

THE SCORE

# ARE YOU READY FOR A HARD MARKET?

PLANNING WHEN YOU DON'T NEED IT WILL SAVE YOU WHEN YOU DO

BY KIRK RATHJEN  
REGIONAL VICE PRESIDENT, CONTRACT UNDERWRITING

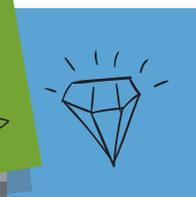
 **WITH CONSTRUCTION ECONOMY EXPERTS' PREDICTIONS OF A HARD MARKET COMING SOON,** common sense tells us while we are hoping for the best, we should plan for the worst. Contractors should ask themselves, do I have a viable plan to become smaller?

Construction and surety have grown strongly over the past 10 years with plenty of capacity, keeping the market soft for several years, but it is always cyclical, so it's just a matter of time before we start leaning toward a hard market. Some data analysts expect 2019 to be a cooling off period from the growth rates we experienced in 2018, slowly affecting construction activity. They predict "a deceleration" that takes us to a hard market in 2020.

What should contractors do to be prepared for a hard market? ►►



**Kirk Rathjen** joined Merchants in 1999 as a Contract Underwriter. In 2019, he transitioned from Contract Underwriting Manager to Regional Vice President, Contract Underwriting for the Midwest Region.





### ▶▶ STEP ONE: OUTLINE YOUR PLAN

Outlining your plan will prepare you to be agile in your decision-making and give you flexibility. Even if you do not fully implement it, having the plan ready could not only save you money, but ultimately save you from bankruptcy. To begin your plan you should:

- ▶ Understand your firm's capabilities and expertise.
- ▶ Identify the most profitable type of work for your firm.
- ▶ Identify your most reliable and valuable customers.
- ▶ Identify your most valuable employees, who have the skills and expertise to serve your most profitable work and your most valuable customers.
- ▶ Establish a budget with a forecast adjusted to the new lower sales volume.

**"PLANNING AHEAD, ESTABLISHING YOUR CONTINGENCIES WHEN YOU DON'T NEED THEM WILL HELP YOUR CONSTRUCTION BUSINESS SURVIVE AND THRIVE REGARDLESS OF THE MARKET CONDITIONS."**

### STEP TWO: BUILD CASH RESERVES

Building a cash reserve is a critical step in preparing for a hard market. Being conservative and judicious with spending on new equipment, warehousing, airplanes and other investments will help. As a hard market approaches, backlogs will likely shrink and collections on aged receivables can slow. Building up cash reserves in anticipation of these two hallmarks of a hard market will lessen the sting for you and for your employees.

### STEP THREE: CONTROL OVERHEAD

Controlling overhead may be one of the most difficult jobs of business management, but those who diligently monitor overhead will be rewarded in a hard market. We recommend contractors keep interest bearing debt at a minimum and don't wait to sell off excess equipment. Downsizing your workforce can be emotional and very difficult. A good plan starts with right-sizing your work force today to make downsizing easier if it comes to that. You want to make sure you can retain your most valuable employees to ride out the recession.

### STEP FOUR: SOLIDIFY YOUR BANK RELATIONSHIP

Finally, solidifying your banking relationship when you don't need it is much easier than waiting until you do. Even if a contractor chooses not to use the bank line of credit it's better to have it established and pay the nominal fees associated with it. Choosing the right bank is also important. Look for a bank that understands the construction industry so that terms are reasonable. Construction is seasonal in many parts of the country and banks need to understand the cash flow and working capital challenges in construction. Making sure you have agile credit facilities to help you navigate low income months is part of good planning.

The question is not if there will be a hard market, but when and how severe? Planning ahead, establishing your contingencies when you don't need them will help your construction business survive and thrive regardless of the market conditions. ■

#### IN THE NEWS

A version of "Are You Ready for a Hard Market?" by Kirk Rathjen is also featured in the March 25 issue of Engineering News-Record.