KEEP YOUR CONSTRUCTION BUSINESS IN TOP SHAPE WITH KPIS

Just like when you visit a doctor for a checkup, it's essential for construction company owners to monitor their business's vital signs. By regularly checking Key Performance Indicators (KPIs), you can ensure your company's financial health and equipment maintenance are on track. Let's explore some important KPIs for your construction business and how they can help you stay ahead in the industry.

Financial Ratios – The Health Barometer for Your Business

Imagine financial ratios as the pulse and blood pressure of your company. They reveal how well your business is performing, compare present results with the past, and even let you see how you stack up against other construction companies. Industry benchmarking, like the Construction Financial Management Association's (CFMA) Construction Industry Annual Survey, provides valuable insights into financial risks and performance.

- **Current ratio (current assets ÷ current liabilities).** The current ratio

measures your liquidity, indicating your ability to pay short-term liabilities with available cash and liquid assets. For construction businesses, this KPI is particularly valuable and is a ratio the bank or bonding company will pay particular attention to. The average current ratio in the CFMA's 2022 survey was 1.8, or 2.6 for smaller businesses with less than $10 million in revenue.
- **Months in backlog (backlog ÷ [revenue ÷ 12]).** This KPI reveals the number of months needed to complete all signed or committed work. A lower ratio may indicate the need for new contracts to maintain consistent revenue. In the CFMA's 2022 survey, the average was 9.2 months, or 7.1 months for smaller companies.
- **Debt-to-equity (total debt ÷ net worth).** The debt-to-equity ratio measures how much leverage your construction business is using. A higher ratio means more potential return on invested equity but also higher exposure to risk. The average debt-to-equity ratio in the CFMA's 2022 survey was 1.2, or 0.7 for smaller companies.
- **Working capital turnover (revenue ÷ working capital).** This ratio indicates how much revenue is generated from each dollar of working capital. Generally, a higher number is better, but an extremely high ratio could signal that your working capital is stretched too thin. In the CFMA's 2022 survey, the average working capital turnover was 6.6 or 4.3 for smaller companies.

Equipment Utilization - Keeping Your Machines Running Smoothly

Too often, contractors wait until equipment breaks down before repairing or servicing it. By monitoring specific KPIs and leveraging data analytics, you can anticipate maintenance needs, minimizing downtime and lost productivity.

For example, sensors embedded in some types of equipment can collect real-time data on fuel usage, mileage, operating hours, engine temperature and fluid levels. This type of information allows you to implement "predictive maintenance," addressing potential issues before they cause breakdowns.

Regular Checkups for a Healthy Business

Even if your construction business seems healthy, regular KPI-based checkups can take it to the next level. Successful companies maintain their financial soundness by staying on top of the numbers. Reach out to your BMF Advisor for assistance in assessing your KPIs and guiding your business toward continued success.

Remember, just as your health requires constant attention, so does your construction business. KPIs can keep your company in great shape and ready to thrive in the ever-changing construction industry.