

A Crisis-era message to Contractors From: Dr Tom Schleifer

We've never been here before, *the new normal*, so we need to take a unique and longer-term view about how to react. A health crisis turned immediately into an economic crisis and we can't know how long it will last, which is exactly what we need to know in order to formulate a response. To react appropriately we need to know if we are experiencing a nation-wide (world-wide) economic *pause* or a full-blown *recession*. If we knew for certain it would be a recession, which, of course, we don't know at this time, I would consider drastic cuts in overhead. If a pause, I would recommend less drastic cuts in overhead. Both require the same reaction and differ in degree only. Therefore, the obvious reaction must be to reduce overhead now, directly proportional to any reduction in revenue you are, or will be, experiencing. If down 15%, cut overhead 15%.

We do know that a pause is occurring, hopefully months not years, and if too long could lead to a recession. Time will tell, but we need to react now so we are left with probabilities or, as some would say, *best guess*. My hope is that the current intervention will slow the spread of the virus which will be reflected in lowering the incidence curve we all see on TV. That will stimulate the stock market because the market looks to the future and never looks back. There are a lot of measures of the economy, but movement in the market is instantly available to everyone and is a primary driver of commercial and consumer activity. Experts are telling us the virus curve will come down, but that it will not be seen for weeks at a minimum. If so, it will take time for the market to react and additional time for businesses and consumers to react.

The information I am analyzing suggests that the above has a better than even chance of unfolding, but that it will be 45 to 90 days before we see a positive economic reaction. What this suggests is that a recovery from any project delays, funding issues or new capital projects released is at least two months out and very possibly three or more. Our inclination is to avoid overhead cuts as long as possible, but there are serious costs associated with that. Prudence suggests we plan for a minimum of three months, probably longer so delay is not advised. I do not take it lightly, and as difficult as it is, cutting overhead now is the only defense available under these unprecedented circumstances.

This may be an appropriate time to be reminded that the primary obligation of boards of directors, business owners and top management is to *Protect the Value of the Business*. This is a balance sheet issue.

Note: Additional information on how to cut overhead can be found on letstalkbusiness.net. Click on "Manual" and go to Managing Overhead in the table of contents.

Next Post will be: Crisis-era Message 2: Immediate Measured Response