

Actively Managing Your Expenses

Are You Actively Managing Your Expenses? Times have been very good for the construction community over the recent past. With the exception of the real estate market, all phases of construction seem to be operating on all cylinders. This has resulted in strong profits for many companies. However, all good things eventually end. Whether it is an economic slowdown or just a bad job or two, sooner or later good times come to an end. When this happens are you in position to react quickly by cutting back in areas not essential to operations? Do you know what areas those are? Keep an eye on employee expenses. It has been easy over the past few years to become relaxed on managing various perks offered to employees. Whether credit card expenses for entertaining or tool purchases have increased or gasoline cards are being taken advantage of, are you prepared to take the necessary, yet maybe difficult, steps required to reign in these expenses. While these are only simple examples of miscellaneous expenses that can grow slowly and unnoticed during times of strong profitability, they need to be managed. Are they growing as a percentage of overall costs or proportionate to your business? Manage your overhead. Whether in good times or bad, general and administrative expenses also should be managed. Line item by line item should be budgeted and reviewed on a periodic basis versus actual expenditures to analyze variances.

Do you have a strong understanding of your fixed expenses? As you know, these are your expenses that are recurring whether you do \$1 in revenue or \$100 million. Understanding what these costs are will enable you to budget and forecast out necessary revenue and gross profit margins to meet your required return on equity. In addition, knowing what fixed costs you can cut in dire times will allow your business a better chance to survive. Making difficult decisions under crisis without full knowledge could lead to disastrous results.

Keeping your overhead in line with historical profitability levels rather than creep with increased profits will allow your company to build a nest egg for an eventual down turn. Don't get caught up in the thought process that times are great and they will stay this way. One or two bad jobs can jolt you back to reality quicker and harsher than a slowing construction market.

Your outside credit partners also notice your ability to manage overhead. While strong profits and big balance sheets help keep concern to a minimum, surety companies notice when overhead as a percentage of revenue has grown relative to your business or relative to your industry peers. Surety underwriters may draw a conclusion, fair or not, that an increase in overhead as a percentage of revenue could mean you are living a more expensive lifestyle or do not have control of your business expenses. Being able to explain why overhead has increased could be important to easing your underwriters concern.

In the big picture the construction community continues to do well. Do not let these good times put you into a false sense of security. Construction is still a risky business and you need to stay aware of how and where your money is being spent.