



# The Construction Business Owner's Guide to Growth

How to manage low margins, high expenses and the need for new customers



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## INTRODUCTION

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**The construction business** has boomed over the last decade. More than \$1.2 trillion<sup>1</sup> worth of new construction was put in place in 2017 alone, and construction firms added 308,000 jobs through the first seven months of 2018—far surpassing the 210,000 they added in all of 2017.<sup>2</sup>

However, the industry has its challenges. Construction businesses are often dependent on seasonality and run into cash-flow challenges and slim profit margins.

Successful construction firms focus heavily on managing cash flow to better cover the gaps that arise from late payments and high upfront costs. But as they grow, their focus shifts to hiring and retaining talent, acquiring new customers and adopting technologies to help them scale their businesses even further.

In this guide, we'll take a deeper look into the challenges construction business owners face and offer tips and advice from experienced professionals on how to best overcome them.

<sup>1</sup>Source: U.S. Census Bureau

<sup>2</sup>Source: Bureau of Labor Statistics



# 1

## Cash flow is king

Construction is a capital-intensive industry with thin profit margins. It's no surprise that managing cash flow is the first great challenge construction firms face.

In fact, 28 percent of construction firms surveyed by Kabbage cite cash flow as the biggest challenge during their first year in business – a concern that even outweighed finding new customers.

As firms grow and jobs accumulate, the successful ones find strategies to help them cope, often by taking out temporary lines of credit and by establishing strong relationships with vendors and subcontractors. Once a construction firm makes it through its first year, cash flow isn't as high of a concern.

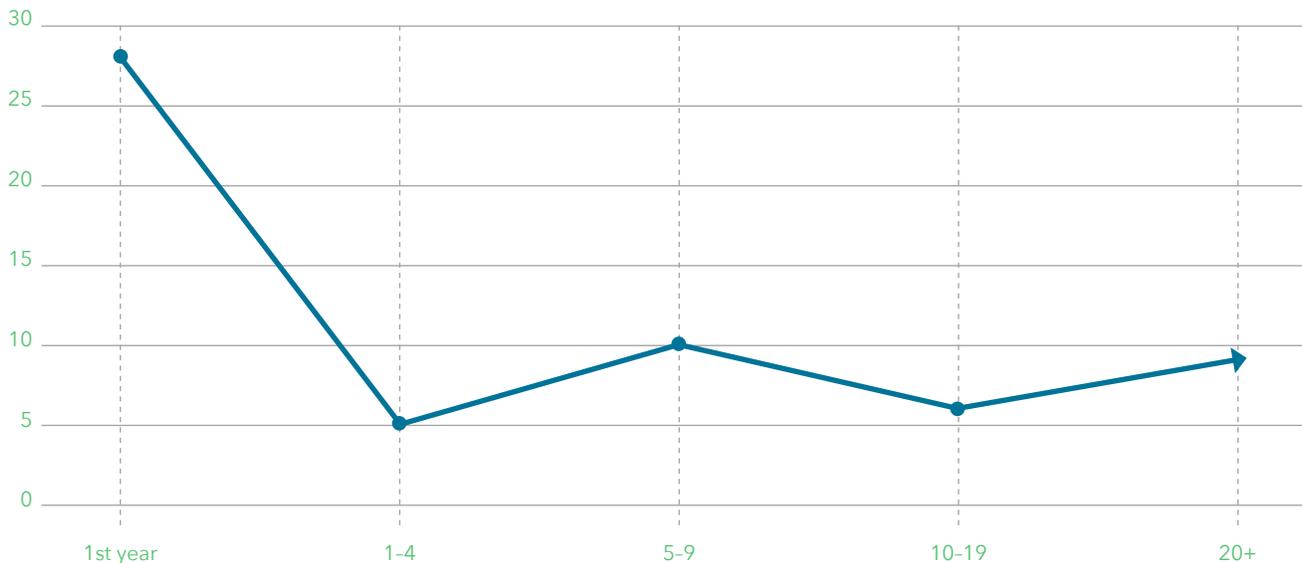
### Top focus areas to ensure continued growth

- 23% Need for capital
- 19% Outsmarting competition
- 19% Marketing
- 10% Hiring and retention
- 10% Build online presence
- 9% Technologies
- 9% New products
- 1% New locations

### TIP

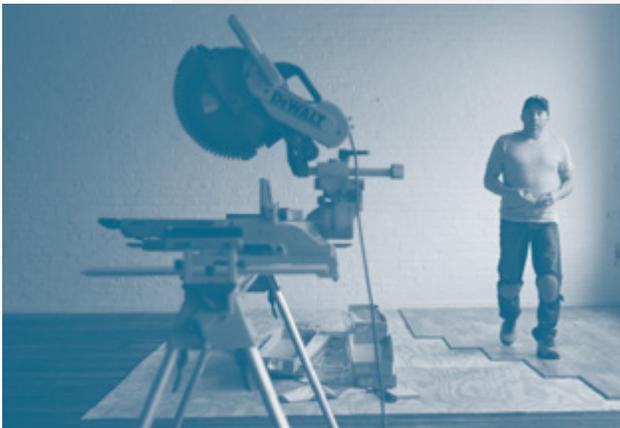
Invoicing after every small stage of a job, rather than in three or four lump sums, can help you get paid faster

CASH FLOW MANAGEMENT AS TOP CONCERN BY STAGE OF BUSINESS





## DEALING WITH LATE PAYMENTS



**COMPANY:** John Montijo Construction

**OWNER:** John Montijo

**LOCATION:** New York, NY

When John started his specialty contracting business nearly 20 years ago, he learned how to handle cash flow issues through trial and error.

While the industry standard is to bill clients in three or four large installments over the course of a job, John now bills after each small step: for demolition, sheetrocking, windows, insulation, plumbing, electrical work and so on. This way, he stays ahead of the game.

His clients don't seem to mind it, either. "Let's say it's a hundred-thousand dollar job," he says. "Instead of a customer coming up with \$25,000, I'll ask for \$10,000."

By asking for smaller payments, he helps clients feel more comfortable from the start. "We'll do the demolition, and they'll see, 'O.K., they started the job,'" John says. "They're not having to write those big checks to me up front, which can be scary."

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**More than 35% of U.S. construction companies lost money or broke even in 2016<sup>1</sup>**

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# 2

## Budgeting and Inventory

Inventory is often the biggest expense for construction firms. In fact, cost of materials, components and supplies make up 28 percent of construction expenses, according to Census Bureau figures—a bigger share than contractors and employees.

It's natural then, that 28 percent of first-year companies Kabbage surveyed named inventory and supplies as their top expense category. What's more: Unlike some expenses, inventory costs usually grow along with a company.

So even as construction firms still cite inventory as their top expense as they grow, they also say that, with hindsight, they wished they'd invested even more money in either equipment and vehicles or inventory and supplies.

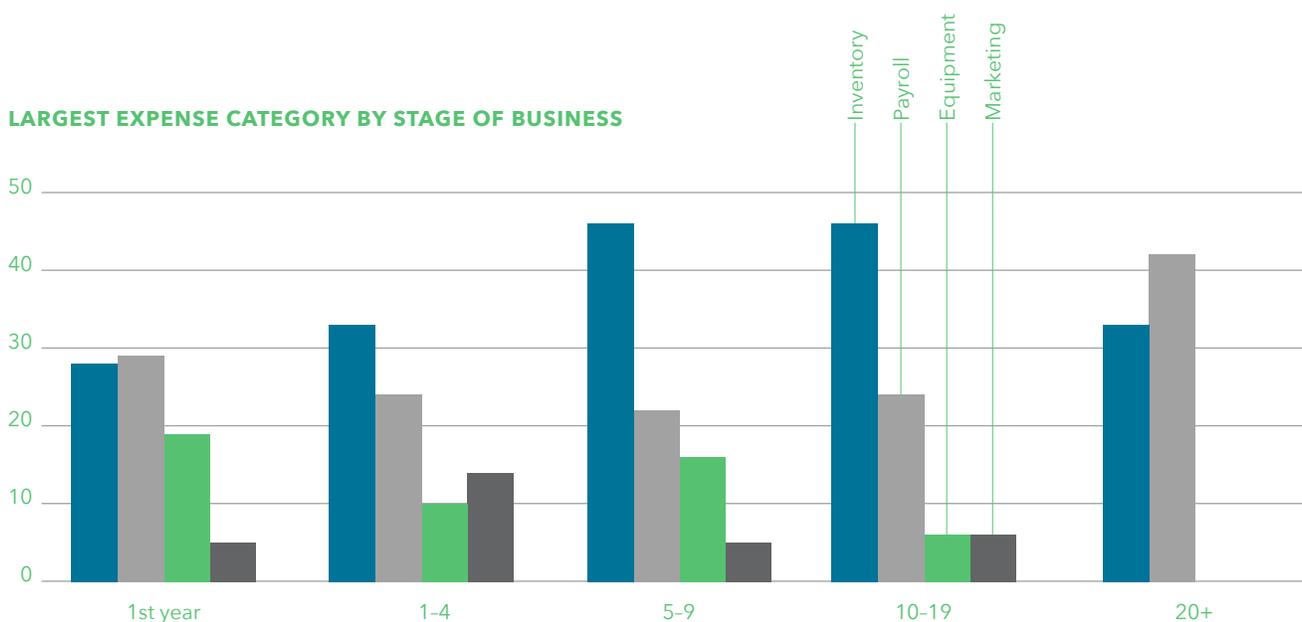
### Top expenses<sup>1</sup>

- 28% Inventory
- 25% Subcontractors
- 20% Payroll
- 7% Operating expenses
- 5% Fringe benefits
- 3% Depreciation
- 2% Rent/lease

### TIP

Taking out a line of credit to pay for inventory and supplies can help build (or rebuild) your credit

LARGEST EXPENSE CATEGORY BY STAGE OF BUSINESS



<sup>1</sup>Source: U.S. Census Bureau





## PAYING FOR SUPPLIES



Construction materials, supplies and fuels account for 37% of costs for single-family general contractors<sup>1</sup>

**COMPANY:** Shadow Mountain Drywall

**OWNER:** Joseph Millett

**LOCATION:** St. George, UT

After dreaming for years of owning his own company, Joseph started his drywall business in 2006. All was going well until the recession—and bankruptcy—hit.

While business has picked back up in the past few years, Joseph burned through the majority of his savings during the downturn. Now, he has different budgeting strategies. He stockpiles supplies, like painter's tape and plastic, when local suppliers have sales. And he utilizes multiple loans and lines of credit.

These steps help him balance his budget, bridge cash flow gaps and pay for supplies he might not otherwise be able to afford.

"I can pay for materials and supplies that way without tapping into my personal savings," Joseph says. "The calm it gives me is worth it."





# 3

## Payroll and hiring

Payroll and hiring are constant concerns for construction businesses, particularly in a highly competitive market. Other than inventory, payroll is the biggest expense among the firms surveyed throughout the life of their businesses.

In fact, 44 percent of those firms say “hiring the right people” is their primary challenge, which is just behind acquiring new customers. And more than 20 percent of construction firms at all ages say their biggest expense is payroll.

Building the right team early on—and targeting the right people—can help lead to long-term stability and success as well as employee retention and loyalty. That’s especially important with the construction unemployment rate at its lowest point over the last 18 years.

### Reasons for first full-time hire

- 17% Needed different skills
- 12% Administrative help
- 60% Too much demand
- 11% Other

### TIP

Put some time into thinking about the types of employees you want to hire, and then take steps to retain them in the long-term

AGE AT WHICH CONSTRUCTION FIRMS HIRED THEIR FIRST LEADER IN DIFFERENT FUNCTIONS





## MAKING WEEKLY PAYROLL



**COMPANY:** Coastal Concrete Construction

**OWNER:** Tony M.

**LOCATION:** Charleston, SC

Tony's family has been in the concrete business for 40 years, pouring curbs, gutters, sidewalks, driveways, and foundations, among other things.

Tony says he learned from his father the importance of hard work and providing great service to his customers. That starts with having the right team in place.

With Coastal Concrete's growth, "one of the biggest challenges I face right now is manpower," Tony says.

He can't afford to miss a weekly payroll. "You got to make sure your men are paid on Friday or they aren't going to be there on Monday," he says.

Yet clients sometimes don't pay for 120 days. To bridge the gaps, Tony taps a line of credit. He then pays it off once payments come in.

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97% of construction firms in the U.S. have fewer than 50 employees<sup>1</sup>

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# 4

## Finding new customers

Unlike some industries where a business can keep a customer for years, construction projects have a defined end. So finding new customers is far more of a priority for construction firms than it is for small-business owners as a whole.

In fact, 50 percent of construction firms say finding new customers is a top challenge, as opposed to 36 percent of overall business owners.

That challenge remains consistent: 22 percent of first-year firms cite finding new customers as their top challenge. Another 23 percent of construction-business owners say they wished they'd spent more on marketing, leading to new customers, in their first year.

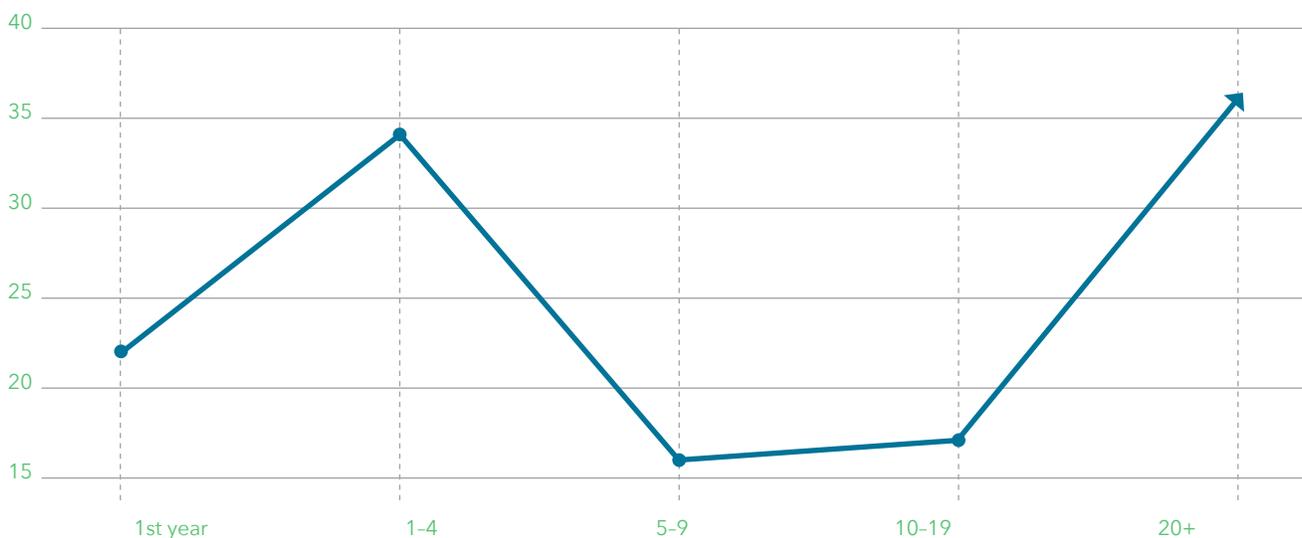
### Construction firm owners' top challenges

- 50% New customers
- 44% Hiring
- 42% Keeping costs down
- 32% Competition
- 32% Technology
- 28% Staying relevant
- 26% Negotiating contracts

### TIP

Local business organizations like the Chamber of Commerce and the Small Business Administration that might help you build your list of contacts and seek out certifications that can give you an edge over competitors

CONSTRUCTION FIRM OWNERS WHO SAY FINDING NEW CUSTOMERS WAS THEIR BIGGEST CONCERN BY COMPANY AGE





## SELLING YOURSELF



Only 10% of construction firms say marketing was a top challenge, as opposed to 25% of businesses as a whole

**COMPANY:** D & J Erosion Control

**OWNER:** Diana Lewis

**LOCATION:** Jacksonville, FL

When Diana Lewis and her husband, Jamie, started their erosion control company, they relied on personal connections for their first jobs. But they soon realized they'd have to reach out in different ways if they wanted to grow.

Diana learned that, as a woman business owner, she could apply to the state for what's known as DBE (disadvantaged business) certification. Because companies are required to offer a certain percentage of their work to DBEs, Diana's company could get a leg up on certain jobs. She also signed up for a similar program for small and emerging businesses within the city of Jacksonville.

They also began to expand their list of contacts by attending local mixers and business socials tailored for the construction industry. Jamie would visit contractors' offices on a near-daily basis and take them out to lunch. "A lot of hustling," Diana says.

Now that the business has grown, Diana jokes, "we send them doughnuts at Christmas and they're happy."





# 5

## Investing in technology

Perhaps it's not surprising, given the importance of finding new customers, that many construction companies say they wish they'd spent more on marketing earlier in their business's lifecycle. But as time goes on, their priorities begin to shift, and technology becomes a focal point.

These systems make it easier to run operations and manage back-office tasks. Amid a labor crunch, they also help automate tasks that would otherwise have to be done manually.

Construction firms seem to recognize this value as they grow. While only 10 percent of firms say they wished they'd spent more on technology in their first year, that number reaches 15 percent by year two and 17 percent by year five. Beyond 10 years, that percentage reaches 30.

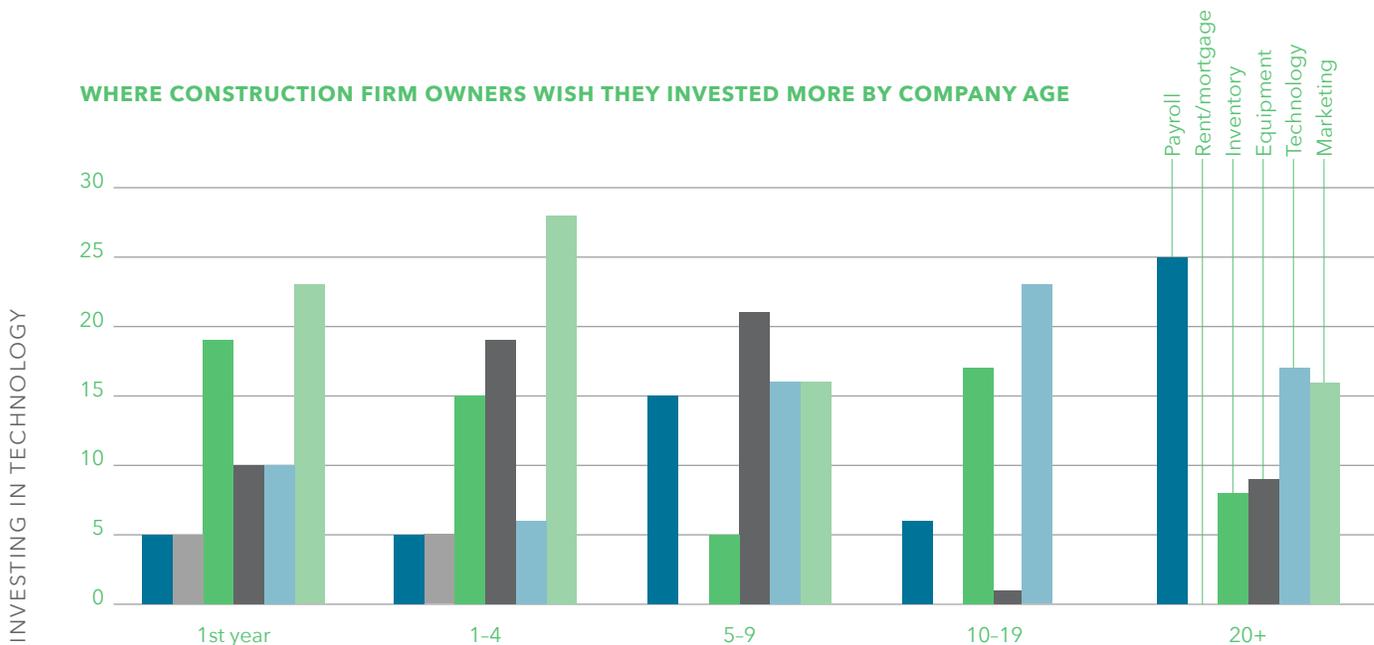
### What business decision led to biggest jump in profits?

- 24% Marketing
- 10% Technology
- 14% Expanding offerings
- 6% Changing target market
- 5% Obtaining financing
- 14% Hiring key employee
- 5% Hiring sales people
- 5% New location
- 9% Winning key client

### TIP

Investing in technology and systems early on can provide a foundation for growth later

WHERE CONSTRUCTION FIRM OWNERS WISH THEY INVESTED MORE BY COMPANY AGE



INVESTING IN TECHNOLOGY





## MODERNIZING SYSTEMS



Only about 6% of mature construction businesses cite technology as their largest expense category, but nearly 30% of those businesses wish they'd spent more on it.

**COMPANY:** M3 Metals

**OWNER:** Greg Mills

**LOCATION:** Phoenix, AZ

After spending 30 years in the software business, Greg Mills was seeking a new challenge. In 2016, he acquired a custom architectural metal fabrication and installation company and rebranded it M3 Metals. He's spent most of his time since then seeking ways to modernize and streamline his business to attract new customers and beat the competition.

While the previous owners had a strong reputation, they weren't always on top of the automated processes that are necessary to running a successful business.

"I understand the value of systems and automation," Greg says. "I've replaced all the PCs. I've got a proper server. I've completely reset the foundation that this business operates on. The team here does impressive work, but the business needed an upgrade. Now we can think differently, act differently, and grow."





# Keys to growth

Tips to set your construction business up for success

## CASH FLOW

- ✓ Invoice more frequently, particularly on large jobs.
- ✓ Form loyal relationships with vendors and subcontractors you work with regularly.

## BUDGETING

- ✓ Taking out lines of credit and loans can help bridge budget gaps.
- ✓ Opening lines of credit and paying them off quickly can help rebuild your credit score.

## CUSTOMERS

- ✓ Build your contacts by attending mixers and seeking out local advocacy groups.
- ✓ Spending time and money on marketing upfront can pay off in the long-term.

## TECHNOLOGY

- ✓ Better systems and technology can provide a strong foundation for growth.
- ✓ Technological investments can also give you a leg up on making bids in a competitive industry.

## HIRING

- ✓ Spend some time thinking about the types of employees who would fit with the culture of your company.
- ✓ Seek out these people early on, and you'll have a better chance of retaining them long-term.



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