

Compliments of

Wolf & Company LLP
Certified Public Accountants

2100 Clearwater Drive
Oak Brook, Illinois 60523

630-545-4500
wolffinancialgroup.com



A Wolf Financial Group Member

Have a question?

Contact Vito Loisi at
630-545-4554 or
vloisi@wolfco-fs.com

Points to Ponder

**When we mean to build,
We first survey the plot,
Then draw the model;
And when we see the
figure of the house,
Then we must rate the
cost of the erection.**

*William Shakespeare
from King Henry IV*



PROFIT CLUE™

Profitability Tips for Construction Businesses

Winter 2008

Control Overhead to Boost Profitability

You know the old adage:
A penny saved is a penny earned.

And it definitely applies to construction businesses, where even small adjustments can put money in your pocket.

Cutting – and controlling – overhead is one step you can take to improve profitability, because every dollar you save drops directly to the bottom line and swells profit.

True, isolated expenses may seem small in proportion to revenue. But if overhead expenses aren't managed properly, profitability suffers and habits of excess take hold.

Worse, poor historical data leads to confused pricing strategies, which can cause you to lose good bids and win backbreakers.

The key to managing overhead is accurate budgeting: setting goals, tracking them and adjusting course as needed. Here are some steps in that process.

Get to know your overhead expenses.

Put them together in a comprehensive checklist, then track and analyze them. If you see spikes, find out why. Do this monthly so you can make adjustments quickly enough to have an impact.

Find out what others are spending.

Let the competition help you set your own goals. Here's where industry surveys and benchmarking data are valuable.



Trim the catch-all category.

Wherever possible, reassign costs from the general to the specific – from administrative to job-site, from indirect to direct.

Cut costs.

Focus on the most significant items, where real savings lie. And rely on your people, who know where the waste is. A strong cost-control committee – with company-wide participation, documented meetings and specific proposals – can rival the cost-cutting skills of even the most fanatical accountant.

A strong job-costing program helps contractors fully capture all direct and indirect costs, including those classified as overhead, and break them down accurately.

Monitoring this information helps a company gain a better understanding of its own operations, capabilities and expenses – critical elements in developing sound pricing strategy and identifying profit-boosting opportunities. ■

Don't Fly Blind When Bidding Jobs



Chances are, when you evaluate new job opportunities, you rarely rely on industry surveys about average costs and labor time. That's because you know that your own performance data is a much better guide to your ability to turn a profit on a job.

That's true to a point. For this approach to work, you must compare apples with apples. Not only must you measure the prospective job with an accurate yardstick, but it must be the same one used to assess earlier jobs. The only way to create such a yardstick is to capture and assign the true costs of every job — accurately, precisely and consistently. Otherwise, you risk underestimating overhead expenses, which can lead you to reach for the wrong jobs.

Case in point: Consider a road builder that rolls its transportation fuel costs into one figure and calls it overhead. With this approach, the contractor would be flying blind when bidding on highway jobs some distance away (perhaps in another state with higher fuel taxes). Instead of an accurate, job-by-job account of fuel costs, the contractor has only a company-wide average. Based on this average, he can guess high and lose the job, or guess low and lose some profit.

If the road builder wins the job, it may file some claims during the course of the work. But the contract could limit overhead recovery to only 10 percent of a claim's value, even though one part of the contractor's overhead — transportation costs — was far out of proportion. ■

6 Questions Contractors Always Ask

We are pleased to present, "6 Questions Contractors Always Ask" featuring Charles Vander Kooi, a private consultant with more than 39 years of experience in the construction industry.

In this presentation, Chuck combines his true-life experiences as a professional estimator and contractor with stand-up comedy and a little fire and brimstone, sometimes earning him the title "The Construction Evangelist."

Here's what you will learn:

1. How should I organize my company?
2. What can I do about lowballers?
3. How much growth is good growth?
4. How do I remain in control of my business?
5. Which comes first—the work or the people to do the work?
6. How do you know when to keep equipment or sell it?

If you would like a copy of this valuable resource, please contact Vito Loisi at 630-545-4554 or vloisi@wolfco-fs.com.

Questions & Answers

Question

I understand the benefits of cutting overhead costs, but it's easier said than done. Where should I look first as I try to tighten the belt at my company?

Answer

For starters, here are three areas for potential savings:

- Consider when buying a new truck if it will cost less than maintaining an old one.

Who's Who in ProfitCrew™

Who: Vito Loisi, CPA, MST, CIT, is a partner and leader of Wolf & Company LLP's Construction Client Service Team and a member of ProfitCrew™, Inc. Vito's background is in tax planning and research, as well as accounting and auditing. He works with local clients in many industries including construction, real estate, manufacturing, distribution and services. Vito's clients count on him for strategic business counsel and to generate ideas for tax savings and business improvement.

What he does best: Vito gained real-life insight and hands-on experience as the outsourced CFO for a large local contractor. He favorably settled a complicated IRS examination for a contractor and successfully negotiated the split-up of a construction company. He is lead tax advisor for one of the largest real estate companies in North America. Vito has also passed the Construction Industry Technician exam.

In his spare time: Vito teaches tax classes at a local college. He is a devoted father to his three sons and has coached each of his sons' baseball teams from Little League through Babe Ruth League. Vito enjoys taking his family to a few Chicago White Sox, Cubs, Bulls, Bears and Blackhawks games each year. ■



- Watch utilities, especially communications services. In the current marketing frenzy, it's easy to wind up with overlapping phones and devices.
- Shop around for insurance, marketing, travel, office supplies and other products and services to get what you need and no more.