

Weathering the Downturn

Small construction companies are relying on diverse strengths to survive in a dismal economic climate

Reported by
Ted Cushman

With the economy in a tailspin, the construction industry faces what may be the worst business environment since the Great Depression. For this story, we spoke with several builders and remodelers from around the country, most of them *JLC* readers and some of them contributors. These company owners represent a variety of business types and sizes, and they are responding to their local market conditions in various ways — some sticking to their game plans, others making major adjustments.

Here's what they told us.

Commercial Work

Since Andy DiGiammo went into business in the late 1980s, his Massachusetts design-build firm has grown far beyond its beginnings as a solo architect practice with a single home-building crew. Besides large custom homes and major remodels, the company now does multifamily and commercial work.

Presently, says DiGiammo, he has nowhere near his usual backlog of residential work: "I still have more residential construction going on than I can easily keep up with — but it's all work that came out of relationships I've been nurturing through the design process for a year." And compared with years past, he has very little design work on the drawing board. "It's not a good sign for a year from now," he says. "Usually my problem this time of year is three or four customers telling me I better be ready to go in the spring, and me wondering how I'm going to get them all started. This year I have nobody bugging me — except my commercial customers." The financial crisis is affecting even high-end customers who were untroubled

by past slowdowns. "For the first time," says DiGiammo, "I'm worried about the upper-end residential clients — people I've worked for since the beginning of my career. It's the first time I've ever seen them shaken, or not confident. That's what's different."

Against this background, DiGiammo's decision to diversify has proved its worth: The commercial side of the business is thriving. His current project is a hospital remodel. "I set up the commercial division a couple of years ago, with a foreman who does nothing but commercial work," he says. "What's nice is the residential and commercial sides feed each other: The commercial carpenters work on residential projects and the residential guys on commercial projects when either side needs a hand. It's worked well." Sales also benefit: "I've gone to look at work on someone's house, and they tell me about this business they own and what they need for that, and it flips into a great commercial project. Or vice versa: We'll start on a commercial project and then one day the client will say, 'Oh, by the way, I was thinking about finally building my dream home.'"

Looking ahead, DiGiammo strikes an upbeat note. "In these slow times, if you can keep your business together and your workers employed, you can come out of it

Andrew DiGiammo

Residential and Commercial Master Builders of New England, Assonet, Mass.

Design-build (residential, commercial, industrial, multifamily)

\$5 million annual sales; 10 employees; 18 years in business

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stronger. Your employees realize what they have. Your subs aren't busy, and you develop good relationships with them. They're grateful to be busy. You have their full attention. And you're getting things done, and a lot

of the stresses from crazy times go away. So you do what you have to do to get work, and if you can remain busy in these hard times, it can actually be a great time for you. Bad times can be good."

Keeping in Touch With Past Clients

In Yorktown, Va., a historic village in the southeastern part of the state, Robert Criner is definitely feeling the slowdown. His long-time rule, he says, is to "have a marketing plan in place that puts your name and face

and voice in front of your past clients at least four times a year. We have kept on doing that. But even so, frankly, the phone isn't ringing as often as it used to."

Loyalty to past clients brings a certain amount of diversification in the jobs the company takes on, Criner notes. "We don't attract just the kitchens and

baths and additions, which are the most profitable for us. That's because our past clients all realize that it doesn't matter what they need done on their house — if they're one of my clients, we're going to take care of it for them." But in this cooling market, he says, he is consciously searching for even more ways to branch out. "I looked at a job yesterday that we normally wouldn't do — replace the floor joists in a house. I'm thinking, 'If I price it so it's

profitable, why wouldn't I do it?' Because, at this point, I want to make sure that my guys are busy. Whereas, two years ago, had I sent them under the house for two or three jobs in a row, they would have bolted."

When it comes to staffing, Criner argues, a slowdown offers an opportunity: "It's an optimum time to streamline your business. I'm still accepting applications, because even though you may be comfortable with the people you have, now is the time that you may have real talent knocking at your door. And if you do need to clean house — if you have people that aren't as good as you'd like — they can probably be replaced now with people that meet your needs."

At the same time, Criner says, he wants to protect his workforce. "We are trying to keep our prices up, so that we can continue to pay well, give bonuses, and take company trips. And I believe all that falls on the owner and the salesperson. It's up to them to be the rainmakers, and make sure that they have a backlog. And that's much easier to do if you've been doing the right marketing all along. If you're starting now — if you're saying, 'Oh my gosh, I should start marketing' — it's already too late."

Robert Criner

Criner Construction Co.,
Yorktown, Va.

Residential remodeling

\$1.8 million annual sales; 10
employees; 31 years
in business

Filling in With Smaller Jobs

In Alexandria, Va., and the surrounding suburbs of Washington, D.C., home prices have plunged at rates that rival those in the crashing "sand states" — Florida, California, Arizona, and Nevada — and the subprime lending fiasco has spawned record numbers of foreclo-

sures. For Steve Shook, owner of Alexandria-based Rarco Contracting, the wake-up call came last winter.

"In October and November of 2007," says Shook, "we just did not sign any contracts. And December was no better. I was scraping money from everywhere to try to cover

bases." After growing at least 25 percent a year since 1994, he says, "all of a sudden, we were shrinking. For the first month or two, I just got depressed. But then I realized that I had to be creative. You know, you have a choice: You're either going to survive and get stronger, or you're going to go out of business."

So Shook decided to go after a new kind of job — small kitchen and bath remodels — and he replaced one salesman with a new one who focuses only on that. "Trying to train somebody to bid and sell large remodeling projects is very involved, but kitchens and baths is pretty straightforward. I figured I could teach somebody to do that pretty fast," he says. "So I devised a training program, and hired this guy. Now I've got a training program in my operations manual, which is one good thing

Stephen Shook

Rarco Contracting,
Alexandria, Va.

Design-build residential
remodeling

\$3 million annual sales;
21 employees; 15 years
in business

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that has already come out of this stuff.”

The K&B division is filling a void for the company. “I wasn’t sure I would have enough work for all my teams. But now one team stays busy doing mostly kitchens and baths, or sometimes a porch or a deck.” The cash flow from these smaller jobs is small but steady, and so far it’s filled the gaps between larger projects. “It’s hard to get used to making draws of \$5,000 when you’re used to draws of \$20,000 or \$30,000,” he says. “But still, it’s money coming in — things will start to get tight, and suddenly you’ve got a couple of small jobs to hold you till money from a big job comes in. It has definitely been a help.”

Shook also made some serious cuts on the cost side. “About a month and a half ago, I cut everybody’s salaries,”

he says. “I didn’t cut the helpers’ pay — they don’t make that much to begin with, and it’s very expensive to live around here. But anybody making in the \$20-an-hour range or more, up to and including me, we all took a 7 percent cut.” His employees were supportive, he says. “They read the papers. They understand what’s going on. I’m giving them a job.”

To stay competitive, Shook has also sharpened his estimating pencil. “We’ve always been very detailed in our estimates, but when the market’s hot and heavy, you can pad it a little bit. Right now, you have to be very precise, make sure that you’re covering yourself — but that you’re not fattening it in any way, because if you do, somebody else will get the job.”

The Energy Future

John Abrams lives and works on Martha’s Vineyard, off the coast of Massachusetts, where he’s founder and president of South Mountain Co., an employee-owned enterprise. In November, says Abrams, the company’s

19 employee owners met to discuss “the unthinkable.”

“For 33 years, every single day, every employee of South Mountain has come to work and there was productive work to do,” he says. “So what happens if it comes to pass that we don’t have work for everybody?”

That time, if it ever comes, is still far off, Abrams says. “We have plenty of work to do, but our cushion is partly gone. In the past we’ve had as much as a three- or four-year backlog. Our volume is about \$8 or \$9 million, and a two-year backlog is normal. But like everyone else, we have experienced some postponements, and now we’re down to one year. So, what if there are more postponements?”

From the outset, says Abrams, it was clear that the owners rejected the idea of laying individuals off. Instead, they proposed and considered a range of alternatives. One idea was “rolling layoffs” — letting groups of people take turns staying home, as another company on the island has already started doing. “Another possibility would be across-the-board cuts in hours,” he says. “A third step would be graduated wage reductions: higher wage reductions for the highest-paid people, lower wage

reductions for the low-paid people.”

With several viable components in the business — including a woodworking shop, a design studio, a renewable-energy division, three field carpentry crews, and an additional crew for small jobs — “we could carry for a very long time one of those crews not being busy,” says Abrams. “If it was two crews, we couldn’t carry it so long.”

The owners also looked at ways to keep workers busy even if they weren’t generating revenue. “You know, we are so busy all the time here that there are many things we want to do that we don’t get to do,” says Abrams. “So the other thing that came up is, ‘Let’s make opportunity out of this.’ We are in a position where we don’t have to make a profit, because nobody is living off that profit. So we can go for a while without making one. Let’s do some of the things we sometimes don’t get to do — such as training, or community service, or making products in our wood shop that maybe have not been ordered but will be useful later. But the commitment is to not lay anybody off.”

Meanwhile, Abrams sees his company’s future in home-performance contracting — or, as he terms it, “deep energy retrofits.” “There are 16,000 buildings on Martha’s Vineyard, all of which are going to need to be replaced, or heavily retrofitted, in a new energy regime,” he says. “In the next 10 years, for sure, that work will be important. So that is something we are planning for and cultivating.”

John Abrams

South Mountain Co.,
West Tisbury, Mass.

Design-build and
renewable energy

\$8 million annual sales;
32 employees; 33 years
in business

Life in the Heartland

Steve Schau has spent decades working in a rural market driven by agriculture and small industry. His business is based in the small town of Donnellson in the southeast corner of Iowa. He runs the company pretty much the same way he did back in the 1980s: by managing one

Steve Schau

Old to New Renovation & Construction, Donnellson, Iowa

Building and remodeling

\$600,000 annual sales; 2 employees; 20 years in business

crew of well-trained, skilled carpenters; building one or two custom houses a year; and filling out his schedule with siding, roofing, and repair work.

“One contractor in my area has been in business 40 years,” says Schau, “and his theory is, ‘Don’t ever turn a job down. If they come to you, just take it.’ He’s 70-some years old, and he’s still in business.

So that’s my theory, too.”

Schau’s story is a reminder that even though the national news is dominated by an economic turmoil, not every local market is part of that narrative. In some places, life has continued on a much more normal track. “We never get real wild out here,” says Schau. “It’s one house over here, one house over there. It’s just kind of a

steady thing, so we don’t see the big drops that a lot of places do.”

To keep himself and his crew busy, Schau needs to line up only a couple of houses a year, along with enough side jobs to fill in the gaps. Right now, he says, he has a house that he’s just finishing up and another he’s starting. Typically, his crew does the framing, siding, roofing, drywall, and trim. “We can do plumbing and electric,” he says, “and we have done it — but usually we just don’t have time.”

What bothers Schau most about a slow economy is the fly-by-night competition — people, he says, who “aren’t running legal — farmers that want to do carpentry work when they’re not working in the fields. Every farmer thinks he’s the best carpenter in the world.” Schau’s employees, who he typically hires out of a local trade school, are fully covered by workers’ comp insurance, get paid vacations, and have simple Keogh IRA accounts. Schau also covers half their health insurance premiums. That’s tough to do when the competition is strictly off-the-books, he says, “and I do it all on \$24 an hour, paying my best guy \$18 or \$19 an hour. So you know I’m not making much money.”

The Financing Fight

In King County, Seattle, Scott Crader’s company, Reality Remodeling Resources, is set up to live lean. In years past, Crader has run a full-on contracting business with 15 hourly employees and two all-terrain forklifts — the kind of company, he notes, where “I needed ten thousand bucks a week coming in, to cover everything and justify that much risk.”

But these days, he’s working from a radically different model. By himself or with one partner, he specializes in second-story add-ons and whole-house remodels, work-

Scott Crader

Reality Remodeling Resources, Seattle

Remodeling; consulting for DIYers

\$600,000 annual sales; no employees; 25 years in business

ing entirely with subcontractors and serving either as a GC or simply as a construction manager for the homeowner. For his crew, Crader draws on an assortment of independent tradesmen who carry their own state licenses and insurance

and who team up for one project at a time and then go their separate ways. “And if one of those guys gets some work and they could use my services, then I’ll jump in and help them,” he says. “It’s like a co-op. A cooperative effort of pooled resources.”

These days, he says, he’s not always busy. “My sell rate used to be about one in three. From the first contact to signing a deal, one out of three calls would end up as an actual job. Now it’s more like one in 10.” Financing has been the killer, he says. “In the last 18 months I’ve had four people get right up to the starting line, and financing was the deal-breaker.”

In one case, a customer had a loan commitment from IndyMac Bank — until the bank failed in July. Twice, customers made verbal commitments, but Crader has learned to be cautious. “Their financial person told them that they had the money, and they were ready to write me a deposit check to start the job. But I said, ‘Unless you have the financing set up for the whole job,

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"I'm not going to start it." Because he does mostly "pop-top" remodels, Crader notes, "once you start, you've got some serious consequences for taking the roof off and then having no money."

For now, Crader is holding his ground. "When it's just me, my overhead is very low, and my risk factor is really

low, so I still have a viable business entity." And in the future? Says Crader, "I know what a serious hard slump is — and in King County, we're not experiencing that. But that's not to say that in three months we won't be. It all depends on how quickly they can circulate some money around here."

Pinpoint Marketing

Bill Baldwin and Devon Hartman's company, Hartman-Baldwin Design/Build, is headquartered just outside of Los Angeles, where home sales and housing starts have sunk to record lows and foreclosures are epidemic. It's a tough place to do business; few spots have been hit harder

by the financial crisis. On the other hand, few remodeling companies can top HartmanBaldwin's credentials: With 30-plus employees, the partners have been in business since 1978. They're well-known and have a strong track record and a wide range of competencies.

And, says Hartman, they also have plenty of work — though not for long. "Currently we're logging more work per month than we

ever have historically," he says, "but we see the end of it. We're working off jobs we sold a year or a year and a half ago. And we're coming to the end of that era." The company has 15 or 20 jobs in the "feasibility study" stage, he explains, "but the sales cycle from feasibility study through architecture and construction has slowed to a trickle. People are waiting. Some people are simply dropping out, because their 401(k) funds have dropped to the point where they have no more disposable money to spend. So it's a very grim picture."

Belt-tightening has become an imperative. "We do financial projections 18 months out, and we have budgets going," says Hartman, "and these days we are analyzing budgets every two weeks. And we are making cuts in employees, we are making cuts in overhead, and we are going through everything — everything — with a fine-tooth comb. The only thing we are not cutting is marketing and sales."

The company's marketing program is extensive and sophisticated. "We have advertisements in local magazines and newspapers," says Baldwin, "and we send out close to 200,000 direct-mail postcards during the year.

And we have a whole educational wing that will do at least a couple seminars a month, sometimes more."

Baldwin knows what the company needs to accomplish: "We need about 10 big jobs a year to get us through. And we know there are going to be a lot more jobs than that being done in a big market like Los Angeles. So this is going to be a creative, rock-and-roll time for the marketing and sales departments — because it's just a matter of pinpointing who those customers are, and getting in front of them at the right time and being in the right place to get the work."

Like other contractors large and small, HartmanBaldwin is diversifying. "We're out looking at a lot of things right now," says Hartman. "We're thinking about churches, theaters, educational buildings." One major initiative is a move into "home-performance contracting," which involves performing comprehensive diagnostic testing and energy analysis of a building and then implementing a broad program of energy upgrades. "Older existing homes, built pre-energy code, are using more energy by far than the newer homes," says Hartman. "But what we're also finding is that every home — including Energy Star homes that have been built brand new — can still easily save 25 percent on their energy costs, because they have been built from a prescriptive and not a performance point of view. With testing and targeted upgrades, their actual performance can be drastically improved."

Hartman sees energy retrofits as the biggest opportunity around, long-term. "Technologies and businesses related to energy will be the next bubble," he predicts. But in a time of crisis, he says, immediate, radical adjustments are needed across the board. "When things are going south like this, you have to tighten up a little bit everywhere. If you don't start making some hard decisions and pull the trigger sooner rather than later, you can implode from the inside out. Because the market has changed dramatically overnight. And so you better be making some moves overnight, too."

Bill Baldwin and Devon Hartman

HartmanBaldwin Design/
Build, Claremont, Calif.

Design-build (remodeling, historic restorations, custom homes)

\$10 million annual sales;
35 employees; 30 years
in business