Construction
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Stop the drain on your business's profit potential

Profit is the lifeblood that makes your construction business prosper and grow. It allows you to invest in people, systems, equipment, training, customer service and technology. Without it, you and your company wouldn't be able to survive. At the simplest level, profit means bringing in more money than you spend. So two key steps you can take to improve your bottom line are to control overhead costs and to boost collections.

Controlling overhead

Generating a profit starts with knowing how much money you need to cover the cost of doing business. Overhead costs include everything you need to run your company without any jobs under construction, such as insurance, administrative payroll, marketing, office lease or mortgage, utilities, and computers and supplies.

At the beginning of every year, make it a priority to sit down with your CPA and calculate the annual overhead expenses you anticipate. He or she will help you find areas where you can trim some fat, perhaps dramatically reducing your costs. And you'll gain more than just a consultant; you'll get a business partner who can also help you with tax planning, bonding and financing, cash flow analysis, succession planning and other financial programs that will help you be more profitable. (For specific ideas to trim costs, see "Tips for cutting overhead" on page 3.)

Boosting collections

All businesses — construction companies included — lose thousands of dollars each year because they fail to properly manage their billing and collections function. Too often, a company will send out a bill and wait patiently for the client to pay up. They take notice only when the bill falls into the "over 60-day" category. At that point, it can be extremely difficult to collect the full amount.

All contracts should include a realistic payment schedule that the client can meet.

To encourage faster bill payment, make your bills due and payable *on receipt.* Many clients will process your invoices immediately if your policy is clearly outlined at the contract stage and it's reinforced on every invoice. Also, include as much detail in your invoices as possible and attach related documentation, such as approved change orders. This will help ensure clients don't delay payment simply because they don't understand what they're being charged for.

Similarly, all contracts should include a realistic payment schedule that the client can meet. Then comply with the contract's terms and conditions to circumvent potential billing disputes.

Designate someone in your office to follow up promptly and proactively on overdue payments. If clients ignore the first bill, mail another one, along with a letter stating, "Our records show your payment is past due. Please notify us immediately if our information is incorrect or if there is a problem with this transaction. Otherwise, we request immediate payment."

If that doesn't work, call the client and ask when payment can be expected. Be understanding, but firm. After all, you don't want to damage the relationship. For local clients, you can offer to send someone over to pick up a payment. For those out of your area, ask them to express mail a check or pay by wire transfer.

Nothing will guarantee that you'll get paid 100% of your money every time, but using these collection strategies will put the odds in your favor.

Peak your profits

The path to increased profitability is paved with vigilance. By keeping a close eye on your overhead expenses and tightening up your billing and collections process, you can go a long way toward a more profitable future.

Tips for cutting overhead

Reducing your overhead won't necessarily put you on easy street, but it will help you reach your profitability goals that much faster. Consider:

Insurance. Tap into the bargaining power of the trade organizations you are a member of to lower your business and health insurance costs. They can negotiate group rates that may be more affordable than individual policies. If you're willing to go with a higher deductible, you can realize even greater savings.

Utilities. Turn off computers and other office equipment when not in use. If they must remain on for back-up purposes, set them to go into sleep mode after periods of inactivity. Use task lighting instead of overhead lighting and convert to compact fluorescent bulbs. Also, install a "smart" thermostat, which allows you to program heating and cooling around your business's open hours, yielding additional savings.

Office supplies. Buy pens, paper, file folders and paper clips in bulk to get volume discounts. Refill used-up ink cartridges. A typical refill kit may cost you $5, whereas a new ink cartridge could run $30 or more. Go surfing: Online suppliers can often beat brick-and-mortar office supply store prices.

How to take the sting out of health insurance premiums

It's no secret: The cost of providing health insurance benefits is high enough to give everyone headaches — not to mention straining business budgets and employees' paychecks. Rather than battle the insurance blues, however, contractors can trim costs with a number of solutions. Sound interesting? Read on.

Wellness incentives

Companies that offer wellness programs give employees incentives to reach a number of lifestyle goals, such as quitting smoking, losing weight and exercising more. The logic behind these programs is simple: Healthy employees don't call in sick as often, are more productive and spend less on health care, which means your premiums are lower.

In exchange for staying fit and healthy, the employee receives small rewards such as time off work, gift cards or bonuses. Often, the insurance company kicks in as

design your plan to allow a 2½-month grace period after the year end to give your employees more time to deplete funds in their FSAs.

Money redirected into an FSA also isn't subject to payroll taxes, resulting in a substantial savings for both you and your employees.

Health Savings Accounts (HSAs)

HSAs pair high-deductible health plans (HDHPs) with tax-free savings accounts for medical expenses. The higher the deductible, the lower the cost of the policy. Employees can use these special savings accounts to pay out-of-pocket health care costs.

well, offering discounts on health insurance premiums, health-club memberships and gifts such as exercise equipment and portable music players.

Wellness programs also emphasize preventive care. Screening tests for major illnesses, such as heart disease and diabetes, allow your employees to get treatment before emergencies occur, significantly reducing your health care costs. To encourage participation in health assessments, you can choose to pick up more of the cost of the employees' monthly insurance premiums.

Employee cost-sharing

Many companies share the costs of benefits with employees. In addition to paying a portion of their health insurance premiums, most employees make additional payments when using health care services. The three most common mechanisms of cost-sharing involve copayments, coinsurance and high deductibles. Increasing the amounts of any of these variables will decrease overall premium costs.

Flexible Spending Accounts (FSAs)

An FSA is a medical expense reimbursement program that allows a worker to set aside funds for medical expenses on a pretax basis. The employee must decide in advance how much he or she wants to set aside, typically basing the amount on his or her previous year's expenses. Any amount that is not used up by the end of the year is forfeited. However, you may

Contributions to the HSA are pretax or tax-deductible, and workers can carry the funds forward from one year to the next, as well as from one job to another. If the worker dies, the HSA transfers to a beneficiary designated by the employee.

Health Reimbursement Arrangements (HRAs)

Like HSAs, HRAs are a special kind of tax-free savings account. They work best with HDHPs, though, unlike HSAs, HRAs can be used with lower deductible plans. With HRAs, you are the sole funder of your workers' accounts. Accounts don't need to be funded until expenses are incurred, however, and you can keep any unused HRA funds.

Rollovers to a new employer's HRA are also at your discretion. Likewise, you can decide whether to allow a worker to access any funds remaining in his or her account at termination or retirement.

Offsetting costs

Health care costs continue to skyrocket, as do insurance premiums, and there's no relief in sight. But you can beat the system by encouraging your workers to live healthier lifestyles and to become financially responsible for more of the real cost of their health care services. And the benefit to you? You can hold the line on health care costs, freeing up important resources for mission-critical goals.

Going once, going twice – sold

Finding used equipment at reasonable prices

Buying new construction equipment can be a tough pill for any construction company to swallow. After all, pristine purchases come with a hefty price tag that can strain resources. If you're in the market for equipment, however, you don't have to pay top dollar. Construction equipment of every size, type, vintage and condition is available at reasonable prices at auctions across the United States.

You choose: Local or online

Public sales can be found online or through auction and construction equipment companies. Most advertise their sales in newspapers and construction-related magazines. If you're the kind of buyer who likes to rub elbows with other bidders and personally inspect the equipment you purchase, you'll probably want to attend a local auction. More and more buyers today, however, prefer the convenience of live Internet auctions.

It's important to understand the terms and conditions of sales before you place a bid.

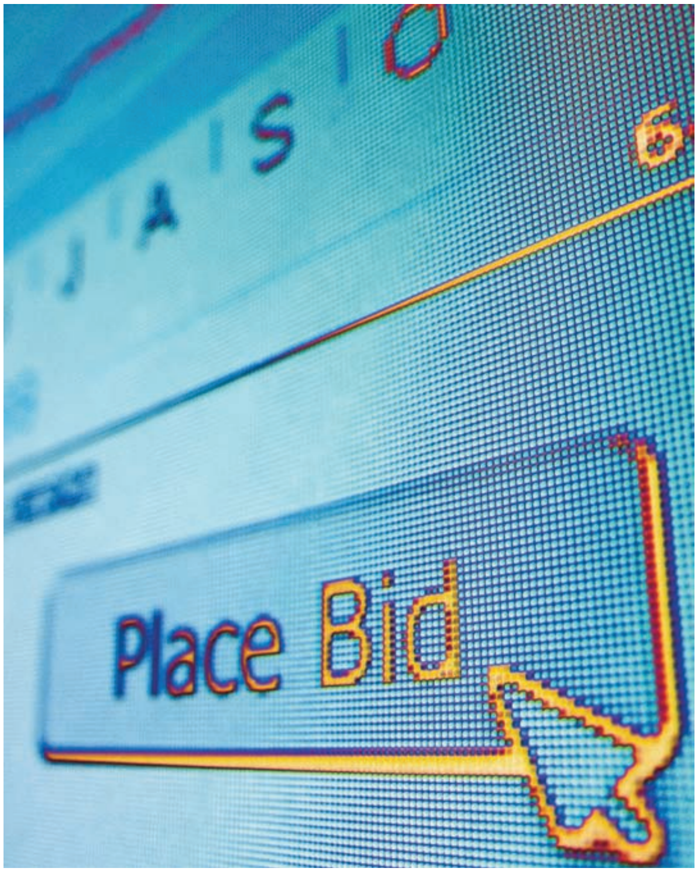
With Internet auctions, you can bid on as many items as you want from the comfort of your home or office, no matter where the equipment is located. For example, www.ironplanet.com holds Internet-only auctions every two weeks. Current ask-and-bid prices are displayed in real time on a bidding screen, along with photos of the equipment and details about its condition. Participants simply enter the amount they're willing to spend and click on "Place Bid." A counter shows how much time is left in the sale. No special equipment or software is needed.

Other auction firms, such as Ritchie Brothers (www.rbauction.com), hold physical sales in conjunction with live Internet auctions. This means online bidders compete with buyers at the live auction. The company offers free software so online participants can see the equipment, hear the auctioneer call out bids and place bids in real time. When you activate the "Bid" button on your computer screen, you'll see the current asking price displayed for the selected item. Just clicking the button submits your bid. If your bid is the first to reach the company's servers, it will be forwarded to the auctioneer. Internet bids are displayed on monitors located at the auction site.

Online auction companies usually post detailed instructions about how the process works, along with auction-day demos. Some offer the opportunity to practice your bidding skills so that you'll be prepared for the real deal.

Know what you're getting into

Policies vary considerably among auction companies, so it's important to understand the terms and conditions of sales before you place a bid. If you're buying equipment online, for instance, some firms may require that you accept certain payment terms before you place your bid. For example, understand — before the sale is completed — who will be picking up the tab for shipping the equipment. If yours is the winning bid, and you don't understand the shipping terms, you may wind up paying thousands of dollars more than you bargained for just to get the equipment delivered.



Moreover, make a list of what you're looking for, with exact specifications, to use as a reference when shopping. Know what you're willing to spend and be firm about sticking to your budget. Remember: There will always be another construction equipment auction. You might not find what you were looking for in your price range this time, but you'll have plenty of future opportunities.

If you're attending a local auction, examine the equipment before bidding begins and try to assess how minor or major any repairs will be. If you're participating in an online sale, view all the information and photos provided to help you determine the equipment's condition. Keep in mind that goods sold at auction are generally sold "as-is, where-is," without any warranty express or implied.

Look for opportunities

Whether you're looking for a compact endloader or a 500-ton-capacity crane, construction equipment auctions are great places to find what you need at competitive prices. Just remember to stand by your original budget and strategy and be patient. Your odds of walking away with the equipment you want at a fair price are greater when cool heads prevail.

Critical deadline nears for auditing requirements

The deadline for complying with the Sarbanes-Oxley Act's (SOX's) internal control reporting and auditing provisions is just around the corner for smaller, publicly traded companies.

A focus on financial controls

If your construction company is publicly traded and its annual revenue is under $75 million per year, it's time to start preparing for the new auditing requirements. SOX Section 404 requires you to include a report on the effectiveness of your financial controls in your 10-K annual report for fiscal years that end on or after Dec. 15, 2007.

The report must detail the internal financial controls you have established at your company to fight fraud, including any problems that have been fixed. Auditors' attestations of the reports won't be required until fiscal years ending on or after Dec. 15, 2008.

The auditor of your company's financial statements must evaluate the process management used to perform its assessment of internal controls; assess the effectiveness of the controls' design and operation; and form opinions about whether your company's assessment of its controls is fairly stated and whether they're effective.

Then, your auditor must develop *customized* procedures based on the dynamics of your business's environment and operations. This is a shift from the current approach of using standardized audit procedures and checklists. Make sure you discuss these issues with your CPA so you understand how these requirements will affect your construction business.

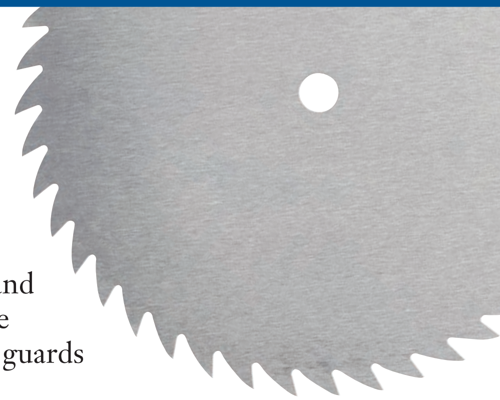
Private companies must be wary, too

If your business is in the process of going public or is being acquired by a public company, you may prepare your first annual report without complying with SOX Sec. 404. But even if your company is privately owned, you'll still need to comply with certain provisions. For example, SOX:

- Creates harsh penalties for individuals who retaliate against whistleblowers,
- Extends the statute of limitations for securities fraud lawsuits to the earlier of two years after the discovery of the facts causing a violation or five years after the violation, and
- Creates new criminal fraud offenses and increases criminal penalties for mail and wire fraud.

Sec. 404 is important for thousands of publicly traded companies and the accounting firms that review their finances. Meanwhile, like it or not, SOX has also raised the bar for private companies.

Contractor's toolbox



Danger abounds

Correct job hazards before someone gets hurt

Accidents happen — on construction sites, in offices and on the road. And yet, contractors could eliminate many of them by being mindful of and assessing their surroundings for potential hazards. This means thinking ahead to what jobsite hazards could be encountered and then rectifying any problems.

Taking the time to identify hazards and eliminating them as early as possible will help you prevent injuries, lost worker time and potential fines. Plus, it will help keep your workers' compensation costs under control. A job hazard analysis is the first step to eliminating hazards before they occur.

Review previous accidents first

Start by reviewing your company's accident history. Discuss the situations that led to these accidents with each employee involved. Ask how they could have been prevented and whether the problems still exist. For example, are workers still using a damaged forklift or donning worn-out personal protective equipment? If so, remove these hazards immediately. Even little problems can cause serious injury or death.

Take a hard look at current processes

Because a job hazard analysis focuses on each step of the construction process, you'll need to get your employees involved so nothing is overlooked. Watch the workers perform their jobs and write down each step they take. Then, identify all actual or potential safety and health hazards associated with each task. Determine how to eliminate those hazards, and follow up to be sure the fixes are in place and working.

For example, crews laying footing forms typically cut form lumber with a chop saw or circular saw. Potential hazards include high-pitched noise that can damage hearing and saw blades that can cut whatever they come in contact with. To minimize or eliminate these hazards, saw operators and adjacent workers should wear earplugs, and power saws should have manufacturer-supplied guards in place at all times.

Projects involving earth-moving equipment pose a significant hazard in that workers can be run over. Make sure all workers on the ground wear high-visibility vests and hardhats and that equipment has alarms that sound when operators are backing up.

Help your bottom line

With construction costs soaring and the marketplace becoming increasingly competitive, protecting your bottom line and maximizing profits are paramount. A clean safety record can help you keep your company's workers' compensation rates in check. Why? A contractor with a history of good safety performance is more likely to perform safely in the future than one with a poor or less-than-average record.

Safety performance also can affect your bonding capacity. Before a surety company will issue a bond, it must be satisfied that a construction company is well managed and that all risks are being addressed, monitored and measured. Surety underwriters look for any red flags that can call a contractor's commitment to safety into question, such as outstanding claims and disputes, above-average legal expenses, and fines from the federal Occupational Safety and Health Administration.

Don't drop the ball

A job hazard analysis should be an essential component of your workplace safety program. Along with keeping people and property out of harm's way, safe sites improve morale and productivity and reduce your workers' compensation costs.

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