

How to Go From Good to Great in the Construction Industry

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Doing business in the construction industry means operating under some of the most challenging conditions faced by any industry (see sidebar). Contractors must overcome many obstacles including fierce competition, dangerous work, material supply disruptions and price fluctuations, labor issues, complex and ever-changing regulations, litigation, and numerous project uncertainties. Is it any wonder that the construction industry suffers the second highest failure rate out of all industries?

Yet, some contractors overcome all these challenges and survive, and flourish, for many years; through economic downturns, changes in key personnel and shifts in the marketplace. How do these businesses maneuver through the turbulence and survive to meet the next challenge?

Sax Macy Fromm & Co., PC has serviced the construction industry since 1956. We were one of the first firms to recognize that construction was a unique business with many challenges. Through our many years of servicing the industry, we've come to identify some unique characteristics of those organizations that have flourished. Some of these characteristics hold true of businesses in every industry, but the following are distinct to construction.

Leadership: Effective leadership is a key ingredient in the success of every business enterprise. Successful construction firms need disciplined, strong and capable leadership to steer their organizations through the turbulence of the industry. Contractors are by nature risk takers and can-do type individuals. They need to keep their instincts in check, develop a clear vision for their organizations, capitalize on their strengths, and stay on course. Successful leaders keep it simple. They understand the limitations of their organizations. Most contractors fail because they grow too rapidly, outpacing their management and financial resources. Successful leaders remain focused on the four critical areas of their business; estimating, project management, production, and financial management. They surround themselves with competent people and build future leaders for the organization. Successful leaders overcome bad luck that comes in the form of bad projects, bad weather, strikes and accidents.

Strong, visible culture: Successful leaders promote a culture that is built on good character and quality work. Successful contractors are firm but fair. They deliver on their promises and hold others accountable for their commitments back to the organization.

Focus on human resources: Successful contractors view their human resource talent as their most important asset. They are committed to training, particularly in the critical areas of the business. They provide their employees with a logical, incentive based compensation program that ties into the goals of the organization. They encourage participation and involvement in the management of the organization. They address the long-term needs of their employees. They hold on to their good people and have no tolerance for incompetent personnel.

Sound project management: Successful contractors over-manage their projects. They utilize sound management information systems to feed them with timely and useful project management reports. They focus daily on productivity and costs. They do not force subcontractors to go broke on their jobs. They avoid litigation whenever possible.

Strong financial management: Successful contractors stay focused on their organization's finances. They make certain that they have adequate capital to support work-on-hand and to withstand bad luck. They manage billings and receivables, and focus on cash flow, the life-blood of the business. They understand the incremental economics of their business. They do not accumulate excess "hard" assets (i.e. equipment and machinery). Successful contractors control overhead, but don't consider it as an unnecessary burden. They view overhead as an opportunity cost, an opportunity to grow and better manage their organizations. They focus on areas of cost that have the biggest impact on profit,

particularly labor, and constantly look for ways to improve productivity.

Sound bidding and pricing strategies: Successful contractors possess superior estimating skills and develop systems to leverage those skills. They are selective in the work they bid. They focus on risk and they build it into their pricing. They avoid taking jobs for "no profit" in order to keep their people busy and put underutilized equipment to work. They focus on profits and not on volume. There is a saying in the industry; "profits thrill and volume kills".

Marketing: Successful contractors establish a well-defined market niche and focus their efforts within those niches. They understand that most contractors fail when they venture outside their area of expertise or work in unfamiliar geographic regions. They grow from demand, not out of ego or the need to be "big".

Jim Collins wrote a terrific book titled "Good to Great" which was published in 2001. It was an informative study on a number of companies that had made the leap from being good companies to great companies. Collins and his team of researchers identified a number of qualities that they believed set these great companies apart from the rest. If you haven't read the book, I highly recommend it. The factors I presented in this article are different from what Collins presents in his book but are embodied in the results of his study, especially strong leadership, which is bedrock on which all successful companies are built. Keep in mind, strong leadership without the other factors will not guarantee success. It is a constant battle to succeed in any business. It is an especially tough battle

The construction industry represents approximately 10% of the U.S. gross domestic product, the second largest industry segment. The industry is highly fragmented, made up of nearly 700,000 large and small companies, according to the U.S. Census Bureau's 2002 Economic Census. These companies range in size from one employee to several thousand and work in various disciplines from home building to general construction of industrial and non-residential structures, heavy highway and civil engineering, and specialty trade contractors such as heating/air conditioning, electricians, and plumbers. They employ approximately 7,000,000 individuals for a total payroll of approximately \$235 billion and generate total revenue of \$1.1 trillion. In addition to these thousands of construction firms, there are a myriad of other businesses that exist to support the construction industry. These businesses include material suppliers, equipment sales, insurance, surety, banking, legal, accounting, and numerous consultants on safety, management, environmental, and claims.

The most current economic data by state comes from the U.S. Census Bureau's 1997 Economic Census. At that time there were 22,000 construction firms in New Jersey, employing almost 144,000 individuals, with payroll in excess of \$5 billion and revenue in excess of \$25 billion.

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