HOW TO MAINTAIN PROFITABILITY IN GOOD TIMES AND BAD

5 Ingredients for Success

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With history as a guide, it's likely the construction industry will continue to experience peaks and valleys during economic cycles. And, if the past really does help to predict the future, business failures will surely increase as markets decline.

How is it that some companies survive— and thrive—in less-than-perfect economic conditions? Like the ship's captain who can weather a bad storm, successful construction company owners know exactly what steps to take to ensure they are still afloat when the sun comes out again. Long-term success, unlike short-term profit, does not happen by accident. Companies that withstand the highs and lows of many economic cycles share some common traits, starting with the following five ingredients for success.

1. FOCUS

Whether it's the result of poor business management or exceptionally fast growth, contractors often lose focus of what their business should look like. During periods of economic slow-down, when there is not enough work to go around, these companies lose jobs to competitors with well-defined specialties. Concentrating on a core area of business allows contractors to develop their niche and create a competitive advantage.

Unfortunately, many construction companies start out in one area and try to expand in too many directions, or the wrong direction. A profitable paving contractor, for example, may think the company has the right tools and equipment to expand into underground utility work. But it takes much more than just equipment to venture into a new trade. It takes time and resources, and possibly a very long learning curve, to take on a new business.

In contrast, successful companies are focused, yet open to new business opportunities. With a sharply defined understanding of their business, owners and managers can make the changes necessary to grow. Long-term goals, for example, may call for adding complementary services, expanding a customer base or increasing areas of service. When companies take the time to focus, the path becomes more clearly visible.

2. KNOW YOUR NUMBERS

Business leaders must have a firm handle on their company's financial information or, regardless of economic conditions, the business is doomed to fail.

Far too many contractors focus on their trade expertise at the expense of their business. Dedicating more time to everyday operations than understanding the books puts them at a serious disadvantage. Fortunately, most construction executives can learn to understand the numbers.

Successful contractors regularly review at least six common financial reports. These include (but are not limited to) the balance sheet, the income statement, overhead allocation, job cost reports, percent/complete reports and cash flow. A numbers-focused executive is better equipped to manage profitability and productivity, while striking a balance between trade expertise and business know-how.

With the help of easy-to-use construction accounting software, CPAs with expertise in construction and outside consultants, nearly every contractor can understand the numbers. If contractors hope to be in business 10 years down the road, their success depends on it.

3. PREPARE WHILE TIMES ARE GOOD

Business owners cannot afford to become too relaxed. Successful companies are forever reinventing themselves, especially during favorable economic climates. Always keenly aware of their competition and their customers, they are ready to adapt because they know that those who stand still will soon be left behind.

So, how do companies prepare when times are good? Without the pressures that arise when business is down, company executives are in a position to make much better decisions. They have the ability to step back and look at each area of business with a critical eye. This is the time to shake things up by rearranging departments or testing operations and procedures for effectiveness and productivity. When revenues are up, the time is ripe to evaluate competitive advantages and invest in equipment and technologies that will leverage those advantages in the future.

4. MAKE DIFFICULT DECISIONS

CA newly hired project manager is failing to keep jobs on schedule. A new business venture is draining working capital. The estimating and accounting departments need software upgrades, but the budget cannot handle both. These are the kind of tough decisions contractors face regularly. Rather than risk making the wrong decision, many construction executives choose to make no decision at all.

The inability to deal with difficult decisions can put a business on the fast track to failure.

In his book, “Tough Management,” author Chuck Martin says managers must push tough decisions to the forefront of discussions and deal with them quickly. His three-step process is simple: collect and consider as much information as possible, make the decision and communicate it to the staff, and then move on. Following these guidelines results in easier decision-making, and the impact of each decision becomes less consequential.

Does this mean that successful, long-term contractors never make bad business decisions? Of course not. But people learn from mistakes, not from indecision. Even a bad decision means something is set in motion, and most bad decisions can be reversed or redirected. Companies that are paralyzed with indecision, or stay with the status quo, will surely fold.

5. USE TECHNOLOGY AS AN ACCELERATOR FOR GROWTH

Whenever technology is mentioned in the world of advertising, the word “solution” is usually not far behind. It’s no wonder that many construction owners or managers look to technology as a quick fix. Successful contractors, on the other hand, know that technology alone does not solve problems. Instead, it should be used to leverage strengths the contractor already possesses.

Jim Collins, author of the best-selling business book, “Good to Great,” says not only do successful organizations think differently about technology than mediocre companies, but they tend to become pioneers in the application of carefully selected technologies. The best way to use technology, Collins argues, is as “an accelerator of momentum rather than a creator of it.”

Every contractor—large or small, technically advanced or seriously behind—can use technology to its advantage. The company must first identify its strengths and long-term goals. As long as the company can identify products that fit its business and help accelerate its strengths, it can begin to think like a leader instead of a follower. For many companies, that will make the difference between success and failure.

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