



Realizing Profitable Potential through Change

Industry: 23622 - Commercial and Institutional Building Construction
Sales Range: All Sales Ranges
Data Source : Private Companies
Location: All Areas
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INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (296)	2008 (296)	2007 (1296)	All Years (8114)
Current Ratio	1.79	1.79	1.93	1.84
Quick Ratio	1.41	1.41	1.55	1.45
Gross Profit Margin	16.52%	16.52%	17.94%	17.27%
Net Profit Margin	2.41%	2.41%	4.16%	3.45%
Inventory Days	4.08	4.08	2.50	3.69
Accounts Receivable Days	55.62	55.62	51.49	49.70
Accounts Payable Days	46.16	46.16	42.00	40.94
Interest Coverage Ratio	11.56	11.56	12.64	11.69
Debt-to-Equity Ratio	2.78	2.78	2.66	2.65
Return on Equity	14.81%	14.81%	23.50%	19.65%
Return on Assets	5.58%	5.58%	10.14%	8.52%
Fixed Asset Turnover	15.46	15.46	17.54	16.83
Sales per Employee	\$434,268	\$434,268	\$405,251	\$359,691
Profit per Employee	\$14,321	\$14,321	\$21,329	\$14,106
Debt Service Coverage Ratio	3.13	3.13	2.74	2.45
Growth Metric	Recent 12 Months (155)	2008 (155)	2007 (707)	All Years (3325)
Profit Growth	3.08%	3.08%	8.25%	9.31%
Sales Growth	7.09%	7.09%	5.91%	8.71%

INDUSTRY DATA COMMON SIZE
Average by Year (Number of Financial Statements)

Income Statement	Recent 12 Months (296)	2008 (296)	2007 (1296)	All Years (8114)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	83.59%	83.59%	82.17%	82.95%
Gross Profit	16.52%	16.52%	17.94%	17.27%
Depreciation	0.66%	0.66%	0.77%	0.89%
Overhead or S,G,&A Expense	11.27%	11.27%	10.52%	10.88%
Other Operating Income	0.05%	0.05%	0.05%	0.03%
Other Operating Expenses	0.99%	0.99%	1.38%	1.25%
Operating Profit	2.66%	2.66%	4.18%	3.46%
Interest Expense	0.39%	0.39%	0.39%	0.35%
Other Income	0.43%	0.43%	0.40%	0.31%
Other Expenses	0.16%	0.16%	0.15%	0.10%
Net Profit before Taxes	2.28%	2.28%	3.81%	3.13%
Adjusted Net Profit before Taxes	2.41%	2.41%	4.16%	3.45%
EBITDA	3.45%	3.45%	5.07%	4.48%
Taxes Paid	0.33%	0.33%	0.21%	0.15%
Net Income	2.59%	2.59%	3.62%	3.13%
Balance Sheet	Recent 12 Months (296)	2008 (296)	2007 (1296)	All Years (8114)
Cash (Bank Funds)	17.63%	17.63%	18.89%	17.74%
Accounts Receivable	44.20%	44.20%	44.18%	42.81%
Inventory	1.79%	1.79%	1.51%	1.96%
Other Current Assets	10.44%	10.44%	9.26%	9.31%
Total Current Assets	84.76%	84.76%	83.95%	81.63%
Gross Fixed Assets	30.68%	30.68%	32.88%	34.53%
Accumulated Depreciation	20.41%	20.41%	21.31%	17.16%
Net Fixed Assets	11.76%	11.76%	14.06%	17.73%
Other Assets	4.15%	4.15%	3.22%	2.83%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	34.50%	34.50%	33.79%	33.48%
Current Portion of Long Term Debt	3.20%	3.20%	2.96%	2.40%
Other Current Liabilities	19.63%	19.63%	19.44%	19.90%
Total Current Liabilities	57.57%	57.57%	57.19%	55.87%
Long Term Liabilities	9.88%	9.88%	10.13%	10.79%
Total Liabilities	67.21%	67.21%	67.16%	66.49%
Ending Retained Earnings	30.44%	30.44%	26.57%	20.68%
Total Equity	32.33%	32.33%	32.94%	33.61%

LIQUIDITY

What are some potential ways to improve the company's ability to meet obligations as they come due?

- ▶ Set longer terms for Accounts Payable when possible and allowable by the vendor. For example, increase a 30 day payment window to 60 days.
- ▶ Watch for contracts that have a retention factor which could delay funds for a lengthy period of time. Delaying payment to vendors when agreed upon would help off-set the cash restraint.
- ▶ Establish contractual agreements that allow as much collection up front as possible for large jobs. This will ensure that the job is being completed with funds provided by the customer instead of the business.
- ▶ Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process, which can significantly improve the firm's cash position.
- ▶ Complete jobs on a timely basis. If completion takes longer than expected, soft costs such as interest and penalties can start to drain the funds coming into the business.
- ▶ Keep an accurate payables schedule on a week by week basis. This can help the business know what payments they need to make each week to avoid any late charges or double billings.
- ▶ Discover ways to receive returns on excess cash balances. For example, set up a "sweep" account (allows fund transfer overnight into a higher yielding account) at the bank so that interest can be earned on any excess funds in the checking account.
- ▶ Eliminate or reduce unnecessary overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if those fixed costs which tend to stay the same over time can be lessened.
- ▶ Sell any unnecessary/unproductive assets the business may have to increase cash. These are assets that are not contributing sufficiently to the generation of income and cash flow.
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis to help predict/prepare for potential future cash shortfalls.
- ▶ Monitor accounts receivable on a weekly basis, and charge interest on invoices that are past due.
- ▶ Use as much trade credit or vendor financing as is reasonable/possible since this is a good form of short-term financing and does not carry interest. Trade credit occurs when one business receives a service from a supplier under an agreement to pay them later.
- ▶ Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. Make sure giving credit will increase revenues/income and be cost effective. Also, if beneficial, provide discounts to customers who pay early.
- ▶ Rent rather than buy resources where appropriate. In the long term, this can help achieve an acceptable level of Balance Sheet obligations relative to liquid assets.
- ▶ Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice.
- ▶ If a business is having difficulty meeting obligations, term out some short-term debt if necessary and possible by moving some short-term debt down the Balance Sheet to long-term debt. This usually requires refinancing from the bank.

- ▶ If cash is a constraint, try to establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible. If you decide to obtain external financing, structure as long-term rather than short-term in order to decrease monthly payments.
- ▶ Use a monthly or bi-monthly payroll schedule if possible allowing funds to stay in the business longer -- so long as morale will not be adversely affected.
- ▶ Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.

PROFITS & PROFIT MARGIN

What are some things the company might do to develop favorable profitability trends?

- ▶ Submit bids that not only cover direct labor and material costs, but also include a portion of overhead and account for increases in expenses and unforeseen expenses.
- ▶ Preserve projected profits by providing a hedge against increasing costs. For example, put an escalator clause in contracts. Keep clients in tune to extra costs so that they can approve.
- ▶ Forecast equipment requirements and keep equipment busy. If there is too much equipment, it will be sitting idle while still being paid for. If there is not enough equipment, jobs will be harder to complete in time.
- ▶ Find low cost, reliable suppliers that provide quality tools, materials, and possible volume discounts if applicable. Work out a way to have vendors deliver right to the job site when needed therefore reducing storage costs.
- ▶ Conduct a gain/fade analysis to review performance. Trends in gain/fade can indicate areas of concern regarding bidding and job management as well as track whether the business is on target to meet projected profit goals.
- ▶ Review capital expenditure decisions fully before purchase. It is often cheaper to rent equipment as opposed to buying. If it becomes an ideal situation to buy, shop around for high quality used equipment.
- ▶ Review the project manager's ability to effectively coordinate the simultaneous arrival of supplies and labor force for jobs.
- ▶ Reduce payroll costs, including any overtime expenses as applicable, by maintaining an ideal number of employees and monitoring the number of hours that each employee works. Evaluate the use of salaries as opposed to hourly rates.
- ▶ Obtain approval before work actually takes place when changes in orders must be made with suppliers.
- ▶ Lock in prices for materials in advance when anticipating future price increases.
- ▶ Establish bonuses in contracts for work that is done well and done early and penalties for late work. Therefore, accurate length estimation is crucial.
- ▶ Consider using a job costing system (software is available) that will enable the business to have an expected profit upon completion value. This will allow for the tracking of profits and costs at any point in the job as well as the amount to bill clients now and in the future.
- ▶ Manage inventory and supplies so that theft and loss is less likely to happen. A good way to do this is to take inventory of tools and materials at the beginning and end of each day.
- ▶ Track the effectiveness of advertising by the additional jobs generated from the campaign. Send surveys to customers to determine where to find new business and then focus advertising efforts there.

- ▶ Be aware of the site's accessibility when preparing an estimate. Ease of transportation, availability of power sources, drainage, and other factors can all add unexpected costs that might cut into profits.
- ▶ Implement a "neighborhood watch" program to reduce theft of tools, materials, and equipment on construction sites. Talk with nearby residents and businesses and provide them with a contact number in the event that they notice a disturbance. This also gives the company exposure which may lead to additional business.
- ▶ Keep the level of safety at the site high to reduce any sort of injury which can cause high workman's comp and/or lawsuit costs.
- ▶ Invest in software, such as on-site logistics solutions, to help you better manage labor and materials costs.
- ▶ Use materials and equipment that has been tested to be highly efficient. Additional costs upfront could prove to substantially decrease costs in the future.
- ▶ Monitor closely the quality of employees hired in order to minimize mistakes and breakages. These problems could create unnecessary high costs, additional time, and loss of reputation to the business.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts) allowing management to have the ability to pull "variance reports."
- ▶ Increase prices selectively where possible. Done effectively, this can boost cash flow and profitability. Good Income Statement management helps Balance Sheet performance.
- ▶ Monitor the costs going into all office supplies. With more important costs being monitored closely, many businesses forget to look at this smaller cost, and often allow it to be higher than necessary.
- ▶ Enroll the business in an insurance program that provides appropriate coverage at a good cost. Meet with insurance agents to determine ways to reduce costs by evaluating coverage and deductibles.
- ▶ Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.
- ▶ Examine the purchasing of materials and determine whether buying larger quantities will be cost effective. This may be especially helpful if material costs are expected to rise or if quantity discounts are available.
- ▶ Create direct labor reports by job with the financials each month to assess performance. Look at the efficiency of staffing per job/project, determine whether employees could be used in different capacities to improve productivity or save on costs, and evaluate whether part-time/temporary labor could be hired to reduce overtime costs while maintaining quality.
- ▶ Invest in activities that can yield positive returns. For example, advertising and employee training can often improve performance for the business.
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.

SALES

What are some things the company can consider to encourage sales growth?

- ▶ Diversify the types of construction projects accepted by the company in order to increase the potential customer base size.
- ▶ Develop a network and long-term relationships that can help in bring in referrals for new business. For

example, establishing and maintaining good relationships with architects, structural engineers, and other parties involved in the soft work of construction.

- ▶ Create a clear image in the minds of customers. Position the business as being inexpensive and fast, or as high quality and thorough (even if slower). However, realize that being faster, cheaper, and better all at the same time is extremely difficult to achieve and may send an unwanted message to customers.
- ▶ Showcase past work to catch the attention of potential customers. For example, create a DVD that could be sent to prospects illustrating past projects. Post signs outside of job sites and advertise awards won in trade magazines.
- ▶ Become an expert in certain specialty arena of building construction, such as with schools or churches. This can create a competitive advantage for the company and be means to attract these types of clients in the future.
- ▶ Build close relationships with government officials so the business is aware when a new government building is being planned. Get on governmental distribution lists.
- ▶ Network and market to potential customers to build relationships before contracts are even brought up. This will get the business name out there on a potential customer's list of contractors.
- ▶ Establish a unique selling feature for the construction company which will make the customer remember the builder/company. By doing so, the business can generate increased demand, potentially increase its prices, and possibly decrease marketing and sales costs/efforts.
- ▶ Have an attractive web presence. This could increase revenue by providing an extra forum for the business to feature its services, past projects, testimonials, and awards won. An online payment schedule and job progress updates might also be unique.
- ▶ Produce the proper financial information that can maintain and enhance the bonding capacity of the business. The business's ability to bid work has a lot to do with its bonding capacities.
- ▶ Be sure to subscribe to and READ the trade journals relevant to the commercial construction business. Typically, there is no greater source of good operational information than a trade journal. These specific publications include many ideas that can help managers increase sales and keep customers.
- ▶ Compare the business to others in the industry and work to meet and exceed industry standards. This can help improve the business's competitive position and maintain customers who might be seeking an alternative provider.
- ▶ Have systems in place to gather feedback from customers regarding the quality of work performed. Consider contacting customers three to six months after projects are completed since small failures don't always show up immediately.
- ▶ Contact personally the decision makers who make the final choice in deciding which business gets the job. Establishing personal contact shows interest and provides one more opportunity to positively portray the business.
- ▶ Bid jobs that are visible to many community members if applicable. For instance try to get projects in busy parts of the community. This will give the business a great deal of free publicity and potentially attract media attention.
- ▶ Ensure that marketing materials (including signs) are consistent throughout the business by looking across all materials at one time. Layouts in materials should be the same and main themes should be presented. The goal of sales and marketing materials is to build an image and a brand so that people will recognize the business and be attracted to it.
- ▶ Service the customer in a manner that provides the highest potential for repeat business. Work to meet the specific needs of customers. Answer questions promptly, knowledgeably, and politely during the job and send thank-you notes after the completion of the job.

- ▶ Participate in community events that will spread the business's name and build goodwill among current and potential customers. Examples can include sponsoring youth sports teams or sponsoring a hole in a charity golf tournament.

INDUSTRY OVERVIEW

Those involved in this industry are often involved in at least one of the following fields: land acquisition, land development, permit acquisition, construction, and marketing and sales. The nonresidential building construction industry group comprises establishments primarily responsible for the construction (including new work, additions, alterations, maintenance, and repairs) of nonresidential buildings. The construction industry, one of the largest industries in the nation, is divided into three main segments: (1) general contractors, (2) heavy and civil engineering construction contractors, and (3) specialty trade contractors. Employment in the construction industry is expected to grow 15 percent through 2012, which is slightly less than the average growth rate expected for all industries. Demand in the construction industry is mostly dependent on the state of the economy; in recessions and periods of low economic growth, unnecessary expenditures such as remodeling and new construction are postponed. Accessibility is one of the largest concerns in the construction industry, especially in Residential and Nonresidential Building Construction. Keeping up with accessibility codes and standards has proven difficult for contractors in the past, and with new standards being created all the time, this problem will not be alleviated in the near future. Accessibility issues are further exacerbated by the fact that the number of people over the age of 65, already over 12% of the U.S. population, is expected to increase by 20% over the next twenty-five years. Because of these factors, many contractors have begun to build public buildings to exceed the current accessibility standards. Additions that they have made include making wider hallways in these buildings for easier wheelchair access, replacing current faucet designs with levered faucets to accommodate those with arthritis, and building low height paddle light switches and multiple ramps.
