



## **An increased emphasis on profitability and planning can help your company survive and thrive**

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Given current economic conditions, it is imperative to effectively assess the degree to which your business is positioned to brave stormy weather. With this in mind, Grassi & Co., CPAs, in association with McGraw-Hill's New York Construction, conducted its 2009 survey on the state of the construction industry. Distributed to more than 1,000 construction firms in the New York metro area (with 158 respondents), the survey included 78 questions studying seven categories of data: (1) About your company, (2) Your work and your contracts, (3) Self-improvement/training/technology, (4) Your business: Profits, problems, and capital access, (5) Financial tools and controls, (6) Business development, and (7) Your future.

After examining trends in the data, we concluded that there are four primary areas in which construction firms should be applying their time, energy, and resources: (1) construction and maintenance of a business plan, (2) construction and maintenance of a marketing plan, (3) diversification of market sectors, and (4) establishment and deployment of effective financial tools. The first part of this two-part article will focus on the need for an effective business plan and diversification of contracts and markets.

Of the respondents, 57% indicated that they have an organized business plan, and of those, 39% indicated that their companies had outside help in preparing them. In our work with many of the industry's most successful contractors, we have found that the vast majority of construction contractors have a business plan and treat it as a living document; it is consulted frequently and updated on a regular basis. In addition to an overall business plan, we gathered data with regards to succession planning, talent attraction and retention, and training programs.

60% of respondents did not have a succession plan in place, and yet, 54% indicated that they were planning to implement an ownership transition plan during the next decade. Because many construction firms are twenty years old (or older), and because many are family owned and operated, succession planning is an increasingly prevalent need. In the current economic climate, it would be wise to implement a plan for the future. Meanwhile, 42% indicated that the attraction and retention of skilled talent and labor remains a challenge, affecting profitability. Although 76% of respondents use outside sources for training, 57% have no in-house training programs; this is surprising, given the pronounced need for attraction and retention of talent and labor.

The composite picture of these statistics shows the need for a strong, cohesive, and flexible business plan that can ensure the health of your organization. In addition to the plan, contractors need to take measures to diversify market sectors and pursue different types of contracts.

With a slowdown of private sector work affecting the entire industry, many firms are looking for additional opportunities in public works. Despite private sector work slightly increasing for respondents over the past two years, this work has experienced a significant slowdown this year.

Nearly 91% of companies that predominantly perform private work see themselves bidding on public work during the next three years, providing increased challenges for competitive bidding. The results show competitive bidding has more participants - between six and ten on average per project - creating stiff competition and price/bidding wars.

As far as geography is concerned, the majority of survey respondents report that most of their work is performed in the five boroughs of New York City. In addition, only about 30% of them currently participate in joint ventures, although that number demonstrates a 20% increase from the 2005 survey.

With the current decrease in private spending, a limited geographical focus in the industry, and an increased focus on joint ventures, diversification of market sectors is almost a necessity to thrive. Smart companies will bid on more public work, especially opportunities outside the New York City area. In addition, neighboring states are currently spending tens of billions of dollars on infrastructure work, and it would be good practice to stake a claim in these markets. Furthermore, joint ventures can increase a firm's breadth and depth of contacts and experience, as well as provide access to new types of projects.

In addition to the need for a strong business plan and diversification of contracts and markets, the survey yielded data regarding financial tools and strong marketing plans, both of which can be instrumental to the vitality of your company. Those will be discussed in more depth in the second part of this article.

The lack of a strong business plan can lead to an increased emphasis on cash flow over profitability. We have found that the most successful contractors have controls in place for budgeting, forecasting, monthly financials, and profitability reports. Many of the survey respondents do not rely on these tools to manage their businesses; this can have a serious negative impact on your bottom line. An increased emphasis on profitability and planning can help your company survive and thrive in today's challenging economic climate.