GNA GREGORY NEIL ASSOCIATES

# EVALUATE YOUR PERFORMANCE ALL THROUGH THE YEAR

I was meeting with a Contractor yesterday as we were reviewing his profit and loss and job cost spreadsheets, and I was reminded of how, no matter how many times we hear it, it bears repeating:

**Run your Business from your Financial Statements**

Its not profit until it shows up in your net margin. When asked "Are you making money?" I have heard some really amazing methods of determining this, ranging from counting the monthly deposits in the register, to how many faxes requesting work come in every day, and how much money is left over at the end of the week after paying the crew… but the bottom line is you need to have a very accurate bookkeeping system, you have to know your margins better than you know your dog, and you have to trust your information to help you steer your business decisions.

It may take a few weeks, or two or three months, but it is well worth the time it takes for you to have certainty about where you stand financially. Take the time to establish what the Key Performance Indicators are for your business. Minimally, start with your overhead, net, gross profit margins, and job costing. Design your office reporting systems to give you reliable, up-to-date information on at least a monthly basis. Many contractors doing under 1.5 million have part-time office staff, so it's even better if you can train that staff in helping to provide the information needed; otherwise they default to merely making the necessary data entry.

**Do the Work**

Spend the time and the effort to go through all of your expenses every month. You will get out of this effort exactly what you put into it. If you guess at numbers, your budget will be a guess. If you really get in and do your homework, your budget will become your bible of expenses for the coming year. This is one of the key issues in getting out, or staying out, of debt. The most successful companies I know, no matter what their size, pay extremely close attention to every financial detail.

**Review Annual Financial Results**

First, remember this: how well your company did in 2005 is not measured by how happy your customers are, or how pretty your jobs turn out. It is determined by your net profit. There are a few models for how to do this, but the one I like the best right now is…60/40 and 10/10 which means 60% direct cost, 40% gross margin, 10% net profit, 10% to the owner. However, if you're a subcontractor, you may have fewer variables and can operate more efficiently with a 25% net, but you have to be doing everything right to get that. I recently met with a subcontractor taking home 600,000 on 2.5 million in annual sales. I worked with that company several years ago for over a year and a half, and the hard work is paying off.

**Net Profit Percentage average for most GC companies:**

15% plus: Very good; you are running your business as you should.

10% -15%: Good, still room for some improvement, but you are far ahead of most.

5% to 9%: Minimum profit area. You want to be no less than 8% at any time.

0 to 4%: At least you made a profit. That gives you something to build on next year. However, remember you can't continue down this path long. Sooner or later something will happen to put you in the red. Changes need to be made and soon. 8% will give you the financial stability you need to grow your business, and should be the minimum goal for your company.

Negative %: You need to get some help, and the sooner the better. The reality is that you are where you are based on decisions you and you alone have made. Things are not going to get any better, and will probably get worse unless you make some serious changes.

If you are equating the success of your company to anything other than your bottom line; i.e., your quality of life, how happy your customers are, how many days off a week or vacations you take, the toys you have, you are kidding yourself. Those are the signs of a successful hobby. And please don't give tell me the tired old line, "I am not in business just for the money." Idealism will not feed your family or pay your bills.

**Review Your Advertising & Marketing Success (Sales)**

Next, review your sales for the year. Know your:

- Total sales for the year
- # of phone calls into the company for the year
- # of leads for the year
- Sales to leads ratio (Closing ratio or %)
- Average job size

These need to be tracked to give you a total picture of how well your marketing program is working. If you don’t do the marketing work, you won’t get the calls, you won’t set the leads, etc. You need to know who your best customers are, where to find them, how to speak to them, and how to generate a compelling reason for them to work with your company.

**Look at your Pipeline: Prospects, Bidding, Pending, and Work in Contract**

Each area needs to have a sufficient list of work so that what moves into contract is enough to sustain your company. And don’t underestimate the power of having a large visual display in your office. Especially if you’re interested in having key staff participate in the process of acquiring work, which they really appreciate being able to do.