

Managing Risk in a
Downturn Market
and
How to Prepare for A Market
Bounce Back

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Assess Your Business

- Prepare a business plan.
- Consider an operational assessment – what are your strengths? Seek professional advice.
- Prepare budgets with differing levels of revenue.
- What are your most likely revenues and what are the expected expenses at those revenue levels?
Reduced revenues must be met with lower expenses.
- Be prepared to (quickly) initiate reductions under your plan.

Reductions

Employee costs

- Eliminate nonessential positions.
- Reduce benefits.
- Furloughs.
- Layoffs.

- Reduce other expenses

Managing Contracts/Projects that have been placed “On Hold”

- Determine the estimated hold period.
- Use the downturn or idle time to perform necessary maintenance of equipment that was postponed during the busy periods.
- Reduce personnel not considered essential.
- Reduce the workforce to eliminate idle labor.

Managing Subcontractors that have been Selected and Equipment that has been Purchased when Projects are Delayed

- Place subcontractors on hold in the same manner as the project has been placed on hold.
- Negotiate deferred delivery dates for equipment if possible.
- Negotiate deferred purchases with vendor - otherwise ask for extended terms.

Preparing for the “Bounce Back” with a Reduced Workforce

- During the initial furlough or layoff period consider communicating to employees any realistic possibility for rehire when project holds are removed. Some employees will inevitably move on; others may not depending on the length of the layoff.
- Stay in contact with key employees, subcontractors and equipment vendors and communicate the status of projects and if known the estimated time for project holds being released.

How to Turn the Lessons Learned During the Downturn into Smarter Ways to Conduct Business as the Economy Bounces Back

- Consider the possibility that the organization was “overstaffed” during the strong economy.
- Consider the need to focus on what is mission critical and what is not.
- Consider building adequate cash reserves to sustain operations during future downturns; i.e. three to six months cash.

How to Turn the Lessons Learned During the Downturn into Smarter Ways to Conduct Business as the Economy Bounces Back – Continued

- Limit equipment purchases to only the necessary; repair instead of replace using a cost benefit approach.
- Limit the use of long-term financing to the extent possible; purchase equipment via operations.

The Way We Work in the Future Will Be Dependent on How We Manage and Adjust Ourselves Right Now.

- Learning how to survive today will enable us to understand the steps necessary for survival in the future.
- Building adequate cash reserves and limiting the use of debt will result in decreasing the risk in the event of another downturn; construction is cyclical, so whether it is an extended downturn or a short lag, the organization is always prepared to the extent possible.

The Bottom Line

- Focus on being operationally lean.
- Avoid the temptation to strip the company of cash when times are good.
- Plan, Plan, Plan.