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Points to Ponder

“The road to success is always under construction.”

-Unknown



PROFIT CLUE

Profitability Tips for Construction Businesses

Winter 2009

Build Your Lifeline Through Relationships

Relationships are the basis on which your company grows. Especially in times of distress, the actions of your key partners can mean either survival or failure for your business. When we're worried about the future, we have a tendency to focus solely on how to get through the next job. But take some time to consider how you can improve your relationships with the following key groups, and you'll weave a safety net that will support you in good times and bad.

Employees: Calm their fears about how this crisis will affect the company, their jobs and their benefits. You're better off speaking plainly about the challenges the company is facing than letting their imaginations run wild.

Also keep an eye out for employee fraud, which tends to increase when employees are feeling a financial pinch. Remember, the best way to prevent fraud is to remove opportunity. So make sure financial duties, such as negotiating contracts with vendors and paying invoices, are performed by separate individuals, or at least double-checked.

Your customers: How are they being affected by the economy? Your best customers are your most secure source of future income. If you can afford to help them now, they will reward you with loyalty in the future. For owners that are sources of ongoing work and in a solid position today, consider proposing a "preferred supplier" arrangement.

On the other hand, take a hard look at developers and owners in dire straits. If you don't have a reasonable expectation that they'll be able to pay their bills, then you could be headed for the same fate.



Subcontractors: A good subcontractor can mean the difference between completing a job on time and on budget, and losing your shirt. Can you afford to provide your best subs with a financial incentive for working efficiently? If not, how else can you show your appreciation?

The slowdown will also present opportunities to work with better and more reputable subcontractors. Keep an eye out for good subs who have more capacity now.

Lenders, accountants and surety companies: Lean on your professional advisors to help you weather the storm. They have valuable insights born from working with many companies similar to yours. Share your plans, listen to their concerns and help them help you. Check the status of your credit lines and ensure that you're compliant with the terms of your loan or bond. ■

A Tale of Two Builders

Not every contractor or builder is suffering today. Prudent business owners with solid liquidity are in the best position to ride out the storm – today and in the future. Consider the following tale of two builders.

- Builder A thought the good times would last forever. He bought two lavish homes, both with million-dollar-plus mortgages. He owns an expensive car and a boat – and the debt to go along with those toys. He's got five family members besides himself on the payroll – only two of whom make a substantive contribution. His current jobs are highly leveraged, and he needs to sell 30 houses this year to support the lifestyle he's built for himself and his family.



& Questions Answers

Builder B started planning for the slowdown of work 18 months ago. He sold all assets that were not essential to his business, such as commercial real estate investments, a condo in Florida and a share in a corporate plane. As a result, he's sitting on \$2 million in cash. He lives in a modest house, drives a pickup truck, and his three employees are all highly qualified, hard workers. While he has been selling 10 to 15 houses a year, he can survive by selling five.

Which builder do you think will survive? Do you recognize yourself in one – or maybe in both? There are few business owners who do everything right or everything wrong. Now's the time to take stock of your situation and make changes in your business and personal lifestyle to ensure you survive, or even thrive, in any market. ■

Who's Who in ProfitCrew™

Who: Anthony Magnafici, CPA, is a senior accountant and member of Wolf & Company LLP's **Construction and Real Estate Industry Group**. He works with clients in various industries including construction and real estate.

Anthony is a member of the American Institute of Certified Public Accountants and Illinois CPA Society. He discovered he had passed the CPA exam while honeymooning with his bride in the Virgin Islands.

What he does best: Anthony's enthusiasm and willingness to learn as much as possible about the construction industry, and his eagerness to provide beneficial services to clients in order to build personal knowledge and lasting business relationships.

In his spare time: Anthony enjoys his new (married) lifestyle and his one-year old Golden Retriever, Max. He also enjoys the outdoors and sports, especially playing softball and golf, and watching the Chicago Cubs, Bears, Bulls and Blackhawks.

Question

My backlog is shrinking and I'm getting very nervous about the coming year. What are the most important steps I can take to survive?

Answer

It's all about cash. Companies with healthy liquidity will survive this downturn. Not only are the following points critical for struggling contractors and builders, but they're just plain good sense for any business owner.

- Prepare budgets and forecasts. What are your cash flow needs for the next 90 to 120 days? How much of a drop in revenues can your business withstand and for how long? If you don't already have software to calculate monthly cash flow, ask your

accountant to help you evaluate software packages or build a spreadsheet.

- Talk to your banker today about short-term financing. Even though credit is tight, there are still banks that are willing to finance a good client with a real plan in place.
- Follow up on aged receivables. Make sure you have up-to-date contact information and that invoices contain all the pertinent information, such as the customer's purchase order number. Be proactive, too. Look at your biggest projects and consider whether the slowdown will affect the owner's or GC's ability to pay.

- Renegotiate with vendors. Your material suppliers and subcontractors are likely struggling, as well, so they have an incentive to work with you to make sure they get paid.
- Trim the fat, but don't cut an artery. While reducing overhead is often necessary in a recession, go too far and you may hamper your future effectiveness. Some overhead items, such as marketing, competitive salaries and benefits, are essential to enable you to successfully emerge from the recession. ■