly backlog for two or three years from now, highly encourage you to get that in place, get it in place at today's prices, possibly even a slightly reduced price if that helps you nail it down. As we head into a recessionary environment, if it does occur, get your work early, try to replenish your backlog early. The longer that goes down, the more companies are bidding the lower the margins, the lower the pricing goes. So, it's only going to get worse. Finishing second or third on 10 or 15 consecutive projects does you absolutely no good. Even though you're seeing somebody go stupid on bid day, that still prevents you from getting the work. You've got to get low to get the work in those cases. Along with that, those of you do private or negotiated work, great time to reinforce your customer relations, make sure that those are solid.

Make sure that those companies see the value that your company delivers so that as we get into a recessionary environment and there is less work, they don't have the tendency to go from negotiated to bid or from limited bid to a wider group of bidders because all of that will drive down your margin and your price. So, get close to your customers, make sure they're feeling the love, feeling the value that you have to bring to them. Again, as we get into the, let's say into the recession a little bit, diversification is your friend, but trying to become diversified into a down market is hyper dangerous. If you chase new work, new sectors, new clients, and you're doing it with higher risk with new customers, new sectors, new geography, your chances of losing are high in that. If that's how you're going to try to maintain value, you're too late to the game. Definitely it helps to be diversified as you go into this so that a single sector to ... or a single bad geography doesn't take you down.

But trying to grow into that where you don't have customer relations, you don't have an employee base, you don't have a subcontractor supplier base is really quite dangerous. So, the alternative to that is the willingness to get smaller. So hard to chase diversification into the teeth of a recession. Number three, start planning, create multiple scenarios for what it looks like to cut back or change strategies on where you're going to do work or how you're going to get work, et cetera. Have those contingencies in place so when you see it coming and you know it's affecting you, you're ready to launch and you're ready to launch successfully, because it can be very nuanced. A strategy not well thought out can definitely hurt your company, so you want to make sure you've done the planning in advance, so you don't end up with, I'll call it panic planning. As you get into that, as you do cut back and it may be necessary for you to cut back and you may even have some fat that you need to cut back, all of that's okay.

One of the things we learned from prior recessions is it's better to cut people than it is to cut salaries or cut benefits. Get rid of them, keep the team you have happy and motivated. When you cut salaries and you cut benefits, that makes everybody unhappy. And when you need greater productivity and efficiency, you got to have a happy motivated workforce. So, you're kind of working against yourself when you do that. Don't be afraid to make the cuts quickly and early and then regather your team. This is who we're going forward with. Those sort of death by a thousand cuts where you lay somebody off this week and then two weeks later lay off one more person, and two weeks later lay off another person. That leaves everybody on edge and nobody's secure. So, if you got to make cuts, you know where you're going to go, do it, do it hard, get where you're going and then regroup as you need to.

If you haven't done this already, it's a good time to gather your war chest. Increase your equity so that you have simply more staying power, so that if you choose to keep your entire team together or even more of your team together than the work dictates, it's not going to be lethal to you to even lose money. I'm not suggesting you lose money, but what's a million-dollar commitment to keep your team together over a couple years when you can come out stronger and be better and have a great culture. It's a lot easier to lose a million dollars just by losing your culture and making folks unhappy. So, think about having that war chest and what your willingness is. Hopefully you don't go below zero, but what your willingness is to invest in your people and keep that team together. Next thing is, make sure wherever you come out on this, you do rally the troops and you do communicate. Again, probably the biggest lesson learned is in tough times, people tend to get a bunker mentality and communicate less.

As leaders, you need to communicate more. You need to give your people that sense of security, that sense of hope for the future so that you can get the best work from them so they're not watching their back, so they're looking forward at what needs to be done, and that relies on great communication from you. And finally, the last thing I want to say since we're talking about recession is don't overreact. There is still no sign that commercial and institutional construction is headed for any kind of serious recession out here. Even the whole economic recession, most folks who are predicting it are looking at it to be fairly mild and short lived. And who knows, construction may just ride right through it due to the infrastructure bill and this high demand we have going in for work, and certainly all the leading indicators are still quite strong for construction. So don't panic, don't overreact, but it is a good time to start planning and dust off the playbook. Again, Dennis Engelbrecht, Digging Deeper.

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