

START-UP CONTRACTOR SEMINAR

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Director

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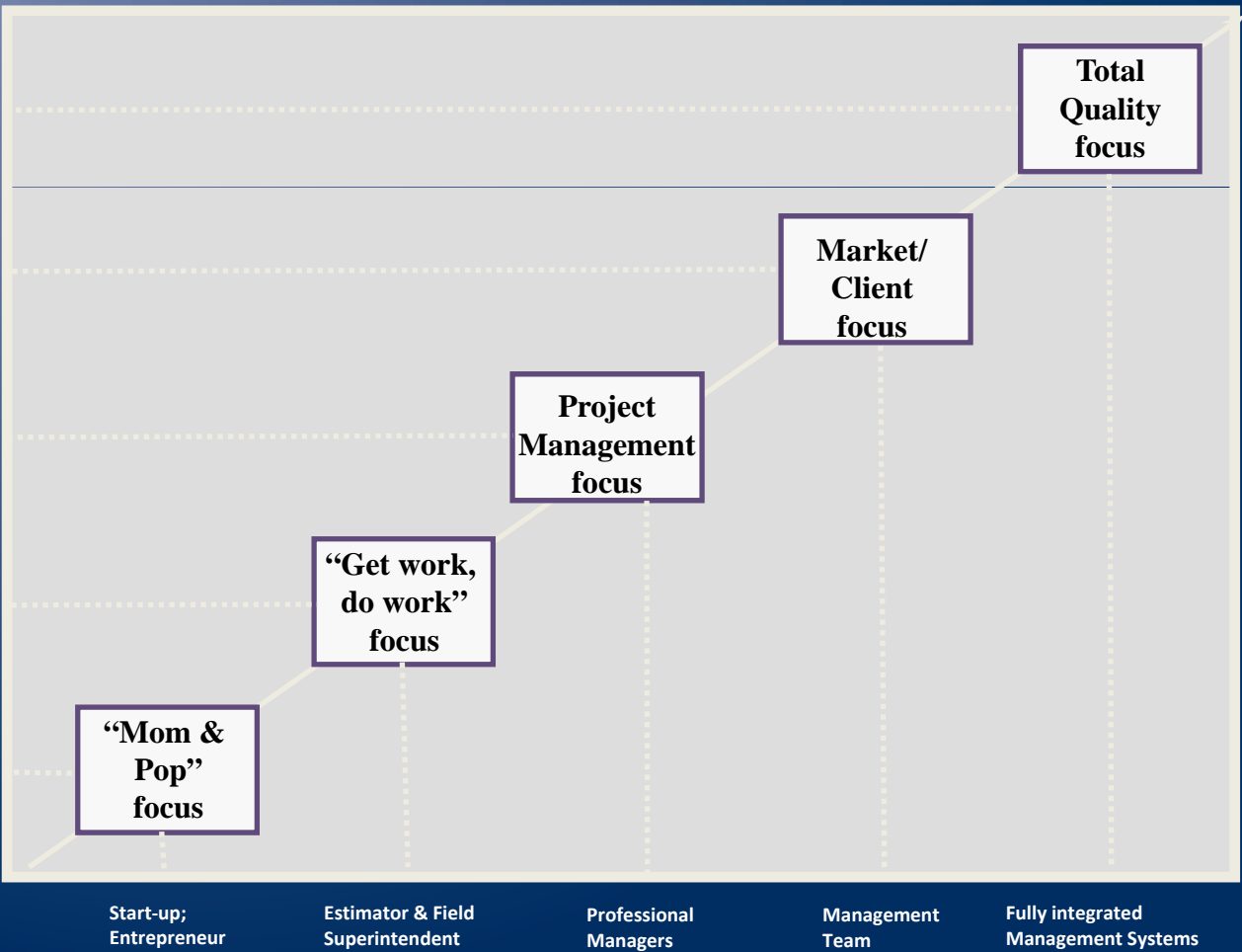
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AGENDA

- Organizational Growth
- The Role of the CEO
- Construction Accounting and Financial Analysis

STAGES OF GROWTH

| <i>Annual Sales</i> | |
|-------------------------------|------------------------------|
| <u>General Contractor</u> | <u>Sub-contractor</u> |
| over \$250 million | over \$50 million |
| \$50 million to \$250 million | \$15 million to \$50 million |
| \$15 million to \$50 million | \$5 million to \$15 million |
| \$1 million to \$15 million | \$500,000 to \$5 million |
| \$0 to \$1 million | \$0 to \$500,000 |

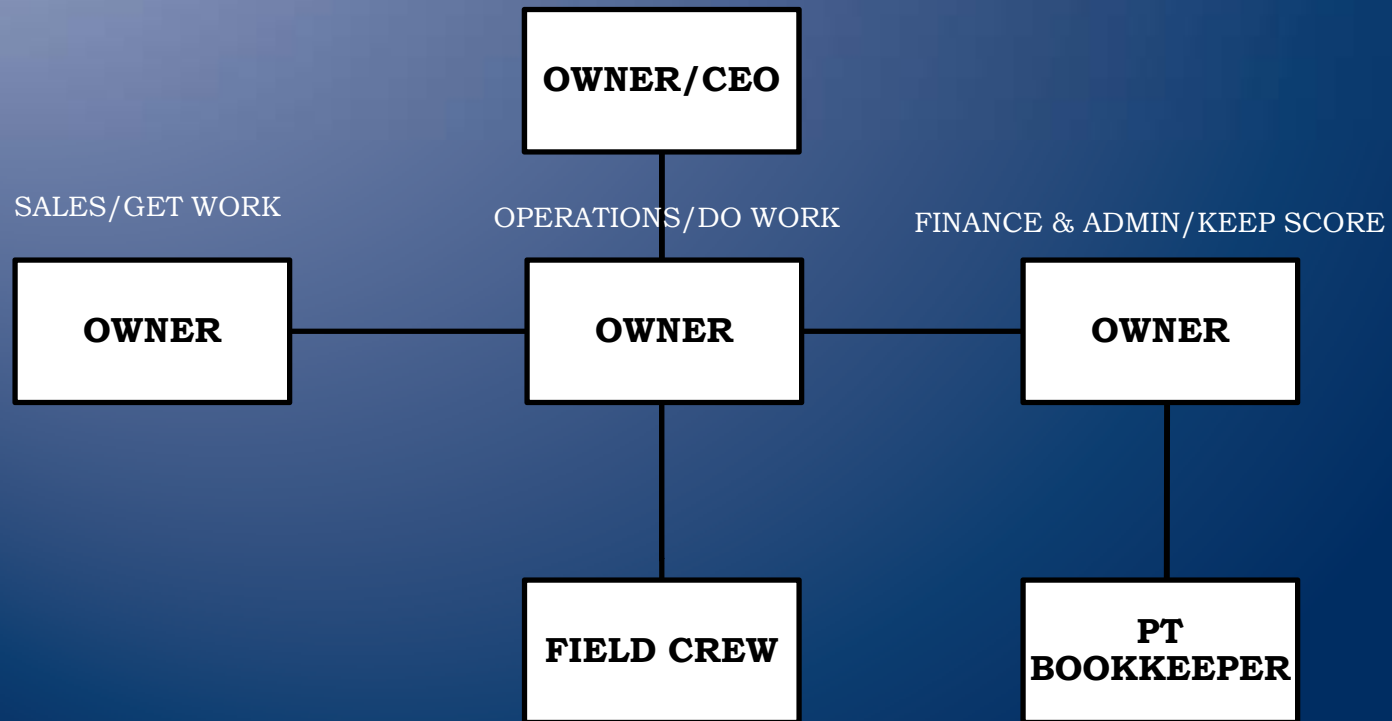


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ORGANIZATION CHART STAGE 1



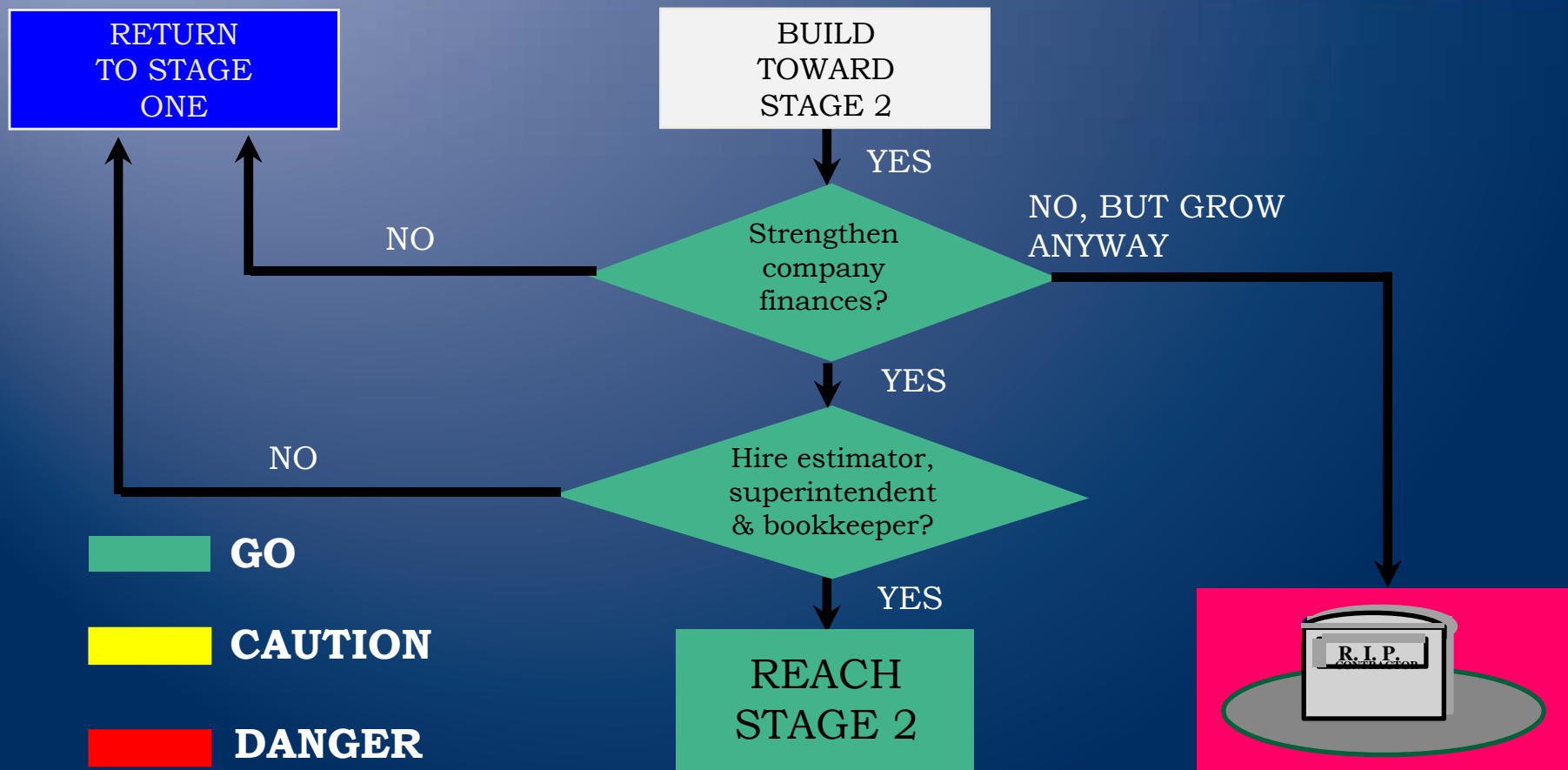
SUGGESTIONS FOR STAGE 1 TO 2

Build Organization

- Time Management Study

| | Stage 1 Before | Stage 2 After |
|--------------------------------|-------------------|------------------|
| Operations | 45% | 30% |
| Sales/Estimating | 30% | 60% |
| Administration/ Bookkeeping | 25% | 10% |

DO WE GROW FROM STAGE 1 TO 2?

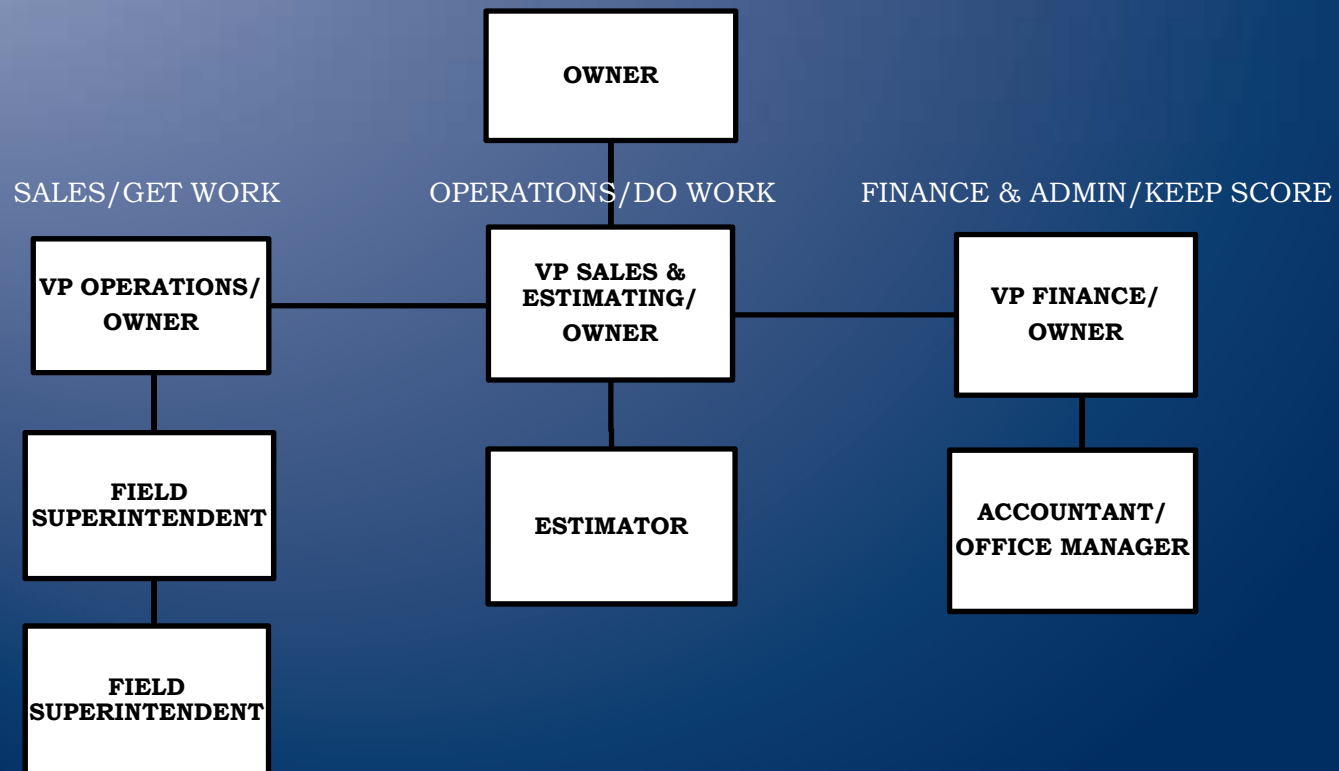


SUGGESTIONS FOR STAGE 1 TO 2

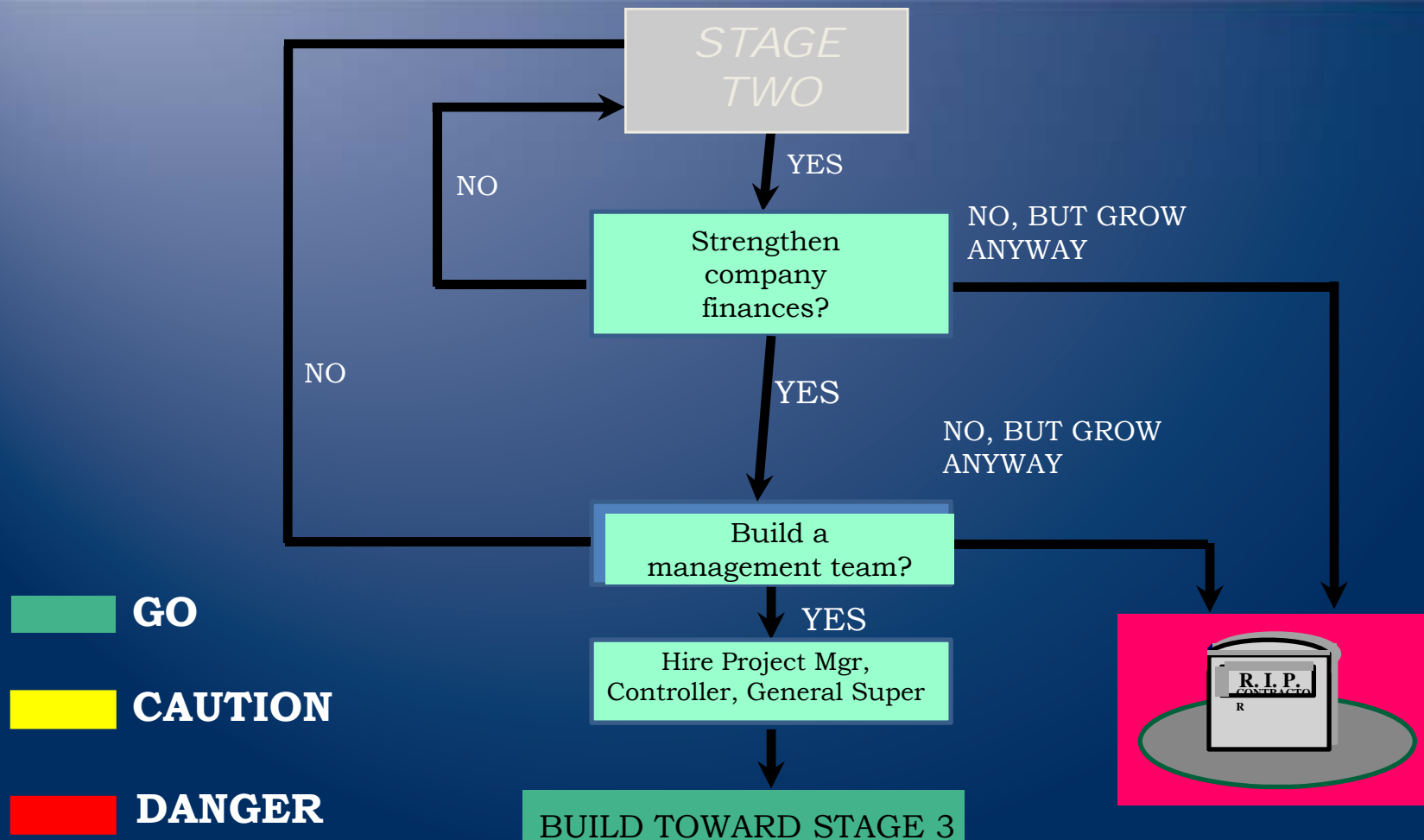
- Options
 - Operations
 - Hire superintendent/foreman
 - Promote from within
 - Sales/Estimating
 - Hire estimator
 - Promote from within (take off)/interns
 - Finance and Administration
 - Hire accountant/office manager

ORGANIZATION CHART

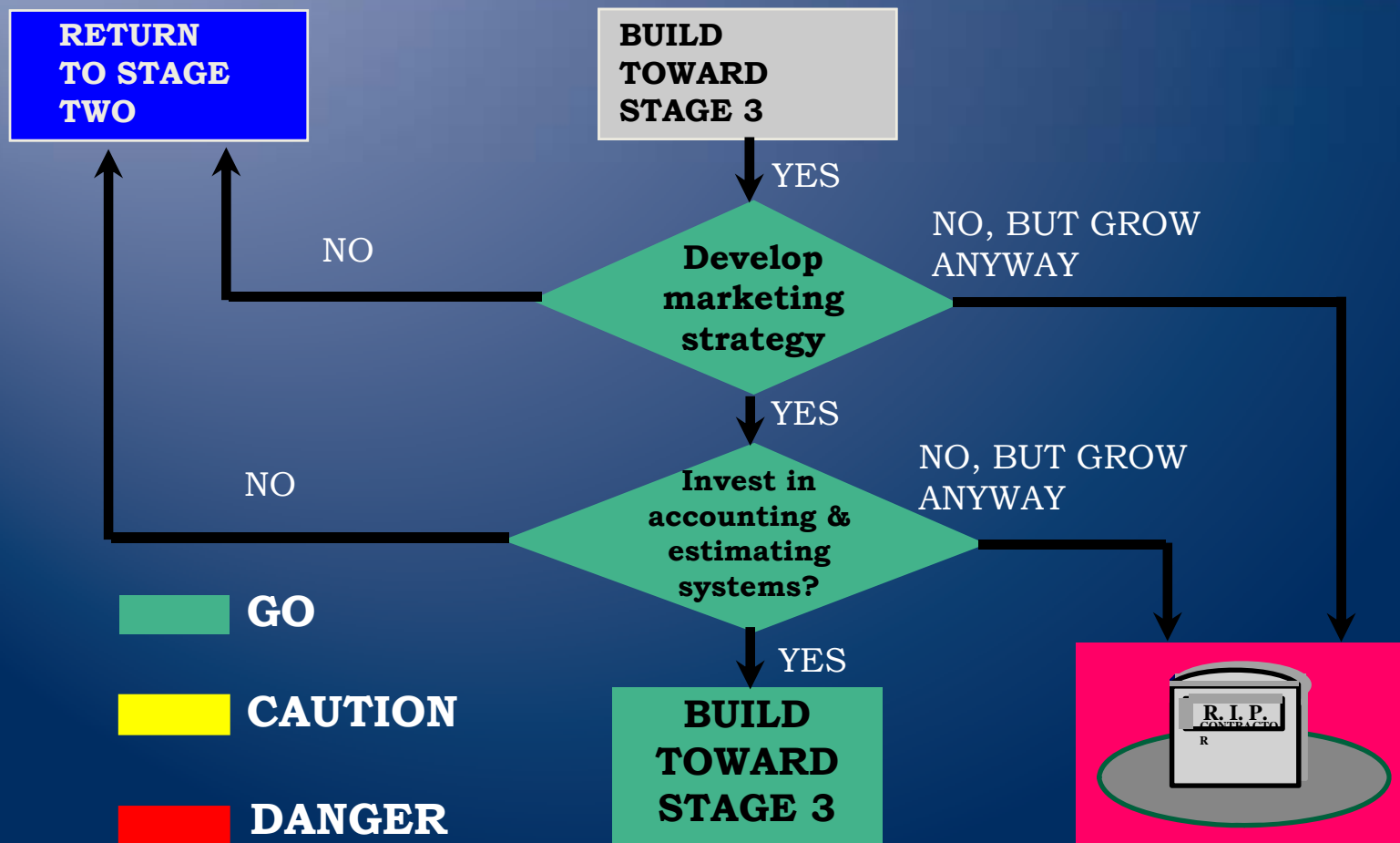
STAGE 2



DO WE GROW FROM STAGE 2 TO 3?



DO WE GROW FROM STAGE TWO TO THREE?



STRATEGY

- Define your business
 - What types of work do you do?
 - How do you do it? (your distinctive competencies)
 - For whom do you do it?
 - Where do you do it?
 - Elevator speech

STRATEGY

- Select the “Right Projects”: The key to making money in this business is learning which “opportunities” to avoid and having the discipline to say “no!”
- Michael Porter

STRATEGY

- The Type of Work You Pursue
 - Public building or private work?
 - Lump sum hard bid, guaranteed maximum price, design-build, etc.?
 - Residential, retail, office space, manufacturing, medical/health care, food service, or a strategic combination?

STRATEGY

- Define Your Market Niche
 - Provider of value-added services or low-cost provider?
 - Technical competencies?
 - Consistency/dependability
 - Industry leader

STRATEGY

- Define your “ideal” customer
- Define the criteria for your “ideal” type of project
- Define your “ideal” geographic area

PROJECT SELECTION SCORECARD

| | Rating | Weighting | Weighted Score |
|---|--------|-----------|----------------|
| 1. Job Budget vs. Our backlog | | | |
| 2. Type of project (retail, office, etc.) | | | |
| 3. Project Owner (relationship) | | | |
| 4. Management availability | | | |
| 5. Field supervision availability | | | |
| 6. Schedule Duration | | | |
| 7. Project Location | | | |
| 8. Architect/Engineer | | | |
| 9. CM/ Prime Contractor | | | |
| 10. Our experience/competence | | | |
| 11. Project Owner's experience in this type | | | |
| 12. Potential for future projects | | | |
| 13. Special contract terms | | | |
| 14. Owner's method of bidding/awarding | | | |
| 15. Our bonding capacity | | | |
| 16. Competition for this project | | | |
| 17. Anticipated Project Cash Flow | | | |
| 18. Fee Potential | | | |
| <i>TOTAL SCORE</i> | | | |

Rating Scale

5 - Very attractive; little risk or problem
 1 - Not attractive; great risk or problem

Weighting Scale

5 - Most important
 1 - Least important

CUSTOMER/MARKETS: DISCIPLINED THOUGHT

- Develop “Competitive Advantage”
- Delivers “WOW’s” to at least 30% of customers – 9/10’s measure
- Niche based – not just a good builder
- Reinforce why you are different and not a “company”
- Disciplined use of “Best of Class” behaviors in customer service delivery

CUSTOMERS & MARKETS

Do they have:

- A positive track record in this type of construction?
- A management philosophy consistent with your company's?
- Resolve extras fairly and quickly?
- Pay requisitions fairly and on time?
- The proper financing?

CUSTOMER/MARKETS: CUSTOMER SATISFACTION

- Net Promoter Principle Message
 - Would you refer us to a friend/colleague?
 - This one measurement tells you if you are delivering as promised
 - Customer loyalty is the key to profitable growth
 - Accountability is a must!

RESEARCHING THE CUSTOMER

- Understand the customer's legal entity
- Check for claims and judgments
- Obtain a credit report (D&B, Paydex – higher the better)
- Look at reputation within the industry
- Ask for a copy of last years financial statement, bonding letter, customer/vendor testimonials, professional references
- Google

PEOPLE

- *“It is better to hire people with the right work ethic and character and teach them how to make steel than to hire people who know how to make steel but lack the work ethic and character traits.”*

–Daniel DiMiccio, CEO

- New England Patriots
 - Use data and metrics to select players-grades
 - Does not have the “scouting services” other teams use-on field performance is a part of the decision
 - Rates draft picks on nontraditional metrics-intelligence and willingness to sacrifice ego for the team
 - Belichick – Intangibles

PEOPLE

- Hire smart people
- The right people don't have jobs, they have responsibilities
- Right people are passionate about the Company
- Right people when hired share the core values

PEOPLE

- Set goals – with employees and hold them accountable
- Groom the next leaders
 - Behaviors
 - Passion
 - Identify the winners early and retain them
 - Interact with the 25-35 year old employees
- Tracking/measurement for:
 - Mentoring

BREAK OUT SESSION

- What roll do you play in your organization now....and what role do you want to have in 5 years?
- Discuss solutions to the 2-3 biggest time wasters you encounter.
- Discuss the ways that you try to use down time

THE ROLE OF THE CEO

CEO'S ROLE

- Asset vs. Revenue (long-term vs. current) – Don't "Milk the Asset"
- Look in the mirror
- Personal Strategic Planning – "Set the Goals"
- Stay current
- Focus – "Depth first, then breadth"
- Build rolodex
- Interpersonal skills – Read personality / react

CEO'S ROLE

- Goal Setting
 - Why are you more valuable this year than last year?
 - What are you going to do to make yourself more valuable this year than last year?
 - What are the new skills that you will acquire next year?
 - What is your personal strategic plan over the next 3 years?
 - What will you do to differentiate yourself in the marketplace?
 - Communicate these goals and have someone hold you accountable

SUCCESSFUL EXECUTIVES KNOW THE NUMBERS

- They think in quantitative terms and everything relates back to costs
- They close the books within 7 to 10 days and roll out their backlog
- They have a strong understanding of finance and accounting
 - GP by day/week
 - Costs to complete

WHAT DOES IT MEAN?

- Do your financial documents answer these questions:
 - Are we making money?
 - Why ? or Why Not?
- Does the Contracts Schedule answer these questions for each job?

CONSTRUCTION ACCOUNTING & FINANCIAL ANALYSIS

ACCOUNTING SYSTEMS

- Quickbooks Pro, Peachtree - smaller contractor
– 100,000 – 5,000,000
- Starbuilder, CF Data, Masterbuilder, Computerease – medium size, union reporting, certified payrolls
– 5,000,000 – 50,000,000
- Timberline, Dexter Chaney, Viewpoint – larger, more sophisticated packages

MANAGING YOUR CASH FLOW

- Best of class billing practices
- Best of class change order process
- Contract negotiations
- Manage vendor relations
- Use email for collections
- Benchmark results against
 - “Best of Class”
- Prepare Cash Flow projections

BANKING

- Financial crisis caused banks to become more conservative
- More security requested (property)
- Personal guarantees required for start-ups, mortgages possible
- Banks want to see history of profitability, equity in company, and complete/ accurate financial reports

BONDING: THE SURETY BOND AGENT

- Primary surety contact – They represent you in the surety market and need to know everything
- Should be the first person to know about a problem
- Communicates concerns to underwriter & helps negotiate resolution
- Provides sound business advice
- Provide them with timely financial reports to maintain confidence
- SBA program

OTHER PROFESSIONAL SERVICES

- Other professionals consist of CPA, Insurance, Attorney, Investments/ financial manager
- Team approach works best
- Open communication amongst professional team
- Industry expertise
- Cost associated with service

QUESTIONS?

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PRESENTER



JUSTIN AMICO

Mr. Amico is a Director at Feeley & Driscoll, P.C. He has over eighteen years of experience in public accounting concentrated in the construction industry. Justin provides accounting, tax, pension audit and MIS consulting services to contractors and suppliers. He has focused his expertise in financial and operational analysis and is a Certified Construction Industry Financial Professional (CCIFP). Mr. Amico holds a BS degree in accounting, an MS in Taxation, and an MBA from Bentley University.