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Surviving Hard Times Means Making Hard Choices

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It's no secret that times are harder than they were a few years ago, as the recession that began in December 2007 continues. Though there is some encouraging economic news, this downturn will likely be felt by contractors well into 2010 as architects, who typically get hit first, continue to be hit hard.

That being said, construction companies can survive in the current economic climate. By focusing on cash flow, actively managing finances, giving careful consideration to downsizing, and working hard to find new markets, contractors can come out of a down economy well positioned to fully capitalize on new opportunities.

Improve Cash Flow

A first step should be an unrelenting focus on cash flow. Companies that fail are usually those that are too slow to react to today's tighter business reality. Every contractor should have three to six month cash flow projections.

If your costs are approaching or exceeding your revenues, the time to cut costs is now, not after your business is damaged. Every cost should be looked at, but start with your largest and work your way down.

Keep Accounts Current

Challenging times usually mean an increase in collection problems. Keep on top of your accounts from the start. Don't let debts mount. If a client has a serious problem, it's best to find out early and negotiate the best possible outcome. Nobody likes making collection calls. But getting pennies or nothing on the dollar in a bankruptcy court is much worse.

Also, avoid creating your own collection problem by sending your invoices out late. Make sure your people understand the importance of getting all necessary information in on time, so bills go out as quickly as possible. After all, no client will pay an invoice before he or she receives it.

Build Your Bottom Line

Begin by reconsidering how you structure your contracts. Try to front-load payments, so you don't have to finance early project costs.

Next, take a look at capitalization, accounting practices and other financial management issues. For instance, how is your company financing equipment? Through short-term debt? If so, you may be hurting your bonding capacity and contributing to cash flow problems.

In addition, does your accounting system provide the detailed and timely information you need to make effective bids, accurately track costs and otherwise understand your financial picture? Leaving dollars



on the table when times are good may just mean lower profits. Leaving them on the table when times are bad may mean closing your doors for good.

Lastly, stay true to your marketing efforts. Tough times do mean cutting costs, but if you decide to focus these cuts too heavily on your marketing expenses, you'll end up without the new contracts you need to survive. For instance, business development should continue to be an important part of your marketing initiatives. Moreover, if you have a valuable employee you would otherwise have to let go, give him or her a shot at generating new business.

Carefully Consider Downsizing

Layoffs are another unpleasant fact of life in hard economic times. If you are thinking of downsizing, seek counsel in advance to minimize your exposure to legal liability.

Regardless of your business size, identify and document your reasons for the reduction in force. Also, make sure you understand the profile of your work force before proceeding.

When possible, consider a voluntary reduction first. If there is a need to pursue an involuntary reduction, study the pros and cons of using objective methods for selecting individuals for termination, such as seniority, and subjective methods, such as performance.

If severance benefits to which an employee might not otherwise be entitled to are offered as part of your work force reduction plan, be certain to have the terminating employee sign a release. A standard procedure, this release waives the employee's rights to any and all legal claims that might result from the downsizing.

Finally, if the decline in business is temporary, Connecticut has a shared work program that provides an alternative to layoffs. For example, if you reduce everyone's workweek to four days and their pay proportionately, the employees can receive partial unemployment benefits to supplement their lost wages. Contact the Connecticut Department of Labor at DOL.SharedWork@ct.gov for details.

Explore New Markets

This is also a good time to look into new market segments. These times do not affect all areas equally – especially with The American Recovery and Reinvestment Act of 2009 (ARRA). This act calls for billions of dollars of investment in new infrastructure and increased funding of our roads, bridges and mass transit. In addition, the market for green and sustainable construction is growing as well as the power generation segment. The government sector can also be an avenue to explore.

Keep in mind, though, that new markets mean new lessons. Recipients of funds from the ARRA need to register and report on the use of the money. Green building will most definitely mean increased up front costs, and there is still a lot of education needed in this area. Power generation is a very specialized industry and not something to just jump into.

Government contracts usually come with increased paperwork and management demands. These contracts also often have lower margins than contracts with private developers, and they may dictate other changes, as well. For example, you may have no choice but to work with the lowest bidding subcontractors instead of with your usual partners.



The lesson? Government work can be a lifesaver, especially during tight times. If you don't manage it effectively, however, you could easily erode the more narrow margins and create more economic problems than you solve.

Like any other business, contractors need to actively manage their operations to survive the current down market. Tough times can be survived, but not if you put off hard decisions. That's why the time to get started is now.

Joseph J. Spagnoletti is a Member of the Firm and the Construction Services Group at Kostin, Ruffkess & Company, LLC, a certified public accounting and business advisory firm committed to helping clients succeed. Beyond traditional accounting, auditing and tax consulting, the firm also specializes in employee benefit plan audits, litigation support, business valuation, succession planning business consulting, forensic accounting, wealth management, estate planning, fraud prevention, and information technology assurance. With 140 employees and offices in Farmington and New London, Conn., as well as Springfield, Mass., Kostin, Ruffkess serves individuals, public and private middle-market companies, not-for-profit organizations, and municipalities. Founded in 1949, the firm is celebrating its 60th anniversary this year. For more information, visit www.kostin.com or call 860.678.6000.