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Reviewing new EPA rules for heavy equipment

Plus!
Construction Success Story
Automated marketing optimizes business development

Light the way

Boosting profitability through your financial statements

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Light the way

Boosting profitability through your financial statements

When it comes to making sense of dollars and cents, contractors may often feel like they're fumbling around in the dark. In many ways, it's an understandable byproduct of a complicated industry. Construction deals often have complex payment arrangements; long sales and project lifecycles; and considerable overhead, labor costs and upfront investment costs.

But for many construction company owners — especially those heading up small to midsize businesses — the information available in their financial statements can light the way beyond just getting by into the happy land of greater profitability.

Reviewing the basics

Like many contractors, you probably made substantial initial investments in getting your business up and running. Of course, that was only the beginning. Now that your company is established, you're incurring expenses for tools, vehicles, equipment, payroll and insurance, and perhaps real estate.

> The integrity of your financial statements is only as good as the records you keep.

Because of the size of some of these expenses, you're likely not paying them in cash. Bank loans and manufacturer financing can frequently splatter red ink over a construction business's financial statements. When debt is subtracted from your company's assets — that is, tangible objects that you own outright or in part — this big-picture number indicates whether your business is operating at a profit or a loss on any given day.

Therein lies a word of caution, however. The integrity of your financial statements is only as good as the records you keep. As the saying goes: garbage in, garbage out. To obtain the most accurate snapshot of the profitability of your construction company, accurate and complete records are imperative — including vendor invoices, payroll records, expense receipts and current bank statements.

Respecting the ratios

The three major sections of your financial statements (income statement, balance sheet, and statement of cash flows) should give you a pretty good idea of where your construction business stands for a given period. But, alone, they don't provide much insight into how to boost profits.

For that, you can take the data and run it through a wide variety of business performance ratios. Uncertain whether your sales cycle is taking too

What are your ideal KPIs?

Every construction company is a little different — or, in some cases, a lot different. Even among direct competitors, there can be vast divergence in management, culture and profitability. Measurements of how specific business functions are performing also can vary from business to business. Such key performance indicators (KPIs) offer valuable insights into misaligned and underperforming aspects of your company, as well as some clues on how to fix them.

Working with a financial advisor, contractors can select from a seemingly endless list of industry-specific KPIs that allow them to monitor and predict performance in the most critical parts of their operations. When trying to narrow down which metrics to track, you might organize them into categories and then fill up each one with, say, three to five KPIs. Here are some categories to consider:

Job-site productivity. KPIs can measure overall time to completion or drill down to completion times on specific job tasks. You can also track materials shipments and response times to change orders.

Workforce management. As a skilled worker shortage continues to plague the industry, contractors are well advised to track staff turnover rate. You might also measure employee absences, overtime hours and training time per position.

Safety. This category is related to both job-site productivity and workforce management, but it's important enough to warrant its own category. These KPIs can track accidents, lost time, project delays and workers' comp payouts.

long? Looking to maximize performance from your workforce? Here are three critical ratios that all construction owners must know:

1. Return on equity. Sometimes this is referred to as simply a company's "profitability ratio." Generally, the higher your return on equity (net earnings / total net worth), the better. Under some circumstances, however, a particularly high ratio may indicate that a business is under-capitalized or has too much debt.

2. Working capital turnover. This ratio (revenue / average working capital) measures your liquidity. In other words, you'll find the amount of revenue supported by each dollar of net working capital used. A higher ratio may signal a need for additional working capital to support future growth.

3. Backlog. This ratio — backlog / (revenue/12) — measures efficiency. More specifically, it reflects the number of months it will take to complete all signed or committed work. A lower ratio may mean your company needs to refocus its sales and marketing efforts to ensure a strong stream of new contracts is coming in.

Following the money

As you know, it takes quite a bit of money to run a construction business. Receivables frequently run past 90 days while you still must make payroll, cover equipment, and keep up with short- and long-term debt. Oh, and in the midst of all this, you're supposed to turn a profit!

How do you follow the money — and take more in than you're paying out? It all begins with having the right information. Work with your financial advisor to devise a strategy for capturing all of the data you need in your financial statements to then make the best strategic profitability decisions for your company. ■

Could a PEO prune your employment-related hassles?

For contractors, employment-related hassles can sprout like weeds and quickly grow out of control. If you find yourself constantly getting tangled in a thicket of HR and payroll problems, a professional employment organization (PEO) might be just the gardener you need.

Fewer burdens

As their name indicates, PEOs take on employment-related tasks such as:

- Recruiting and hiring,
- Payroll and workers' compensation processing, and
- Benefits administration.

The need is definitely there. Owners of small to midsize businesses devote a substantial amount of time to employment-related paperwork. This is certainly the case for construction companies, who often also have to deal with Forms I-9, temporary workers and other issues distinctive to construction projects.

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Better benefits

PEOs also can improve the quality of health care benefits. Because these firms are bulk consumers of insurance and other services, they may allow you to offer your staff enhanced plan choices that can help you compete in the hiring/retention market with larger construction companies.

What's more, with the advent of the Affordable Care Act, dealing with health care benefits has become more complex than ever. The right PEO should enable you to keep up with health care reform without having to track every new legal update or IRS guidance.

Legal assistance

In a traditional employer-employee relationship, your federal ID number and the employee's Social Security number are essentially married. Under this structure, you're able to direct and control your employees, but you also acquire certain liabilities related to the employee — tax and otherwise — which can cause problems.

For example, let's say an employee files a lawsuit after suffering a job-site injury, winning a $1 million award. Many contractors couldn't stay in business following such a judgment.

But the co-employment structure changes that relationship, making the PEO the employer of record and, thereby, shifting some or all liability to it. Thus, the PEO would likely defend the lawsuit in court or help shoulder a settlement.

Plus, better PEOs apply risk management practices to workers' compensation claims. That can help them obtain better insurance coverage and may boost your bonding capacity.

Due diligence

If you're interested in engaging a PEO, due diligence is necessary. Ideally, you want a provider that specializes in the construction industry. If you can't find a specialist, look for one that's dealt with contractors of comparable size and specialty.

Check prospective PEOs' references. Assuming at least several of those references are construction businesses, contact those companies and get their first-hand impressions of the provider.

Some PEOs could be undercapitalized, so also check their credit references and Better Business Bureau records. For an extra level of assurance, ask whether the PEO has received accreditation from the Employer Services Assurance Corporation (accessesac.org).

Good questions

When you've settled on a likely provider, meet face to face with the firm representative with whom you'll be dealing. Be sure you're comfortable with his or her credentials and personality. After all, this person will be an ambassador for your company.

There are a wide variety of good questions to ask. Has the PEO successfully negotiated savings from insurers in the past? How will it present and explain benefits programs to your employees? How often will it re-evaluate benefits to ensure your company is getting the best return on investment?

Also, discuss payment terms for the arrangement. PEOs typically charge either a flat fee or on the basis of a percentage of your company's total compensation. Your financial advisor can help you identify the best option.

Worthy of thought

Smaller construction companies may not be able to handle the expense of a PEO. And larger ones may have the staff to handle employment tasks in-house.

But if you fall somewhere in between, and are constantly losing yourself in a dense thicket of paperwork and confusing rules, perhaps one of these providers can prune away the hassles and give you more time to grow your business. ■

Reviewing new EPA rules for heavy equipment

The heavy construction equipment industry is going green. Starting Jan. 1, new U.S. Environmental Protection Agency (EPA) rules go into effect that regulate the amount of pollution that can be emitted from large diesel engines used in a variety of construction-site equipment, including large mobile generators and backhoes. These "Non-road Tier 4 Emission Standards" are the latest chapter in a decade-long effort by federal policymakers to reduce harmful greenhouse gases and particulate matter in the atmosphere.

For construction companies, the effects of these new but long-anticipated rules will be twofold. First, the rules are forcing heavy equipment makers to develop new fuel-saving and low-emission engines that may not work exactly like previous models, requiring different maintenance specifications, additional parts, and reformulated lubricants and fluids. Second, the big mechanical differences may affect the resale value of such equipment in the secondary market.

Under the hood

Prompted by new federal clean air laws, the EPA began its phased approach to reducing greenhouse gases in the late 1990s. Its first set of new requirements, Tier 1, put in place new small engine emissions standards in 1998. For the next decade, the EPA gradually rolled out the mandate — Tiers 2 and 3 — to include larger and larger nonpassenger vehicle engines.

Tier 4 is the last stage of the EPA's attempt to limit the amount of particulate matter and nitrogen oxide from vehicle emissions. Overall, advances by manufacturers were achieved through substantial engine redesign, the use of innovative materials, and new engine filters and catalytic conversion technology.

These cleaner-burning, more efficient engines are often larger than the models they're replacing. New Tier 4–compliant equipment also is expected to be roughly 8% more expensive than current models, according to Caterpillar. The heavy equipment maker also estimates that the new motors increase fuel efficiency by 5%.

Aftermarket sales

It's too soon to know for sure, but an unintended consequence of the EPA's gradual introduction of more energy-efficient nonroad engines may be that you'll get less than you expect on a trade-in for Tier 4–compliant equipment. Used construction-site generators, earth movers, backhoes and other large diesel-powered heavy equipment are traditionally bought and sold on a global market, which may now be threatened by the new, mandated technology in the United States.

Tier 4 is the last stage of the EPA's attempt to limit the amount of particulate matter and nitrogen oxide from vehicle emissions.

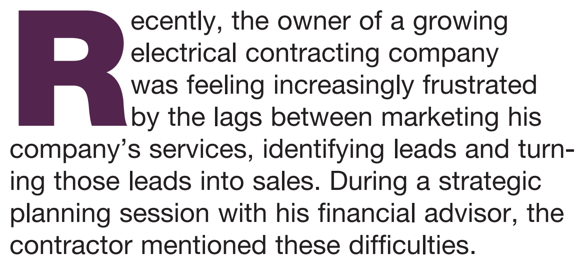
Here's why: Used heavy equipment from the United States is frequently sold overseas in less regulated markets where construction companies can't pay the full price for the latest models. But, in addition to new oil formulations and servicing requirements, Tier 4 equipment also requires a special-blend diesel fuel that may not be readily available in other countries.

For construction owners looking to bypass the uncertainty of Tier 4–related aftermarket pricing, buying older, rebuilt and retrofitted heavy equipment is one possibility. Frequently sold by qualified dealers and independent third parties, such investments may make sense until global prices stabilize in the coming decade for the new generation of heavy equipment.

Wise investments

If you'll soon be in the market for heavy equipment, be advised that the look, feel and "resellability" of those assets may not be what you're expecting. Work with your financial advisor and sales reps to determine the wisest ways to invest in new construction equipment that meets the latest EPA rules. ■

Automated marketing optimizes business development



Recently, the owner of a growing electrical contracting company was feeling increasingly frustrated by the lags between marketing his company's services, identifying leads and turning those leads into sales. During a strategic planning session with his financial advisor, the contractor mentioned these difficulties.

The advisor could tell from the company's financial statements that sales were indeed down. But perhaps more challenging was the fact that the contractor had no systems in place for tracking and evaluating prospects from introduction to completed deal.

Recommending a solution

The advisor had seen this before — particularly with growth-oriented contractors. One potential solution was a marketing automation system that would help track, qualify and score leads. A system like this would also enable the contractor to measure and standardize his company's sales process.

The contractor was intrigued. He couldn't deny that, historically, his business hadn't excelled at tracking sales data. What's more, with marketing automation software in place, the company could *own* its sales contacts and not lose them when a member of the sales staff left the business.

Making a decision

The advisor recommended bringing in a marketing consultant, who then worked with the contractor to create a list of the functions that would be helpful in a marketing automation system. Over two weeks, the contractor met with sales staff, performed independent research and queried fellow members of a local networking group.

Next, the contractor sat down with the financial advisor and marketing consultant to walk through the requirements and consider some pricing options. They realized what the company really needed was a software solution that allowed sales staff to send out a monthly newsletter to existing clients and distribute regular educational pieces to nonclients based on a set list of preferences. How individuals interacted with that collateral could be captured and used to qualify leads in a database.

Based on these requirements and others, the marketing consultant recommended looking into programs such as Salesforce, Constant Contact and SharpSpring. She noted that the three solutions vary in cost and specific features, but they would represent the type of software that the contractor needed.

Seeing the results

After careful deliberation, the contractor selected a system that included customer relationship management features as well as e-newsletter technology. And he kept the purchase within his technology budget.

The results: The company saw a noticeable uptick in sales growth during the first full quarter following implementation. Furthermore, the contractor was confident that, as he became more familiar with the software, they'd be able to leverage its functionality to even greater advantage. ■

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