

TODAY'S contractor

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FAMILY BUSINESS: *STATISTICS REVEAL DARK AND BRIGHT SPOTS*

As a construction industry business owner, chances are good that your company is family owned. And you undoubtedly know the hurdles that face family owned enterprises – compensation issues, succession issues, employee issues. What you may not know is that two out of three family owned businesses never make it past the second generation. In fact, studies show that in the next 20 years, almost every family business started since WWII will see a turnover in ownership. Over 80% of these business owners would rather have their business stay within their family. But most studies show only 10% of family businesses remain in a family for three generations.

The overriding reason for this dismal success rate is the failure to develop a meaningful, long-term plan for the busi-

ness. This plan would address the family business' goals, financial and marketing strategies, organization structure, and management responsibilities.

An important element to the overall business plan would be a succession plan. This plan would lay out the structure for bringing up, training, and ultimately handing over the business to the next generation of owners. The succession plan would also deal with the possibility of selling to an outside party if none of the heirs wished to continue the business.

Need Help?

As your CPA, we are uniquely qualified to help you with general business and succession planning issues for family businesses. But, if you would like to read up on the topic, we encourage you to go to www.startupjournal.com/runbusiness/family. The StartupJournal is a free-of-charge online service of the *Wall Street Journal's* Center for Entrepreneurs. One section of the StartupJournal is devoted entirely to family business issues. The site also contains articles on survival strategies, hiring and retention, selling your business, and learning from failure.

One Jacksonville, Florida, family business owner noted, "While every company picnic could be a family reunion, every board or staff meeting might just as well be another edition of 'Family Feud.'" This is why one Canadian couple decided not only to study how successful family

ideas for profitable growth

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Washington Watch

2003 – The Year To Buy Equipment & Make Long-Awaited Improvements

The key element of the 2002 Job Creation and Worker Assistance Act is a “bonus depreciation” provision that allows companies to write off the value of assets more rapidly. The new law lets companies deduct an additional 30% of the value of the asset in the first year. Assets must have lives of 20 years or less and be purchased between September 11, 2001, and September 10, 2004. Computer software is covered by the provision, and some transportation assets get a one-year extension of the in-service deadline, to January 1, 2006. Thus, if your business has been putting off purchasing new equipment or software, now is the time to buy.

The 2002 tax law also improves the writeoff for leasehold improvements, such as upgrades to wiring, fixtures, and new carpet, which commercial landlords undertake. The National Association of Realtors estimates that such leasehold improvements should provide an additional \$15 billion in ripple-effect benefits to construction and remodeling firms, building material companies, and other industries. The new law is quite specific about what types of improvements qualify for this advantageous tax treatment. Specific exceptions to the rule include:

- Elevators and escalators.
- Enlargement of a building.
- Any structural component that benefits a common area.
- The internal structural framework of the building.

KEEPING A LID ON HIGH FUEL COSTS

With a crippling strike in Venezuela, low inventories of crude, cold temperatures sharply increasing heating oil demand (like diesel a distillate product), and possible war with Iraq, is it any wonder that the oil markets have been thrown off balance?

According to the Energy Information Administration (EIA), diesel prices are now 44% more than just a year ago. The EIA projects the annual average retail prices for both heating oil and diesel fuel to be about 20 cents per gallon higher than 2002 levels.

Alternatives To Black Gold?

With the bleak oil prices, the question becomes – is there a reasonable alternative to the black gold that fuels the U.S. economy? Some answers seem tantalizingly close. Hundreds of truck fleets and bus systems already run on two diesel-fuel alternatives, biodiesel and natural gas.



Grant Goodman wanted to do his part to reduce U.S. dependence on foreign oil. So, 2 years ago, the Phoenix concrete producer began using biodiesel (made from refined soybean oil) to fuel his fleet of 130 diesel-powered cement mixers and excavators. For his efforts, Goodman won a local entrepreneur of the year award in 2001 and plaudits from the Environmental Protection Agency.

What Can You Do?

If you're not ready to switch to the alternatives, try these tips for keeping a lid on your fuel costs:

Keep Tanks Full. Whenever possible, top off a machine's fuel tank after each

days' work to prevent air and moisture in the tank.

Maintain Fuel Efficiency.

- Plugged air filters upset the air-to-fuel ratio and ruin an engine's fuel efficiency. Most manufacturers recommend changing air filters when the vacuum measured between the filter and the manifold climbs to about 25 inches. Filter gauges are the best service indicator.
- Maintaining proper tire inflation pressure can help you improve fuel efficiency by as much as 8%.
- Too loose or too tight, improperly adjusted undercarriage track chain will cause fuel consumption to climb.
- One of the only ways to convince operators to shut machines down when they're not using them is to maintain the starting and charging system on your machines. Every hour of idling time cut saves you a half gallon of fuel.

Shade Tanks. Keep the sun off of above-ground tanks to minimize temperature swings from afternoon to evening. The cooler the fuel stays, the less condensation it will capture. If you're drawing fuel from drums, make sure they're not sitting in a way that allows water to be drawn in through the bung or vent bung or vent as the drum breathes.

Test Fuel Vendors. Analyze a sample of fuel from each bulk delivery. Start with a pint sample in a glass jar. Send part of the sample to a laboratory to find out its energy content (Btu), cloud point, and cetane. Let the remainder sit overnight (observing fire codes) and check it in the morning for water that might have settled out.

Test Injectors. Heavy exhaust is usually an indicator of incomplete combustion. Injectors aren't the only possible cause, but be sure to check them out if an engine is blowing a lot of white or black smoke on startup, or if it's smoking black when lugging hard. Replacing a few nozzles can save a lot of fuel. ●

ROUNDTABLE: EFFICIENCY IS GOOD – CUSTOMER SATISFACTION BETTER

The roundtable focused on ways to improve efficiency in the field and in the office, coupled with suggestions for planning useful jobs to do during downtime.

Efficiency Concepts

The group agreed to define efficiency as “Being able to do more accurate and better work in less time.” The efficiencies of computer software to keep track of current project status (costs, schedule, hours worked, etc.) and projected project requirements topped the group’s list. Other efficiencies come from improved communication systems, such as e-mail, computer networking, project Web sites, and digital cameras.

The group had other suggestions as well:

1. Holding periodic brainstorming sessions on efficiency improvement.
2. Discussing efficiency concepts at local contractor organization chapter meetings.
3. Asking outside experts to analyze and recommend systems and procedures for efficiency. Studying other disciplines and countries for ideas. (“Sometimes you can learn something from those very different from you.”)
4. Finding better means of communication between people in the office and in the job trailers.
5. Creating an annual staff award for the best suggestion for improved efficiency and/or cost savings.
6. Hiring someone to maintain and improve computer information systems and telecommunications. This person could also train staff in the best use of software and other protocols. (“One of the biggest inefficiencies of these ‘efficient’ computer programs is that most of us don’t want to pay for the time required to let our people really learn to use the software in the most complete and thorough way possible. This needs to change.”)

Handling Downtime

What do you do during less active times? Perhaps the most obvious but little

practiced action is to loan out staff members to other construction companies who are short-handed. Although fiscally prudent, this can be risky, because nothing prevents the other company from hiring people away from you.

Also consider making a list of important, but not urgent, tasks. Anyone unable to work on chargeable projects must inform management that they have downtime and request they be given one of the tasks from the downtime list to complete. Most construction companies should be ripe with important but not urgent tasks. Examples include:

- Undergoing training in the use of computer software and telecommunications technology.
- Setting up a newer, more efficient (you fill in the blank) _____.
- Maintaining/refurbishing construction equipment.
- Updating your business plan.
- Purging the yard of excess materials and products and organizing what remains.

The Bottom Line: It’s Not the Bottom Line

The roundtable’s discussion leader summed it up this way: becoming more efficient will lower your overhead costs. Lower overhead will make you more competitive, bring you more work, and make your company more profitable.

Roundtable members offered a different interpretation: although improved efficiency is highly desirable, it’s not as important as providing the service and communication necessary to have satisfied clients. Customer satisfaction is more important than anything else, and it may require that a contractor throw efficiency aside in order to make a customer happy. A contractor is far better off with repeat clients and word-of-mouth referrals than with exemplary efficiency alone.

Our roundtable members have a way of finding the truth – even in the face of seemingly irrefutable bottom-line logic.

We are more than the referees of your debits and credits. We can help you see the bigger picture. ●

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Improvements must be acquired before September 11, 2004 and in service by January 1, 2005. Since improvements normally take time to plan and put into place, the time to act is now.

The accelerated deduction can mean large tax savings that could be used to fund the project. For instance, a remodeling project that includes qualified leasehold improvements of \$100,000 would typically generate a tax deduction of about \$2,500 in the first year. With the bonus depreciation rules, this deduction can be as much as \$31,700 in the first year.

New Rules For Off-Road Diesel Equipment?

The EPA wants off-road diesel standards to match on-road vehicles by 2008. Because diesel exhaust contains both gas and particulate matter, environmental concerns center on smog and soot. Scientists have targeted diesel exhaust as a carcinogen linked to health problems such as asthma, bronchitis, and heart attacks, among others. In addition to added fuel standards, the proposal may also require manufacturers to equip units with exhaust-control devices, namely catalytic converters, between 2009 and 2012. EPA officials say they expect a final draft to be released this spring.

The added costs for making the necessary changes will fall on both manufacturers and users. Tana Utley, director of engineering for Caterpillar’s Mossville, Ill., Engine Center, expects compliance costs for manufacturers to be in the billions. Mike Monnot of Zachry Construction Corp., San Antonio, says newer engines “force us to go to the dealer because of complexity.” That means the cost for older-engine upkeep will almost double if the EPA gets its way. ●

Family Business: Statistics Reveal Dark And Bright Spots

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firms turned control over to the next generation – they also turned it into a venture of coaching others on how to take the right steps. After turning their publishing and broadcasting business successfully over to their three children, they started the non-profit Business Families Foundation in Montreal to teach others how to strategize effectively. (See the articles “Family Business Coaches Others on Survival,” and “Family Businesses Thrive With Succession Plans” at the StartupJournal Web site.)

Bright Future For Women

While tradition would have the eldest son succeeding the father as the business leader, studies show the number of female chief executives at family businesses in the USA is on the rise. Similar trends can be found in Europe. Daughters or granddaughters of a family dynasty may take



over either singly or as part of a group of siblings. Professor of family business at the University of Lausanne, Switzerland, Joachim Schwass notes, “In Europe and across the world, it’s much more common to see the son taking on a leadership role, but in some cases, the choice of a daughter may be even more preferable. The relationship between a father and a daughter tends to be less competitive, less combative, and

more professional, than a relationship between a father and a son.”

If your family business faces serious survival issues, or if you simply want “another set of eyes” on existing strategies and plans, please give us a call. After all, our goal is to help your business thrive, not just survive. ●

CONSTRUCTION TREND DATA

New construction starts retreated 3% in December to a seasonally adjusted annual rate of \$490.5 billion, as reported by McGraw-Hill Construction Dodge, a division of The McGraw-Hill Companies. Both nonresidential and residential building were essentially steady, but nonbuilding construction (public works and electric utilities) fell sharply from the heightened contracting in November.

For all of 2002, total construction advanced 1% to \$498.7 billion. The modest gain in 2002 follows growth of 5% in 2001 and 6% in 2000.

“Total construction in 2002 essentially stabilized close to its 2001 level,” stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction Dodge. “The big plus over the past 2 years has been the robust performance by single-family housing, which has offset the weakness shown by commercial building. Also maintaining a strong pace has been institutional building, namely schools and public works. However, the greater fiscal stress now being experienced by the federal and state governments is

likely to dampen institutional building and public works to some extent in 2003.”

2002 showed growth in three of the nation’s five major regions: the South Atlantic, up 5%; the Northeast, up 4%; and the West, up 2%. Total construction in the Midwest remained steady with the previous year, while the South Central fell 9%. The South Central witnessed continued strength for its housing sector, but commercial building experienced a steep drop in 2002, and the amount of new power plant starts in that region also fell sharply.

For more information, go to www.construction.com. ●

Year-To-Date Construction Contract Value

Unadjusted Totals, In Millions

	12 Mos. 2002	12 Mos. 2001	% Change
Nonresidential Building	\$ 151,880	\$ 169,277	-10
Residential Building	\$ 246,648	\$ 219,320	+12
Nonbuilding Construction	\$ 100,160	\$ 107,458	-7
Total Construction	\$ 498,688	\$ 496,055	+1

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