<u>Downsizing: A Profitable Alternative in a Downturn</u> (Back to **Table of Contents**)

In a country where bigger has always meant better, downsizing is loaded with negative connotations. Downsizing is simply a deliberate shrinkage of a company's overhead in anticipation of a decline in volume. Downsizing is the intelligent response to a tough economy.

Mobility Modifies Margin

Forty years ago the construction industry was fixed. People didn't come from other cities or states to help bid the work. When there was a lot of work locally, all area contractors reaped big benefits. When there wasn't, local and regional contractors still made money, just less of it.

Today, constructors come from all over the country to bid work. As a result, the margin, the mark-up on our work, goes down—the margin is controlled by a simply ratio: the available amount of work divided by the available number of bidders. In the non-mobile 1940s, 1950s, and less-mobile 1960s and 1970s, when there was more available work and a fixed number of bidders the margin went up; in times of less work when there was a fixed number of bidders the margin went down.

Today there is an unlimited number of bidders. If everyone would agree to stake out a territory and stay within it, the margin would go up. But, because this mobility trend is not likely to change, we need to look at the dynamics of what is taking place today, and respond to new realities.

A Third Technological Revolution

We may be going through a technological, economic revolution. The first was the industrial revolution in the mid-1800s when we went from water power to steam power. The second was the switch from steam to electro-mechanical power. Today we seem to be in another technological, economic revolution as we attempt to become a service economy.

Two factors are true of any technological revolution:

- **The revolution happens faster than we can react.** As a result, we are not able to make full use of the new technological ideas quickly enough to advance to the next level without major economic disruptions.
- **The change does not happen in the one-to-three years of an "average" recession.** The last two revolutions lasted 30 to 40 years—but the world was not as technically advanced at that time. The present revolution may be shorter—and we are already some years into it.

When the Numbers Don't Add Up

Construction industry margins are so tight that that one piece of bad luck on one job can use up the profit from two or three other profitable jobs. Some are beginning to wonder if it is worth the effort. We're not exactly working shorter hours; and we're going further in debt.

A careful study of the debt structure of our industry shows we're trying to borrow our future. I contend that the debt-to-sales ratio should be a constant. If you owe $1 million at a time, you do $10 million in volume, then when you're at $20 million in volume you shouldn't owe more than