

Get through the lean times

Lessons learned from the construction industry **Interviewed by Matt McClellan**

Members of the construction industry have lived through the peaks and valleys of the economic rollercoaster, and the experience has made them wiser.

"When times are good, companies can get fat and happy," says Roger T. Gingerich, CPA/ABV, CVA, partner-in-charge of the real estate and construction group at Skoda Minotti. "You're growing, so you add people and costs, and all of a sudden, the company has become less efficient from a cost standpoint."

Many industries, like construction, have become leaner by necessity.

Smart Business spoke with Gingerich about how to survive when business is scarce.

What challenges does the construction industry face today?

There is less work available and, at the same time, increased competition. As a result you have more people bidding on that work, which makes it more competitive. Also, many contractors were in residential construction. As the work dried up, they decided to go into the commercial side of construction. The residential market was down, so they had to go somewhere else to get work. As banks have tightened up, there is less money to finance projects. If companies want to put an expansion on their building, they can't go to the bank and get the loan. So that project gets put on hold.

Bank financing also works as a negative to the contractor. The owner can't get money to fund the project, but on top of that, many contractors are being challenged by their banks to get the working capital lines of credit they need to fund the construction of these projects.

How can companies adapt to today's economic circumstances?

Bid the job, not the competition. There is some crazy bidding going on because the competition is forcing contractors to bid jobs at break-even rates, or less. They know that if they don't get any work, they don't have any revenue coming in. But if they bid tight, they leave themselves very little margin for error and don't seem to realize they may be making their situation worse because, even though they are working, they are losing more money. In the construction



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world, it doesn't take much for one thing to go wrong on a job that takes the profitability down pretty quick. Bidding tight to beat the competition is how a lot of contractors get hurt.

On the flip side, if you don't get enough work, you're not going to be able to survive. That becomes one of the contractors' biggest juggling acts. They have to balance bidding competitively with bidding responsibly on these jobs. They need to make enough margins to add profit that will cover their overhead costs and help them survive in a tough market.

What steps should an owner take to improve a company?

You can't continue to run the company today the way you ran it two years ago when volume and margins were up. When times are like this, you have to look at payroll. Decreased volume may require decreasing staff levels or converting some employees from full-time to part-time. Take a look at benefits. When times are good, you can afford benefits and use them to attract good people. But when times get challenging, you may have to modify the type of benefit packages you can offer to your employees. You're costing yourself money if you're not

shopping around every year for your health insurance. If you continually accept the 20 percent increases in health insurance costs and don't shop around looking to do better, you're leaving money on the table. You can also look at your occupancy costs. Do you have the ability to go back to your landlord or building owner and work something out to reduce your monthly rent? One school of thought says to cut overhead when times are bad. But your marketing costs may be the one area you can spend more on to help you get work or set yourself up to get work when the projects come back into the economy.

What lessons can other industries learn from the challenges of the construction industry?

Businesses should always have a plan in place in case of a downturn in the economy. Think ahead to know you have the right procedures in place to be as far ahead of the curve as you can be, as far as cutting costs and acquiring business. You should always be thinking up to three or four years ahead. Make sure you are maintaining your banking and bonding relationships. Don't be a stranger, because the fewer surprises they receive, the better. Last, make sure you work closely with your advisers in times like these.

Why are advisers important?

If contractors are getting into jobs where the margins are already tight, they should make sure their contracts have been reviewed, they understand the language in the contract, know the process of how to document claims, and how they will resolve issues and disputes. Advisers can scrutinize the economics and risk-shifting provisions and make sure you aren't getting into a project in which all the risk is on you and yet there is no reward. Work with your agents to keep bonding programs in place, with your banks to keep the line of credit, and with a CPA who brings that all together by putting together the financial statements that get you the line of credit and bonding programs you need. Work with your CPA to make sure you have the right systems in place to determine profitability and manage your overhead. If you don't know if you are making money on a job or not, that's a problem. <<

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