

Building for Success

Recovering from survival Tips for getting back in the game

Much has been written and implemented by many contractors regarding the economic slowdown: Trimming overhead to right-size your company, navigating uncertainty, conserving cash and just surviving the current “recovery” to name a few.

But what happens when work does begin to pick up and contractors actually start to get busy again?

Returning to “full-speed ahead” may not be as easy as it was after prior recessions – today’s construction landscape has changed dramatically. Here are some pitfalls to watch out for.

People

With almost any increase in work, there is a related increase in the need for workers. Ordinarily, contractors can find and hire workers in a down economy and put them straight to work. Not so easy this time.

First of all, the key employees kept during the downturn probably received some cut in pay and benefits plus took on additional responsibilities when other, less essential, personnel were laid off. These key workers may have stayed during the tough times, enduring workplace hardships, in part, because there was nowhere else to go.

As the economy gathers steam and other options become available, many of these same workers will be looking for greener pastures. Keeping them with you and happy will be your first priority. That will take raising pay, restoring benefits and hiring other folks to ease workloads, to name a few.



BUSINESS

Second, many new hires will have been sitting on the sidelines for quite a while, lacking the job skills and training needed (safety, technical, other) to jump into a job. Getting these folks up to speed will take some investment in time and money.

Equipment

During most dry periods, contractors often take the opportunity to keep otherwise idle but valuable employees busy painting, repairing and getting key fixed assets ready for the next upturn. Not so here. Many of those valuable employees are long gone, and much of the equipment, if not sold, has not been maintained as usual because it has not been used. Necessary repairs must occur before that equipment can be fired up on the job site.

Credit

Red ink is a common commodity during a recession. So while contractors who posted repeated losses and are still in business are eager to resume full operations, cash reserves are likely to be low. Banks have frequently termed-out fully drawn lines of credit and significantly cut the lines available. Also, in the wake of the subprime mortgage crisis, banking regulations have made lending to longtime, loyal customers surviving the downturn, but black and blue from their experience, problematic at best.

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An information bulletin to contractors from:



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A little preparation now could keep you in business if a disaster hits

An ounce of prevention is worth a pound of cure.

Of course, there are some things that just can't be prevented. But with planning, they can be later cured.

One in four businesses closes after impact by a major disaster, according to the Institute for Business and Home Safety. This is usually because they weren't ready with a recovery plan they could put into place quickly.

Disaster recovery planning can stack the odds in favor of your company's survival.

Following are some guidelines for creating such a plan.

Develop a team

The first step is to form a team that will both do the planning for a disaster and manage the response should one occur.

Choose members with a variety of attributes that would be useful after a disaster, for example, calm demeanor, good communication skills, and knowledge about the physical plant, business processes and databases.

The team needs a leader. Often this will be the president. If not, it should be someone who reports to the president.

Identify major risks

The team should start by doing a vulnerability analysis, which consists of two parts. First, assess the likelihood of occurrence of various natural and manmade disasters. For example, along the Gulf Coast, hurricanes will figure prominently in the planning, but earthquakes much less so. Just the converse will be true for the Pacific states.

Second is an impact analysis for the most likely disasters. How would your business be affected by each type of disaster? Which ones warrant the most planning?

Plan for the worst

The next step is to create a disaster plan and put it in writing. There are two parts to this plan: one for business continuity and one for responding to the needs of employees.

Plan for business continuity

Determine which staff, materials, processes and equipment are essential to business continuity – that is, to meeting your customers' needs. Then, with the results of the vulnerability analysis, determine which of these would be at risk in the event of a disaster.

You will need to create (1) safeguards for each of these assets and processes where possible, and (2) backup plans where safeguards are not possible or not foolproof. Where can you quickly get more staff or equipment, use of a different facility, backup data from your data management system, or alternate contractors and suppliers?

Create a contact list, including emergency numbers, for all employees, critical contractors and vendors, and local emergency services. Get a copy to everyone on the team.

Arrange programmable call-forwarding for your main business lines so that, if you can't get to the office, you can call in and program the phones to ring elsewhere.



Define responsibilities in the event of a disaster. Make sure people know their roles and receive any training needed to carry them out.

Cross-train employees to step into key roles that could become vacant. Have contingencies for replacing everyone up to and including senior leaders who are out of action.

Plan for employee needs

No business can operate without its employees. This makes employee communication critical after a disaster. Employees need to know where they can get assistance for their immediate needs, as well as what the company expects of them.

Disasters can shut down some means of communication. Consider how often power and phones are out after a storm. The solution is to have redundant means of reaching your employees.

Consider the following options and select the ones you think would work best for your company:

- On-site, face-to-face meetings
- A toll-free number for employees to call to receive live answers to their questions and concerns
- A toll-free number on which you can record an announcement for employees
- A page on your intranet where you can post and update information
- A telephone call-tree to reach a large number of employees quickly
- An e-mail distribution list of all employees

Develop disaster-related policies

It is important to have clear policies on issues that may arise during a disaster. These include:

Attendance: Who decides whether employees need to report for work? Will absent employees be required to take vacation? Do these policies apply differently when there is difficulty or danger involved in reporting, or when employees have personal problems preventing them from reporting (for example, damage to their homes)?

Pay when out of work: Will employees be paid for missed work? For how long? Does their reason for missing work make a difference? How will you pay employees if they are dislocated, cannot come in, and/or the banking system is disrupted?

One size does not fit all when it comes to disaster management planning. But it is better to do too much than too little in preparing for events that could paralyze your company if not handled well. - Jeff Van Pelt, Ed.D., SPHR



Managing construction projects is sometimes compared to “herding cats.” There are so many tasks and people to manage, not to mention outside complications like weather, material shortages and unexpected scope changes. But without good management, construction projects will run over budget and behind schedule.

decisions possible. But, at the end of the day, the owner of the project has to be happy with the outcome. If that means we change things along the way to suit him, and he’s willing to pay the price, then change we must.

3. Communication skills. Communication is the key to keeping everyone on the same page and moving in the right direction. This doesn’t just mean telling people, it means making sure they understand.

The best construction managers know how to communicate with different types of people. They deal with architects, engineers, carpenters, owners, tradesmen, skilled

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and semi-skilled workers. They can change their terminology and construction lingo to fit the experience and understanding of the audience, which, in turn, minimizes confusion. They take the time necessary to be sure the other party understands what has been said.

Five traits of a successful manager

The role of a manager in construction varies from company to company, but some attributes seem to be necessary no matter how the roles are divided. Here are a few attributes that most successful construction managers have mastered.

1. Foresight. They say that “hindsight is 20/20,” but for a good construction manager, foresight needs to be nearly as good. The ability to anticipate issues, to look ahead and to develop contingency plans can mean the difference in crews with work to do and crews sitting on their hands.

No one expects the construction manager to predict the future completely, but he or she should at least be able to anticipate the fairly predictable. Staying on schedule and within the budget means keeping an eye on what is supposed to happen weeks from today and what sequence of events must precede each action. Lose sight of that, and your project will undoubtedly hit some serious snags.

2. Flexibility. Construction projects rarely go exactly according to plan. Even the best planned project will experience changes caused by the weather, the economy or the owner of the project. Good construction managers learn to roll with the changes while managing them to the greatest extent possible.

Changes can disrupt the project schedule and budget, so they also have to be managed. Almost every change has an associated cost, either in time or money. A good manager can explain the associated costs to help all parties involved make the best

4. Good judgment. In any construction project, the manager will be called upon to make decisions that will impact the schedule, budget and quality of the project. Effective managers know that it is important to balance these three aspects for a truly successful project.

Keeping costs low is important, but not if it compromises the quality promised on the job. Staying on schedule may be critical, but it can also impact cost. The choices are not always obvious, and the answers aren’t always perfect. Experience and good judgment are critical to making the optimum choices overall so that the project can be a success.

5. Integrity. Construction managers will deal with owners, government officials and inspectors, subcontractors, suppliers and employees. It is critical that these parties are able to rely on the manager’s word and honor. Things will go wrong on a construction project, tempers will flare and people will become frustrated.

An upstanding, sincere manager can calm things down and move the project forward because people know they can trust him to tell the truth and do what he says he will do. Anything else will cause additional confusion and frustration.

Some of these attributes are internally driven, but they can also be learned. It is important to train managers in construction to use tools and processes that will help them keep their projects under control and moving in a good direction. Don’t leave this to chance. – Denise Altman, CPA, MBA

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Even with new work on the horizon, it will take two to three months to bill, collect and turn that work into cash. Convincing bankers to loosen their purse strings and expand those lines will be a challenge for many.

Sureties are also on high alert. CPA report letters and footnotes will be read more closely, especially for “going concern” issues. Absent going concern problems, sureties will look next at the banking relationship to see if the contractor has the financial resources and capacity to complete the work.

It’s a sellers’ market in the bonding world, too, so contractors doing the buying will need all the help they can get.

Help

Some of the best resources contractors can have in times of need are advisers who specialize in construction-related issues. The insurance agent who helps you obtain surety bonds should specialize in bonding, not just sell insurance. The agent will know the players in the surety market better and have more options for you.

Bankers active in the construction market are likely to be more understanding of what contractors face today.

Attorneys who work for contractors daily will know the ground rules surrounding your situation – collecting on work performed, perfecting liens or helping you negotiate new contracts. If this is not what they do all the time, you could be wasting your money. An inexpensive attorney may prove to be your most expensive alternative if he does not know the construction industry.

Contractor-savvy CPAs can point you to the right people, as well as help guide you through the fog following this recessionary storm.

Finally, using a CPA who knows construction is more important now than ever. In addition to helping you present your financial picture in the clearest manner possible so that bankers and sureties have the information they need to lend for and bond your work, contractor-savvy CPAs can point you to the right people, as well as help guide you through the fog following this recessionary storm.

You survived the recession. Now’s the time to recover from survival mode. – *Dan Owens, CPA, MBA, CCIFP*

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The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.

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If we may answer any of your questions on the information contained in this publication, please contact us.