



Construction Industry Update

MSP Construction Update 11/2003: "Construction Professionals"

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Construction Professionals Do They Surround Your Company? Do You Maximize Those Relationships?

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During the 1990's, and even into early 2000, the need to have strong relationships with professionals outside your organization that specialize in the construction industry diminished. Business was good, obtaining credit was easy, and relationships were taken for granted.



Today things are different. It's not just about what you know, but also whom you align yourself with. Surety credit is difficult to obtain, and the importance of outside professionals that understand the construction industry has once again become an important part of your overall business success.

Surrounding yourself with the right people is not enough. You need to take advantage of and rely on their knowledge, and expertise and recommen-

dations in their respective fields. Your ability and willingness to communicate with these professionals are essential to ensuring that you and those professionals are working with one common goal in mind, reaching your business objectives and the ultimate success of your company.

This article discusses some of the key outside professional relationships you need to secure, nur-

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ture, and evaluate from time to time as your business evolves. These professionals should be considered your trusted advisors. I have included suggestions as to how often to meet with these trusted advisors and what you should attempt to accomplish in those meetings.

Surety Agent/Broker

This may seem obvious, but think about how often you really talk to your surety broker about your business. I don't mean your next bond request, I mean your one to five year business plan. Are you certain that you are both on the same page in regards to your business goals?

You should meet with your surety broker at least three times a year. Two of these meetings can be in conjunction with surety meetings, the year-end recap and the job site visit/six month update. Your surety broker should help guide these meetings, and ensure that you are prepared in advance.

The third meeting is something not commonly done, but I believe it should be. Before your fiscal year-end, you should have a tax preparation and planning meeting with all of your professional advisors in attendance. At this meeting the objective should be to talk about your plans for the next year as well as your long-range plan for your business. With all of your outside professional advisors in attendance, it is much easier to ensure that everyone is working with the same objective in mind.

Again, you should consider your surety broker as one of your trusted advisors. Your broker needs to be knowledgeable about your short- and long-term business objectives. Other meetings throughout the year should occur according to a schedule you and your surety broker have pre-determined to ensure that you are receiving all of the value-added services necessary to reach your business objectives.

Surety Company

With a shrinking surety credit marketplace, it is imperative that you attempt to develop a long-term relationship with a surety company that understands your scope of work, is financially stable, and has an appetite for risk that closely mirrors yours.

Once you have selected that surety, you need to develop a relationship with the local branch or regional office, and depending on your level of credit requests, the home office as well. I recommend at least two, and probably three meetings a year with your local surety representative.

One meeting would be the year-end recap, when you sit down with the surety representative at your office and talk about the good and bad of the prior year and answer any questions that may exist.

The second meeting would be a job visit/six month update. At that time, you should consider taking your surety representative to see one of your larger or more complex projects to showcase your abilities. This is also a good meeting, if appropriate, to have a regional and/or home office representative attend.

The third meeting should be the planning meeting.

Banker

Probably the only thing harder to find than surety credit is a bank that likes to underwrite construction companies. If you have one of these banks, nurture that relationship. If you don't, get one.

Having a line of credit and/or equipment line that is sufficient to support your business is paramount to your success. While you never want to use your line of credit, you need to know it is available in the event of a temporary cash flow shortage or unforeseen job problem.

You should probably meet with your banker on a quarterly basis. These meetings will give you the opportunity to build your relationship, and allow your banker to provide value-added suggestions that can improve your overall banking program.

One of the quarterly meetings should be your planning meeting. Your banker needs to know your goals, and you need to know if the bank has the ability and willingness to support you. If not, knowing in advance that the bank ultimately cannot support your needs will allow you the option to seek another bank at your leisure rather than in crisis mode.

Accountant

There are a lot of accountants out there, but not all of them understand construction accounting. Your CPA should be an AICPA member, have a working knowledge of percentage of completion accounting, and understand the unique aspects of construction tax accounting.

Once you have the right CPA, you should meet with him/her four times a year. These meetings should be for tax planning, year-end financial preparation, the recap of the end product, and your planning meeting. While additional meetings may also be necessary, these are the “must have” meetings.

Attorney

Your attorney is a critical part of your overall risk management plan. If your attorney has not already done this, he/she should review the contracts you use with subcontractors and suppliers to ensure that they have all the necessary legal clauses to transfer risk away from your firm. Your attorney should also review any contracts before you sign them to ensure that you are not assuming more risk than necessary.

You and your attorney should also pro-actively plan meetings to educate your accounting and project management staff. These meetings should focus on how to ensure that pre-lien notices are filed properly and that everyone understands and complies with the administrative requirements associated with claim issues.

Understanding and positioning yourself properly on the “front side” of an issue will save you a significant amount of time, energy, expense and frustration later on.

Insurance Agent/Broker

Your insurance broker needs to be risk management focused, and possess the capabilities to continuously lower your total cost of risk. Your broker should not only know your company and the details of its operations, but also have expertise in all aspects of the development industry from an owner, construction manager, design professional and contractor’s perspective.

Your insurance broker should review all contracts before you sign them to ensure that you meet the insurance requirements and are not entering into contracts that contain onerous insurance provisions. Your broker should also review your subcontractor and supplier contracts from an insurance perspective to make sure you request the appropriate minimum limits and coverages to protect your firm.

Lastly, your insurance broker should also be a part of planning meetings, as he/she needs to understand your business in order to properly represent you to the insurance industry.

Summary

Many outside professionals play key roles in your business success. You need to make sure you have the right team working for you, and that you are maximizing their value to your company. If they are not meeting your expectations, are not willing to make themselves available, or are not experienced in construction, you need to re-evaluate your relationship.

Obtaining surety credit will not get any easier in the near future. To prepare your company for the long haul, you need to be able to count on the team you have assembled. Is your team performing at a level that allows you to secure “A” team results?✘

Disclaimer: This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.

Update Your Business Plan Annually

Measuring performance is critical to success. A current business plan serves as a roadmap, not only internally, but for your outside partners. Your business plan should be updated at least annually. It should show who your firm is, where it's been and where it's going.

Once your business plan has been developed and approved, it should be communicated throughout your organization and shared with your outside partners. Below is a sample outline of information that surety and insurance companies expect to see in a typical business plan.

Happy planning!

I. Who We Are

- A. Mission Statement
- B. Vision Statement
- C. Unifying Principles

II. Company Operations

- A. Type of Work
- B. Size of Jobs
- C. Clients
- D. Geographical Area
- E. Organizational Chart(s)
- F. Key Individuals/Positions/Responsibilities

III. Strengths and Weaknesses

- A. Internal Analysis
 - 1. Strengths
 - 2. Weaknesses
- B. External Analysis
 - 1. Strengths
 - 2. Weaknesses

IV. Analysis of Competition and Marketing Philosophy

- A. Competition
- B. Marketing

V. Executive Summary of Goals

- A. Proformas
 - 1. Year 1
 - 2. Year 2
 - 3. Year 3
 - 4. Year 5
 - 5. Year 10
- B. Critical Financial Performance Measurements

VI. Goals & Objectives