

Financial Strategies for

CISCA Members Offer Insights to Success

by Meta Levin

Once or twice a week Brian Baumert, CFO of CDM Investment Group pours over the daily accountability sheets from each job site.

This has been a regular routine for several years, but in the current economy he is digging deeper and deeper into the numbers, mining the reports for details and helping job foremen use that information to insure that the ceiling tile and drywall installation is done faster and more efficiently.

"In the past we were not drilling down that deep, but now there is much less margin for error," says Baumert. Overland Park, KS based CDM owns CISCA member, Airtite, headquartered in Elmhurst, IL.

Knowledge, preplanning and attention to detail can mean the difference between a business able to survive in the current economic climate and one that fails. Doing well involves looking at the data in financial reports in new ways. Those whose owners or management know and understand the basics, are able to anticipate events and take proactive steps to stay ahead of the game.

"Gradual changes occur in the marketplace that may affect the business operation," says Tony Battaglia, CPA, MBA, director of outsourced accounting services for BIK & Co., a Chicago based public accountant and

management consulting firm. Attention to the financial and product demand details of an operation allows the management to identify these changes early enough to act, instead of react.

Admittedly, says Baumert, the long lead time for major construction projects puts interior and ceiling contractors on the trailing edge of any economic downturn, so they have an opportunity to prepare themselves that other businesses might not have. "We're probably 12 to 18 months behind the general economy," he says. "So we had the luxury of watching things slow down before it hit us."

During that time Baumert made an extra effort to ensure that CDM's balance sheet was clean, making certain that the company was not overleveraged, that its receivables had not gotten out of hand and got borrowing down to a minimum.

At CISCA member Falewitch Construction Services, Inc., CFO Brad Johnson also is drilling down into his financial reports on a more detailed scale, looking at unit costs by cost code and employee. He wants to find such information as whether one employee is better at framing or hanging or one team is more efficient in a particular job. "In conversations and in meetings we decided we needed to drill down to what it was costing us," he says.

That information has significantly helped keep the company's bids competitive, he says, "Because we know what it costs down to the unit level." Before he felt that he had a good idea, but now he is confident that his estimates are more accurate. "We know our production rates. We were close, but now every penny counts."

In addition, LaVista, NE based Falewitch has moved individual laborers based on what they do best. They began asking the questions leading to this policy while examining figures from regular reports showing whether or not jobs were on target to meet estimates. Why did some or particular parts of some seem to be flying along? Johnson mined the figures for more information.

When they first began this strategy, Johnson admits that they may have made changes too fast. Now they wait until they have enough data so that they know that they are "comparing apples to apples," he says. In addition, the company has reorganized teams based on the information gleaned from the reports.

Examining long established and regular financial reports with a new eye, allows you to draw out information that you might otherwise overlook, which can lead to new strategies and business practices that will help you stay afloat in good times and bad.

Staying Afloat

Battaglia suggests performing regular trend analyses and using common size financial statements. A common size financial statement compares financial statements of different size companies or of the same company in different periods. Trend analyses normally involve calculating an account over a period of at least two years and expressing the comparisons in percentages, which allows a company to notice incremental changes.

Can your company apply these principles?

"The results are presented as percentages, allowing management to concentrate on underlying trends by abstracting from changes in the dollar figures caused by growth or decline," says Battaglia.

At Falewitch's weekly staff meetings, Johnson goes through each job, looking at the margins, the labor and other factors.

Using estimating software, he is able to keep track of whether or not a job is on track, costing money or ahead of budget. "I feel like I have a pretty good handle on the cost control and can support it with detail," he says.

Battaglia also recommends ana-

lyzing profitability by product and customer, cautioning that "a small business may make price concessions with its high volume and/or large customers, but without careful analysis it may find that these concessions are slowly eroding its profitability."

This necessarily involves identifying what drives a company's success, as well as the genesis of its costs, says Battaglia. He recommends reviewing performance

monthly to unmask floundering customers or unprofitable product or service lines that may be absorbed into successful ones.

Baumert analyzes the numbers by job, by customer, by type of job and scope of work. He's been doing that for a number of years, but now he is doing it more often. "There is no room for error," he says. Not that there ever was, but there is a heightened sense of awareness in these economic times.

Both Johnson and Baumert are paying particular attention to their receivables, reviewing them

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INESCAPABLE TRUTHS

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at least on a monthly basis. They watch any clients who might be slow paying, checking daily and ensuring that they constantly are aware of lien rights. "We do an extensive background check anytime we deal with a developer with whom we don't have experience," says Baumert. "We want to make sure that the funding source is real and solid."

Cash management is crucial, especially in today's economy, says Battaglia, "Effective cash management will enhance profitability." Since a business' main purpose is to turn its products and services into cash, successful businesses are the ones that have learned to manage their financial assets. "The key is to know how and where you use cash and to measure the return," he says.

"Cash management is huge," says Johnson. To encourage prompt payments, the company makes weekly courtesy calls on customers. In the last year Falewitch has found it necessary to put more liens on property than it would have had to do a few years ago. Johnson notes that they've always been paid and been able to release the liens. In fact, the company has not stopped doing business with any of the general contractors involved.

Baumert stays on top of cash management and knows his cash position daily. "We project our cash needs on a rolling four or five week basis," he says. This rotation is in place in large part because the company has been around long enough to see several economic

cycles and knows what it takes to manage cash needs successfully in good times and bad.

Like most contractors, CDM and Falewitch must pay employees faster than they get their money from customers. "Your cash is important to watch in a good economy, as well as now," says Johnson.

Effective cash management also means having a good relationship


companies must continually track costs and improve their operating processes, making them more efficient," says Battaglia.

"Our hands are in the balance sheet all of the time," says Johnson. "We have to watch our ratios." As interior construction contractors well know, to get bonding, there have to be certain ratios. He keeps a close eye on even the minutest fluctuations,

since even the smallest numbers can make a big difference.

"We're drilling into our budget more than in the past," says Johnson. "We're trying to get more competitive prices available to us."

Baumert constantly reviews overhead costs, adjusting it to the revenue and margin lines. Falewitch, however, is a signatory to the carpenters union, which makes it impossible to ask its laborers to take pay cuts.

"Paying attention to the numbers and taking proactive steps can mean the difference between success and failure," says Battaglia. 

"We project our cash needs on a rolling four or five week basis"

Brian Baumert

"To survive companies must continually track costs and improve their operating processes, making them more efficient,"

Tony Battaglia

with a banker. Both Baumert and Johnson share financial information regularly with their bankers, explaining the particular needs of the industry when necessary. "This tells him where we are," says Johnson.

In these economic times business owners are squeezed by customers who want lower prices, while at the same time they are paying higher materials and labor costs. That means tighter profit margins. "To survive