

### **34th** Crisis-era Message to Contractors from: Dr Tom Schleifer

**Note:** *This message, from last week's post on my Blog [letstalkbusiness.net](http://letstalkbusiness.net), bears repeating here because it describes where our industry is at this point in the pandemic crisis.*

#### **New Year's Resolutions**

2020 has been an unusual year to say the least. Starting with a growing construction market that was anticipating a huge infrastructure bill coming out of Congress and struggling with a critical shortage of skilled labor, the year was suddenly interrupted by an outbreak of the nastiest contagious virus since the 1300s, when the black plague decimated one third of Europe's population, killing 20 million people and ushering in the Dark Ages.

Since March of 2020, the COVID-19 virus has killed more than a quarter of a million Americans and continues to spread at an ever-increasing rate. It goes without saying that life as we knew it at the beginning of the year has been altered in some very unexpected ways. Certain segments of the economy, such as travel and entertainment, have been decimated while the stock market continues to roar and our industry, although it slipped a few gears, hasn't collapsed.

#### **Lessons**

Each segment of the economy has had its unique reaction to the events that are shaping 2020. Restaurateurs are bobbing and weaving; airlines are feeding at the government trough; hotels and amusement parks have laid off thousands of workers; retailers are challenging Amazon for online sales; and the construction industry has been taken to school.

Here's what we learned in the school of 2020:

1. Growth is not a permanent state of affairs.
2. The construction market is volatile, given to sudden swings from growth to contraction.
3. Growth is not always good.
4. Size and longevity do not guarantee continued prosperity.
5. There is no "too big to fail" in construction.
6. Fixed overhead is dangerous.
7. Traditional low-bid procurement should be a thing of the past.
8. Public infrastructure work is unpredictable.
9. The assignment of risk is a dangerous game.
10. Litigation is never the answer.

#### **New Year's Resolutions**

If 2020 taught us nothing else, it taught us that we have to change our way of thinking about how to manage a construction enterprise. There is no reasonable explanation for the failure rate of construction companies (second only to restaurants), beyond ineffective management. Ineffective management begins with inaccurate beliefs. Inaccurate beliefs are long held convictions about the construction business that everybody believes are true but are not true. The series we just completed on why megaprojects fail revealed fundamental management beliefs that caused the failure of many megaprojects and construction concerns throughout 2020.

In 2021 we should all resolve to identify the inaccurate beliefs and take the following corrective actions:

1. We will let “low-bid” contracts become an historical curiosity. No reasonable business manager would bind their firm to a contract designed to squeeze every last nickel out of their profit margin.
2. We will no longer enter into contracts that assign all the financial risk to the contractor.
3. We will no longer allow the market to see contractors as undependable and slightly sleazy.
4. We will no longer default to litigation as our resolution methodology.
5. We will get paid on time and as agreed. We are entitled to our money.
6. We will no longer take marginally unprofitable jobs in the name of growth because we know that top line growth for its own sake just shrinks the bottom line.
7. We will see adding fixed overhead as a risk factor rather than a sign of success.
8. Capital preservation and growth will become our number one priority.
9. In volatile markets we will recognize the wisdom of flexible management and flexible overhead.
10. We will stick to our knitting and avoid work we are not expert at.

## Conclusion

- Successful work is profitable work.
- Profitable work begins with procurement.
- An unrealistic bid backed by a bad contract cannot produce profit.
- Litigation never accrues to the contractor.
- A bad start always leads to a bad ending.

These are the issues we will explore coming up in December.

It is our mission to encourage construction professionals to reexamine long held beliefs and make changes that lead to increased profits, capital preservation, and a new degree of enterprise stability.

In 2021, this blog will attempt to expose the inaccurate beliefs that have haunted the construction industry for more than a century.

**Send questions/comments to [tom@schleifer.com](mailto:tom@schleifer.com).** *To receive the free weekly Crisis Message send your email address to [tom@schleifer.com](mailto:tom@schleifer.com).*

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