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Moss Adams Construction Group Newsletter

April 2009

Maximizing Financial Performance

The downturn in the economy has presented many construction companies with increased challenges: rising costs, increased competition, slower growth, tighter credit, and labor shortages—all combining to put a strain on profitability and cash flow.

Whether or not you believe your company is performing well, there are a few steps business owners can take to help maximize financial performance:

- 1 Create plans and manage them.** Budgets, business plans, financial forecasts, marketing plans—all should be a key part of every organization's ongoing activities.
- 2 Employ better financial management processes.** Create a reporting dashboard and monitor it. Project the financial impact of major operational decisions.
- 3 Evaluate all divisions of the business separately.** Most organizations are a conglomeration of profitable and unprofitable segments. By understanding the financial contribution of each of the smaller pieces of the business, management can better address the profitability of the entire business.
- 4 Take out waste.** Focus on simplifying and streamlining all major processes. Labor is usually the largest cost component of a business. Use your resources effectively, whether those resources are financial, raw, or human.
- 5 Increase sales.** Easier said than done; however, this is the most powerful way to increase profits. Conduct a full review and update of sales and marketing plans. Hire talent, if needed, to boost growth. Consider and analyze pricing strategies.
- 6 Review all insurance policies.** General liability, employee practice, health care, and workers compensation insurance are major portions of businesses' expenses. At the point of policy renewal, have multiple agents or brokers bid for your business. This is also a good time to ensure that the business is adequately covered for risk.
- 7 Minimize financing costs.** Review all the various forms of debt held by the company and investigate opportunities to restructure debt for lower financing costs or to increase cash flow.
- 8 Understand your 80/20 on expenses.** In a typical construction business, 20 percent of your cost-center categories generate 80 percent of your expenses. Focus on these few categories to help minimize expenses.
- 9 Invest in your people.** Access to talented labor will continue to diminish as baby boomers exit the workforce. Create a positive culture that will develop and retain your most valuable asset—your people.
- 10 Benchmark.** Know where you stand financially within your industry and where you stand relative to the competition. Benchmarking is nothing new in the construction industry, and there are several resources for the industry by trade, region, volume, or other characteristics, including the Construction Financial Management Association's Construction Industry Annual Financial Survey and the Moss Adams LLP Construction Industry Financial Analysis. For a free copy of the latter, visit www.mossadams.com/surveys.

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Meet Moss Adams

Visit us May 18-19 at Booth 121 at CFMA's 2009 Annual Conference and Exhibition at Caesars Palace in Las Vegas. And attend our session, Business Succession Planning for Contractors (L5), presented by Glenn Wattum and Shannon Affholter of Moss Adams LLP.

Why Moss Adams?

Founded in 1913, Moss Adams LLP is one of the top accounting and business advisory firms in the nation, serving clients across industries and markets and around the world.

With over 2,000 construction and real estate clients, we serve a variety of entity types, from large general contractors to specialty contractors and from real estate developers to property managers.

We provide the strategic business and financial planning, tax, and operational expertise you need to stay competitive. Understanding what you want to accomplish, from business and personal perspectives, enables us to help you integrate your core competencies and vision for the future with strategies to improve overall performance.

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