

Industry: 2362 - Nonresidential Building Construction
Sales Range: All Sales Ranges
Location: US - West
Prepared On: 9/18/2007

INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (240)	2006 (265)	2005 (351)	All Years (1251)
Current Ratio	2.29	2.07	2.18	2.20
Quick Ratio	1.95	1.72	1.65	1.80
Gross Profit Margin	17.07%	17.48%	17.13%	16.60%
Net Profit Margin	5.17%	4.07%	2.90%	3.51%
Inventory Days	2.85	2.67	5.51	3.73
Accounts Receivable Days	57.47	56.98	60.04	56.75
Accounts Payable Days	45.65	44.71	47.09	44.91
Interest Coverage Ratio	20.99	20.49	20.74	19.34
Debt-to-Equity Ratio	2.55	2.58	3.31	2.84
Return on Equity	28.07%	27.69%	20.57%	20.26%
Return on Assets	14.76%	13.58%	9.05%	9.67%
Fixed Asset Turnover	28.21	28.40	24.25	26.06
Sales per Employee	\$650,715	\$639,304	\$548,968	\$536,309
Profit per Employee	\$33,810	\$32,147	\$17,323	\$21,885
Growth Metric	Recent 12 Months (182)	2006 (188)	2005 (194)	All Years (646)
Profit Growth	33.74%	40.35%	24.02%	27.47%
Sales Growth	26.01%	27.40%	18.02%	19.63%

LIQUIDITY

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

- ▶ Discover ways to receive returns on excess cash balances. For example, set up a "sweep" account at the bank so that interest can be earned on any excess funds in the checking account. These accounts allow the business to transfer funds overnight into an account that earns more interest.
- ▶ Increase prices selectively where possible. Done effectively, this can boost cash flow and liquidity. Good Income Statement management helps Balance Sheet performance.
- ▶ Eliminate or reduce some overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if fixed costs can be reduced (those costs which tend to stay the same over time).
- ▶ 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, both of which will reduce cash.
- ▶ Sell things that can boost cash such as unproductive assets. These are assets that are not contributing sufficiently to the generation of income and cash flow (possibly because they are under-utilized).
- ▶ 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. This can help predict/prepare for potential cash shortfalls that may occur in the future.
- ▶ Borrow some long-term money (if necessary and possible) and put the funds into a liquid (cash) account.
- ▶ Pull frequent (weekly) accounts receivable reports in order to examine how effective the business is at collecting funds. Take action on any accounts that are overdue.
- ▶ Use as much trade credit or vendor financing as is reasonable/possible -- this is the best form of short-term financing. Trade credit is financing the business receives from suppliers when they provide services and then bill the business. It is typically free debt (in accounts payable) because it does not carry interest.
- ▶ Structure accounts receivable properly. Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. There is often no good reason to treat all customers the same here. Be selective in choosing which customers will receive any credit at all. Make sure giving credit will increase revenues and income.
- ▶ 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. Current Balance Sheet obligations (such as debt on purchased assets) are uses of cash.
- ▶ Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect invoice. This will extend Accounts Receivable and hurt cash flow.
- ▶ Term out some short-term debt if necessary and possible -- move some short-term debt down the Balance Sheet to long-term debt. This will usually require refinancing from the bank. The point of this is to relieve pressure from cash flow by lowering short-term payments. This is typically most appropriate when a business is having chronic difficulty meeting obligations.
- ▶ Try to establish a sufficient line of credit from the bank. There are methods to determine the amount of short-term credit needed to run the business. Talking with the bank can be helpful in this area. The business should obtain, but not necessarily use, as much financing as possible from the bank.

- ▶ Finance over the long term rather than the short term when financing is possible and necessary. This can help reduce per period cash outflows.
- ▶ Use a monthly or bi-monthly payroll schedule if possible -- so long as morale will not be adversely affected. This will allow funds to stay in the business longer. Even labor outlays are a form of short-term financing.
- ▶ Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- ▶ 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.
- ▶ Obtain external financing if necessary and possible. Locate investors who may be interested in supplying funds to the business.
- ▶ Apply and collect late fees on delinquent Accounts Receivable when possible -- charge interest on past due invoices.

PROFITS & PROFIT MARGIN

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

- ▶ Focus on purchasing the right doors for the project, because doors are often the most overlooked part of the materials planning process. However, choosing quality doors can decrease future maintenance costs and increase workplace safety.
- ▶ Invest in software, such as on-site logistics solutions, to help you better manage labor and materials costs.
- ▶ Calculate the life-cycle costs of a project before making a bid. This includes using the time value of money (TVM) to estimate future maintenance costs.
- ▶ Consider using hot-dip galvanized steel, which uses a zinc coating to prevent corrosion. This could significantly reduce your recurring maintenance costs.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts). This should allow management the ability to pull "variance reports". These reports compare budgeted revenues and expenses with actual revenues and expenses and can help managers keep costs down.
- ▶ Obtain internal reports that identify the business's key performance indicators (KPIs). KPIs help managers make good decisions by identifying the figures that are critical to performance. Net profit is not a KPI -- profits are a result of managing KPIs well.
- ▶ Examine how materials are being purchased and determine whether buying larger quantities will make sense price wise. This may help if material costs are expected to rise.
- ▶ Create direct labor reports with the financials each month to assess performance. These reports should measure direct labor by job or project. Can staffing be managed more effectively per job or project? Can employees be used in different capacities to improve productivity or save on costs? Can part-time/temporary labor be hired to reduce overtime costs?
- ▶ Invest in activities that can yield positive returns. For example, advertising and employee training can often improve performance for the business.
- ▶ Obtain an annual business check-up. Meet with an accountant or banker to review financial statements and get advice on how to improve performance.

- ▶ 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.
- ▶ Establish expense accounts using excess funds not dedicated to taxes. Use these accounts to grow revenues and increase earnings -- marketing expenses, equipment purchases, and employee training can be considered. Remember, this has the dual benefit of lowering present tax burdens (these expenses will lower taxable earnings) and driving long-term profits.
- ▶ Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness. Many businesses don't track how they get incoming business so they cannot track the effectiveness of advertising. Try to determine where new business comes from through surveys and even more informal ways. Talking to customers is never a bad idea.
- ▶ 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 the right insurance program at a good cost. Evaluate alternative insurance carriers that may be able to serve the business at a cheaper cost. Meet with insurance agents to determine ways to reduce costs by evaluating coverage and deductibles.
- ▶ Use materials and equipment that has been tested to be highly efficient. Additional costs upfront could prove to substantially decrease costs in the future.

SALES

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

- ▶ Diversify the business offerings so that if one area hits a dry patch, solid profitability can still be earned.
- ▶ Provide quality work in a timely manner. Perform the duties of a contract well and finish jobs on time. This will create a good reputation and ultimately bring in new work.
- ▶ Keep open communications with current clients and let them know the progress of the job. This will ensure quality work which will do well with referrals.
- ▶ Pay attention to detail and follow up with requests. This is a good way to create a good reputation and attract future work.
- ▶ Fix problems with the finished product quickly. This is a good way to create quality and differentiate the business from competitors who take their time.
- ▶ Establish uniqueness in the product or service the business offers -- a unique selling feature. By doing so, the business can generate increased demand for its offering and potentially increase prices as well.
- ▶ Have an attractive web presence. This will potentially increase revenue by providing an extra forum for the business to feature its offerings. Consider consulting a marketing/design firm to get tips for improvement.
- ▶ Be sure to subscribe to and READ the trade journals that are relevant to the business. Typically, there is no greater source of good operational information than a trade journal and there are many ideas that can help managers increase sales and keep customers.
- ▶ Clearly define the mission of the business and make it visible to potential clients. This can be done through strategically placed advertisements and serves to let potential customers know what services they can expect from the business.
- ▶ Create a reputation as a quality provider in order to help generate referrals from customers. When appropriate, consider offering incentives to customers for providing referrals. An example could be offering a

gift certificate or coupon in return for a referral that leads to additional business.

- ▶ Work to consistently meet the needs of customers. Determine what the customer needs and whether those needs are being met. Assessing performance is often central to maintaining business.
- ▶ Keep open communication with customers to help ensure quality customer service. Many customers will return to a business that takes the time to answer questions promptly and knowledgeably.
- ▶ Compare the business to others in the industry; benchmark how the business is doing in terms of quality and prices. This can help improve the business's competitive position and maintain customers who might be seeking other sources for products or services.
- ▶ Use industry experts and consultants to help you improve your business. This is particularly helpful if you feel like you want to concurrently keep and get more customers. People with long experience in an industry can save you years of time by leveraging their knowledge. Industry consultants can be found in trade journals and magazines.
- ▶ 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 are consistent throughout the business. Sometimes, marketing and advertising materials send different messages, which may confuse potential or existing customers/clients. Layouts in materials should be the same and "messaging" on main themes should be consistent as well. Look across all materials at one time to be sure that main themes are consistent and that layouts (including colors) are similar. 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.
- ▶ Display the achievements of the business where appropriate. For example, obtain and display testimonials and/or awards won. This can help establish the business as a quality provider to potential customers.
- ▶ 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.
- ▶ Be sure to thank customers for their business after each interaction. This simple act can help customers feel they are appreciated and that their business is always welcome.

INDUSTRY OVERVIEW

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 dependent mostly 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.