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## **Need a Business Plan?**

### **It's Never Too Late to Start Business Planning For Growth and Profitability**



For instance, the Construction Industry Survey recently released by Grassi & Co., CPAs, a leading national construction practice, in partnership with McGraw Hill, uncovered a need for contractors and developers to begin relying on sophisticated business planning tools and programs to grow business over time and on financial techniques to increase profitability.

The survey queried construction companies in seven different information areas: organizational structure, contract types, training and technology, profitability and access to capital, financial tools, business development and future vision.

"Construction contractors should key into business planning for both growth and profitability," advised Louis C. Grassi, CPA, CFE, and Managing Partner of Grassi & Co., CPAs, who has been advising construction firms for nearly thirty years.

Overall, many of the firms who responded to the survey reported that they did not have a business succession plan in place.

The importance of succession plans -- especially in the construction industry which has followed a father-to-son/daughter business model -- cannot be underestimated says Grassi.

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"For many companies, second generation professionals are in place; however for many others, a new generation of leadership has not been formalized, leaving business growth on an uncertain path," he added.

Firms also indicated that change order disputes are still one of the largest causes of litigation and often leads to profitability losses.

According to Grassi, this result is most telling and indicative of a growing trend on the part of owners and developers, both public and private, to implement better project planning procedures and more complete construction documents as ways to reduce the number of project change orders.

Technology is also playing an increasingly important role in providing more complete construction documents and drawings to ensure that clashes, conflicts and the potential for future change orders may be reduced.

According to Pat DiFilippo, Executive Vice President at Turner Construction and his firm's lead professional on Building Information Modeling (BIM), "Technologies such as BIM and other integrated project delivery programs are likely to have a significant effect on reducing changes throughout a project and increasing overall profitability, for both the owner and the contractor."

Other highlights of the survey reveal:

- **Sixty percent** of the respondents did **not have a succession plan**. In a generational-based business, succession planning is critically important. The lack of these plans in the construction industry is significant for a better understanding of this predominantly, small business industry.
- **Thirty percent** of the respondents currently **participate in joint ventures**. Larger projects require increased bonding and financial capacity. Smaller firms may be challenged by complex mega-projects. The results of the survey point to an emerging trend for companies to consider joint ventures and other business associations as a way of expanding capacity. This is also more prevalent in a down economy, as firms can collaborate and be more competitive.
- **Fifty-seven percent** of the respondents reported they **do not have in-house training programs**. With the need for increased training in safety standards and new technologies, training both in best practices and technology emerges as a 'must have' for many construction companies. There appears to be need for more improvement in this area.
- **Fifty-two percent** of the respondents cited **change order disputes as the largest cause of litigation**. With the need to increase profitability, many of the respondents may begin to look at ways in which to control costs through exploring opportunities to reduce change orders.
- **Fifty-seven percent** of the respondents stated that their companies have **instituted fraud control plans**. With data from the Association of Certified Fraud Examiners (CFE) indicating that companies lose an average of 7% of their revenue to fraud (CFE), the fact that just over half of the firms reported fraud control plans appears to suggest that greater control in this area is needed.

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- **Fifty-seven percent** of respondents indicated that they **have a business plan**; only **40%** noted that they **have a marketing plan**. The survey indicates that lack of use of standard business planning tools (i.e., business plans, marketing plans) is another emerging trend in the construction industry and may have a significant effect on the growth of an industry that demonstrates generational and familiar characteristics for supporting business growth.
  - **Only 76%** of the respondents noted that they **have a Web site**. The construction industry is increasing its reliance on Web-based documents, forms and communications and the fact that almost a quarter of the firms surveyed do not have Web sites is another telling characteristic about the way in which a traditional industry such as the construction continues to operate.
  - In general, firms surveyed were moderately optimistic about future growth, despite the current economic downturn. Almost 80% of the respondents indicated that their firms are growing or at least leveling off. However 18% of the respondents indicated that they saw their firms declining.

The results of the survey indicated that many of the respondents focused on cash flow versus profitability. While vitally important, cash flow is only one measure of financial health, and profitability is the ultimate bottom line factor in financial success.

*Highly successful contractors that we work with use the following tools: budgeting, forecasting, monthly financials and profitability reports. Many of the survey respondents did not report that they rely on those tools to manage their business.*

The survey results also indicate that firms need to put a plan in place to survive and thrive in the current economic climate. While contract opportunities for both private and public work are reduced, ***the need for a realistic business and marketing plan is critical.***

If you need help please [contact us](#).

Thank you,

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