Describe the intended result(s)
Understand alternative measures
Select the right measurement(s) for each objective
Define composite indices as needed
Set targets and thresholds
Define and document selected performance measures

Operating Drivers
- Backlog as percent of Revenue (Backlog/Revenue)
- Estimated Gross Profit percent on Backlog
- Breakeven Rate (1 + Overhead Rate)
- Gross Profit as percent of Net Revenue
- Gross Profit as percent of Revenue
- Gross Profit Margin
- Gross Profit Per Direct Labor Dollar
- SG&A as percent of Revenue
- SG&A as percent of Contract Costs
- Income From Operations as percent of Net Revenue
- Income From Operations as percent of Revenue
- Internal Rate of Return (IRR)
- Inventory turns (use only if buy their own lot) (COGS/Avg Inventory or Sales/Inventory)
- Margin on Self-Performed Revenue (Revenue Less Subs)
- Margin on Self-Performed Revenue (Revenue Less Subs and Materials)
- Margin on Self-Performed Revenue (Revenue Less Subs) – Civil Contractor only
- Net Income Before Income Taxes as percent of Revenue
- Overhead Rate (Total OH/Direct Labor)
- Payroll Multiplier (Net Revenue/Total Labor)
- Revenue per Direct Labor Dollar
- Total Backlog
- Utilization Rate (Direct Labor/Total Labor)

Enterprise Value Drivers
- EBIT
- EBIT as percent of Net Revenue
- EBITDA
- EBITDA as percent of Net Revenue
- Tangible Net Worth (Total Assets - Total Liabilities - Intangible Assets)
- Working Capital (Current Assets/Current Liabilities)
- Working Capital as percent of Net Revenue
- Working Capital as percent of Net Worth

Key Financial Ratios
Liquidity Ratios
- Current Ratio (Current Assets/Current Liabilities)
- Quick Ratio ((Cash and Equivalents + Marketable securities + AR)/Current Liabilities)
- Work Capital Turnover (annual net sales/avg amount of working capital)
Leverage Ratios
- Debt to Equity
- Self-Performed Revenue to Equity
- Equity to SG&A
- Liabilities to Equity
- Over-/Underbillings
- Underbillings to Equity
- Net Revenue to Equity
- Work-in-Process to Equity
- AR to AP
- Asset Turnover (Sales/Avg Total Assets)
Profitability Ratios
- Pre-tax Return on Assets (NOI before taxes/total assets)
- Pre-tax Return on Equity (NOI before taxes/Avg Stockholder’s equity)
Efficiency Ratios
- Days in Accounts Receivable, excluding retainage (AR/(annual sales/365)) or (AR/(monthly sales/30))
- Days in Accounts Payable, excluding retainage (AP/(COGS/365))
- Months in Backlog (Backlog/(Revenue/12))
Equipment Ratios
- Equipment Purchases as a percent of Depreciation Expense
- Equipment Purchases as a percent of Net Depreciated Property, Plant, Equipment (PP&E)
- Revenue Per Net Depreciated PP&E Dollar
- Gross Profit Per Net Depreciated PP&E Dollar
- Net Income Before Income Tax Per Net Depreciated PP&E Dollar

OTHER ITEMS TO ANALYZE MONTHLY
- Gross Profit Margin – job-by-job basis
- Under/Over Billings – job-by-job basis
- Under/Over Costs – job-by-job basis – Civil Contractors only
- Covenant Compliance Calculations

Nonfinancial Drivers
- Number of accidents
- Number of accidents per supplier
- Actual working days vs. available working days
- Change orders – Clients
- Change orders – Project manager
- Client satisfaction – Client-specified criteria
- Client satisfaction product – Standard criteria
- Client satisfaction service – Standard criteria
- Customer satisfaction level
- Day to day project completion ratio – Actual vs. baseline
- Fatalities
- Number of defects
- Percentage of equipment downtime
- Percentage of labor downtime
- Percentage of unapproved change orders
- Quality issues at available for use
- Quality issues at end of defect rectification period
- Repeat business (company)
- Reportable accidents (including fatalities)
- Reportable accidents (non-fatal)
- Time for construction
- Time predictability – Construction
- Time predictability – Construction (client change orders)
- Time predictability – Construction (project leader change orders)
- Time predictability – Design
- Time predictability – Design and construction
- Time taken to reach final account (project)
- Time to rectify defects

Predictive KPIs
- Bid Development
- Buyout Process (Percentage of Work Bought-Out)
- Quality Control
- Subcontractor Inventory
- Safety

BY RANDY KREBS
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Your Company for the Next Downturn

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