

How to recession-proof your construction company

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Recessions and serious economic downturns often debilitate companies that are unprepared for the worst. For many, it could take years to recover, if they ever do. To ensure your construction company survives the next economic decline, some preparations need to be made.



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Take the more recent downturn, brought on by the Covid-19 pandemic, as an example. The construction industry is heavily dependent on public sector spending, which meant that many companies struggled to keep the doors open when government temporarily suspended ongoing and planned infrastructure projects.

But those contractors who were prepared and had a strong financial standing were fortunate enough to survive. So, for those companies hoping to do the same should another recession hit, there are a few clear steps that executives can take now to ensure better stability during times of economic crisis:

Find your niche

When a recession happens, construction spending decreases considerably and businesses have to compete for far fewer projects. Clients grow more selective, and companies need to work even harder to prove their worth.

To navigate this obstacle, begin focusing more on a segment of the market where you have a solid track record, then build on that. Alternatively, if your company is new or has historically focused on multiple segments, choose one

and build a reputation as an expert in the field.

This means that should the time come, you'll be well known and respected in that particular segment of the market and be in a much stronger position to compete for certain projects than competitors with a more general focus.

Limit equipment spend

Aside from labour, equipment costs make up the bulk of project and company expenses.

But niche equipment is only ever used for very specific tasks. As an example, smooth drum rollers are expensive pieces of machinery that flatten earth exceptionally well but are only used for a couple of hours per project, if they are required in the first place.

Rather opt to rent expensive equipment on the day you need it for considerably less and return it when you're done. This allows for additional savings on maintenance and storage costs as well.

Do this with enough niche equipment and the savings will add considerably to your coffers – which will come in handy if the economy takes a turn.

Establish a rainy day fund

As your business begins to save on unnecessary equipment, or by limiting material wastage and employee time-loss on redundant work, consider utilising that extra money to create an emergency fund that is only accessible in times of great need.

A sizeable rainy day fund will allow your company to stay financially stable, pay its creditors, procure equipment and material for projects, and pay salaries, which will allow you to search for and take on new projects when others can't.



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Act quickly

If contracts are cancelled or postponed, your company cannot waste any time in cancelling or deferring equipment leases, material orders, advances in sub-contractor payments, or the like.

Additionally, lock down contracts as soon as possible, whether they're still in the negotiation phase and planning to go forward, or when there's only mention of a planned future project. Everyone will be going after this handful of jobs, so make sure that you are proactive in contacting potential clients first.

Don't cut labour

The first cut most businesses usually make during a recession is staff expenses. But in the construction industry, it's more profitable to keep experienced employees, even when projects become scarce.

The industry has a pronounced shortage of experienced, competent, and qualified workers, even during times of economic prosperity. If your company has already successfully attracted capable employees, and spent time and capital training them, letting them go and having to find new competent staff in the future will set you back considerably.

The construction industry has had its fair share of difficulties, but has endured and grown more resilient over the years. It is now better equipped to face and survive economic slumps, but business leaders still have to be cautious every step of the way.

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