

# PERSPECTIVES ON THE CONSTRUCTION INDUSTRY

**HAWKINS | ASH**  
*Part of your business. Part of your life.* **CPAs**

Spring 2015

## Obtaining Surety Bonds — The Professional Help You Need

A surety company will be more likely to offer bonding if it is confident a construction firm has the experience, equipment, personnel, and financial resources to perform the work successfully. Developing or solidifying a relationship with a surety is easier with the assistance of knowledgeable advisors.

### Your Agent or Broker

The agent or broker your firm works with has a key role to play in the process of obtaining surety bonding. When searching for a surety bond agent/broker, there are several things to keep in mind. Importantly, you will want feedback as to how your company can qualify for the bonding capacity it needs on competitive terms. Along with having the appropriate licensing, look for a firm that has these attributes:

- ✓ Deep knowledge of surety products
- ✓ Solid relationships with surety underwriters
- ✓ An extensive understanding of the construction industry
- ✓ A reputation for integrity among construction executives and others in the industry
- ✓ A tested process for reviewing financial documents, completed contracts, current contracts, and proposed bids

- ✓ Broad-based involvement in construction and surety trade associations

### Know What Questions To Ask

Asking the right questions can help when you are talking with a surety firm. Here are a few to get you started.

- ✓ What value will my company derive from our relationship?
- ✓ What services and advice will you provide?
- ✓ What is your track record when it comes to working with construction firms of my size?
- ✓ Are you licensed in my state?
- ✓ What percentage of your overall business is represented by the construction contract bond business?

Additional questions might include:

- ✓ How extensive is your underwriter's experience in underwriting construction firms?
- ✓ What are the surety company's primary market segments?
- ✓ What are the surety's financial results over time?
- ✓ Is the surety A.M. Best rated or listed as an approved surety on the Treasury Department's listing of qualified sureties?

- ✓ What do you consider an adequate aggregate amount for my business?

### Our Role

When it comes to working with sureties, our accounting firm can be another critical strategic partner. Surety companies place great importance on having proper accounting systems and reliable financial statements. When applying for bonding, your construction firm should be prepared to present complete financial statements for the past three years, at minimum.

We are familiar with how sureties evaluate a contractor's financial strength and can help you analyze key financial metrics for your construction firm on an ongoing basis. Continuity plans, insurance policies, and the personal financial strength of a company's owners also play a role in bonding decisions.

### Talk to Us

Obtaining surety bonding takes time, effort, advice, and input from trusted professionals who have a strong understanding of both the construction industry and your particular business. We would be pleased to help you and your agent or broker work on obtaining the surety bonding you need. ✓

# Boost Your Chances of Getting Financing

Financing growth through cash flow alone is difficult for even the best run contracting firms. When it's time to purchase an expensive piece of equipment, hire additional workers, or expand operations in neighboring communities, contractors often look to borrow from outside sources. And that means contractors should be prepared for bankers and other lenders to scrutinize the firm's finances and operations.

The following tips may be helpful to your contracting firm if it is seeking a loan.

## Start with Existing Relationships

Lenders are more likely to work with contractors they already have a relationship with. If you have a business checking account or a mortgage with a particular lender, start your search with that lender. Typically, your past performance handling business — and even personal — loans is used to assess your potential for a new loan.

## Be Prepared To Provide Your Financials

The lender will want to review your company's current financial statements. The lender will use them to analyze your business's ability to repay the loan you plan to take on. The lender may compare various ratios derived from your financials with local and regional benchmarks to help gauge your business's performance.

## Think About Collateral

Collateral assures lenders you have a stake in the success of your business and confidence in your ability to repay the loan. Lenders typically prefer borrowers to pledge assets, such as billings for work in progress or machinery, as collateral. Don't be surprised if the lender asks you to pledge personal assets, such as your home, as collateral for the loan.

“... contractors should be prepared for bankers and other lenders to scrutinize the firm's finances and operations.”

In particular, lenders will want to scrutinize your contracts and your cash flow projections. They want evidence that as you perform work, you will be able to generate enough cash flow from your operations to repay existing creditors as well as new debt.

## Call Us

We can work with you to ensure that any financial statements you present to a lender as part of a loan application are complete and accurate. Please call. ✓

# Grow Your Business with Referrals

Elaborate marketing campaigns may garner a fleeting interest in your firm, but nothing can beat the impact of recommendations from satisfied clients. An endorsement from a trusted and influential client can be invaluable. However, many business owners find it difficult to ask for a referral from a customer. Here are some tips on how to acquire referrals and use them to grow your business.

## Know When It's Appropriate To Ask

You should consider asking for a referral when:

- ✓ The customer thanks you or praises your workmanship or your ability to complete a project on time and/or on budget.

- ✓ The customer pays you for your services. When you give the customer a receipt, consider including a card that offers a discount on a future service in return for the name and address of someone your customer thinks would be interested in your services.
- ✓ The customer mentions an architect, owner, or realtor who has had problems with other contractors' inability to complete certain types of projects.
- ✓ You are talking with a current or past customer about ways you've helped

other clients on their projects and the customer says that a friend, family member, or colleague is experiencing similar problems.

## Make It Easy

Consider putting a request for referrals on the back of your business cards. You also can add links on your website to any review sites on which you appear — Angie's List, Yelp, etc. — and instructions on how to submit a review.

*Continued* →

“An endorsement from a trusted and influential client can be invaluable.”

# Grow Your Business with Referrals

Continued from page 2

## Filter Referrals

All referrals are not equal. Some referrals will cost you time and effort and yield little in the way of revenues. Others are pure gold.

Architects, engineering firms, surveyors, and realtors are generally great sources of valuable referrals. So too are regular customers who are satisfied with your

work. Satisfied customers will generally be happy to share the names of others who could benefit from your services. ✓

# To Bid or Not To Bid

Every contractor faces the sometimes difficult decision of *which* jobs to bid on. You may hold off bidding on certain jobs that you feel are outside your area of expertise or that you believe may contain too many hidden financial risks. The only way you can be certain that a job is worth bidding on is to perform a risk analysis that allows you to carefully identify — and weigh — the risks up front. Before you take on a project, ask yourself the following questions.

## Is My Bonding Capacity Adequate?

Always contact your surety firm ahead of time to ensure you can obtain bond approval if you intend to bid on a project that requires bonding. They'll let you know if you are in danger of stretching your resources. Sureties generally look at the total volume of the contracts you are working on (bonded and non-bonded), the length of the potential project, and

## How Healthy Is My Cash Flow?

Good cash flow is essential to the prosperity and growth of your firm. That's why it's important to review a potential project's payment terms very carefully. Some jobs might require greater cash flow capacity than your firm can handle and limit your ability to take on other jobs.

## Where Is the Project Located?

Consider whether a proposed project's location could create unforeseen and expensive problems related to oversight and control. It may be necessary to walk away from a potential project if it's too far from your home base to keep adequate tabs on its progress.

Preparing and submitting a formal bid is an expensive and time-consuming undertaking. A careful risk analysis can help you avoid bidding on projects that could end up draining funds from your business. We can review bid documents with you to help you determine which projects are worth bidding on — and which are not. ✓

**“You don't want to run the risk that your firm could suffer severe financial consequences by taking on too large or too complex a project.”**

## Is the Project Aligned with My Company's Goals?

It's important to examine a potential project to see if it fits into your firm's overall growth plans. You don't want to run the risk that your firm could suffer severe financial consequences by taking on too large or too complex a project. Performance issues — typically related to a contractor's inexperience in handling large or difficult projects — is the second most common reason contractors fail, according to a study by the Surety & Fidelity Association of America. Even a potentially lucrative project isn't worth bidding on if it will place an undue strain on your existing resources.

whether you have (or can easily obtain) the equipment and other resources necessary to perform the work before they'll approve additional bonding.

## Do I Have a Sufficient Pool of Qualified Labor?

The profitability of a project is generally dependent on the experience of the project manager and the availability of qualified workers. An experienced project manager can keep a project on track, on time, and on budget. And an experienced, qualified crew is usually a highly productive one. Before you consider bidding on a job, ensure you'll have the right project manager available and enough experienced workers to complete the project.

The general information provided in this publication is not intended to be nor should it be treated as tax, legal, investment, accounting, or other professional advice. Before making any decision or taking any action, you should consult a qualified professional advisor who has been provided with all pertinent facts relevant to your particular situation.

500 2nd Street South, Suite 200 La Crosse, WI 54602-4029

Green Bay, WI  
920.336.9850

La Crosse, WI  
608.784.7737

Manitowoc, WI  
920.684.7128

Marshfield, WI  
715.387.1131

Medford, WI  
715.748.2856

Rochester, MN  
507.424.1233

St. Charles, MN  
507.932.3010

Winona, MN  
507.452.8313

[www.HawkinsAshCPAs.com](http://www.HawkinsAshCPAs.com)

1.800.658.9077

PRSR STD  
U.S. Postage  
PAID  
La Crosse, WI  
Permit No. 563

## Developments in Tax and Business

### Proactive Maintenance Extends Equipment Life

Routine, proactive maintenance of construction equipment reduces the need for major and costly repairs over time. By improving maintenance practices from average to excellent, construction contractors can increase major component life by 62%, according to Caterpillar's Site Operations Maintenance Advisor.

### Shortage of Skilled Construction Workers

After years in the doldrums, hiring is on an upswing in the construction industry.

In fact, business is so good that many contractors can't hire enough qualified workers to fill all of their open positions. Eighty-three percent of firms responding to an Associated General Contractors of America Survey conducted during August and September of 2014 said they were having a hard time filling craft worker positions. Sixty-one percent were having a tough time filling professional positions, such as estimators, engineers, and project supervisors. The difficulties in finding skilled employees were most evident in the Southeast and the Midwest. ✓

### Can We Serve You?

Our firm provides a broad range of accounting, auditing, tax, employee benefit, and management consulting services to contractors.

Copyright © 2015

CON