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## **GOAL SETTING FOR CONTRACTORS**

### ***Part 2 of 5 in the “Being a Better Contractor Tomorrow than You are Today” Series***

Last month, I encouraged contractors to “look in the mirror” by taking a little time and personally giving their company a good, honest critique. As the old Clint Eastwood movie was titled, “The Good, the Bad and the Ugly.” Once you know where you are, the easier it is to get where you are going. This is not rocket science.

I have a client (that I will disguise heavily in this story) who is good at lots of different trades. This company has contractors’ licenses in five different disciplines of construction. A few years ago, there was a job where they self-performed practically the entire job. The philosophy was “we’ll make our profit and everyone else’s as well.” As you can imagine, this job lost money. As in, it lost over 20 percent. In short, their goal was not bad. Their strategy was poor.

Their goal was to make as much money on the job as possible. Their strategy was to do all the work themselves. They found out that there were things they did not do well. Later, they found what they were best at, and they spent most (I can’t say all) of their energies on those areas. Their goals were well defined; like everyone else, their behaviors in relationship to those goals can and did get a little misaligned.

I encourage you to think about some goals for your company. What do you want the company to look like in one year, three years and five years from now?

Those who have heard me speak have heard me say all too many times “Goals MUST be measurable.” When asking a contractor what his or her goals are, if I hear “Oh, I want to do \$120 million next year,” I am immediately concerned. In my opinion, revenue is not a goal in and of itself.

Goals can be based on many things. They can be financial, operational, strategic and personal (have more family time, etc.). Here, I am limiting my comments to financial, operational and strategic goals for contractors. A few of the basic metrics for contractors are as follows:

#### Financial:

- Have total equity to \$10 million by 12/31/10
- Gross profit (in \$ or %) for 2008
- Return on equity or return on investment (not always the same thing)
- Average days in net under/over billings and AR (Do your PMs bill and collect with cash flow in mind?)
- Number of days revenue and/or gross profit in backlog
- Number of days G&A expense in backlog GP

#### Operational:

- Revenue or gross profit per equipment hour
- Gross profit per man hour (for a type of contract, all jobs, etc.)
- Gross profit per ton of asphalt or yard of concrete put in place (again by job type, etc.)

Strategic:

- I want to transition ownership by 12/31/11 (in total or at least 49 percent, etc.)

Next month's article will look at which metrics fit your company, and how to benchmark your company against others.

For more information about the services offered by Dixon Hughes' Construction Practice, contact us at [construction@dixon-hughes.com](mailto:construction@dixon-hughes.com). Or to contact Mike Trammell, the author of this article, please contact [mtrammell@dixon-hughes.com](mailto:mtrammell@dixon-hughes.com).

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