



Five Key Moves to Make in Difficult Economic Conditions



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The current direction of the economy will remain unchanged as we enter 2009. How and when recovery measures will impact the residential building industry is uncertain. Many of the management strategies discussed in this article have been addressed in previous articles. However, based on the current economic situation, it is important to revisit them. Any combination of these tactics will help sustain a closely-held business or position it to take advantage of opportunities.

Owners of construction companies are forced to make hard decisions today. Implementing sound business practices should build confidence in those decisions and provide a direction to move forward.

There are five basic management strategies that impact almost all closely-held businesses. One is to reduce debt. Try to borrow less or pay off existing loans to improve the financial stability of your company. On the flip side, you can maintain liquidity and utilize cash (especially if reserves are present) to allow for greater flexibility when looking at new opportunities. To protect your profit margins avoid the temptation to invest in financially risky projects. When you do bid on projects ensure that increased overhead expenses are included to reduce unexpected losses. Maintain open lines of communication with lenders and surety underwriters to enhance the level of confidence they have in extending you credit. Lastly, invest in your staff by training key employees and, if possible, hire new talent.

Let's look at each one of these tactics in more detail.

1. A strong debt-to-equity relationship allows a company to use third party financing to fund improvements or reach for the next goal. A business with too much debt drains its cash flow for operating purposes which reduces its ability to invest in materials and products. Instead, that cash flow is siphoned-off to make debt payments. With less cash available to buy goods or services, the profitability of a company decreases and the need to borrow more funds increases.

To break this chain, a closely-held business should look at its cash flow and develop a business model to retain operating funds instead of increasing debt. For example a company that borrowed \$1.4 million on its line of credit during the past twelve months should find ways to reduce that borrowing need by 5% to 20%. To accomplish this, it may require that you hold slightly less inventory, collect your receivables five days faster or re-negotiate discounts or payment dates with suppliers.

2. Utilize excess cash to generate revenue streams or favorable terms with suppliers and vendors. If your business has excess cash, management should leverage that asset to provide greater returns. Protect your cash by investing in secure instruments that pay competitive interest returns. Many commercial checking accounts do not pay interest. Request a linked money-market account that generates interest income. Recent changes in FDIC insurance coverage provide added security to keep larger sums of cash in one financial institution. This will improve your ability to obtain higher investment returns or reduce borrowing costs.

Suppliers and vendors are faced with many of the same challenges you have. If your company has a consistent track record of paying within its terms, initiate a discussion for a discount. Many businesses are willing to discount pricing to their key or “A” customers to accelerate their own cash collection process.

3. When times turn from good to bad, it’s easy to lose sight of profitability as you focus on getting the next job. Sometimes it is better to pass on a project than accept a low profit margin. Chasing a low paying project might actually add to the strain of your own financial resources. Many closely-held business owners adopt an “I need this job” mentality. Profits will suffer as a result. Understand your business model, evaluate your profitability needs and accept projects that meet both criteria and not just one. Let your competitor win and incur the additional costs. It is costly to go after a customer for a balance due on a job, especially when it already had a negative effect on profitability and was more of a headache than it was worth.

When bidding future jobs, ensure that estimates include increases in overhead, wages and other operating costs. Ask yourself, have I factored in the current rate of fuel? Do my labor costs incorporate increases in healthcare coverage?

4. Communication can help secure your credit needs. Banks and surety companies do not like surprises. They are more likely to extend credit to customers that keep them informed and successfully manage risk. Acknowledge the challenges your company faces and demonstrate that you have the skills necessary to resolve them. Doing so will enhance the “character” aspect of you company. Many credit decisions are now based on tougher guidelines with more emphasis placed on who is repaying the debt. Do you possess good business skills and demonstrate integrity in your operations? Do you have a history of making payments on time?
5. An employer can build loyalty by demonstrating to its workforce a commitment to their well-being. The most obvious way is through pay increases which will be difficult to give in today’s economy. It could be more feasible to invest in educational opportunities that will have long-term dividends. The employee will benefit from the acquisition of new skills. The employer will also be rewarded by having a more motivated and dedicated

worker. The largest asset most businesses have that is not part of the financial statement is their workforce. So enhancing the quality of your workforce is a solid choice.

Good news travels fast. Talent is attracted to employers who demonstrate commitment and provide the best work environment. By investing in your workforce, you could discover that a quality employee will raise your performance standards. Or, a mediocre employee may be forced to step-up to new challenges to remain employed. Competition is a good thing and attracting better talent can only help you grow in the long-term.

Implementing these strategies will increase your ability to survive the “tough times,” and make it easier to manage the finances of your construction company.

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