FINANCIAL MANAGEMENT FOR

HOME BUILDERS

UNDERSTANDING CASH FLOW

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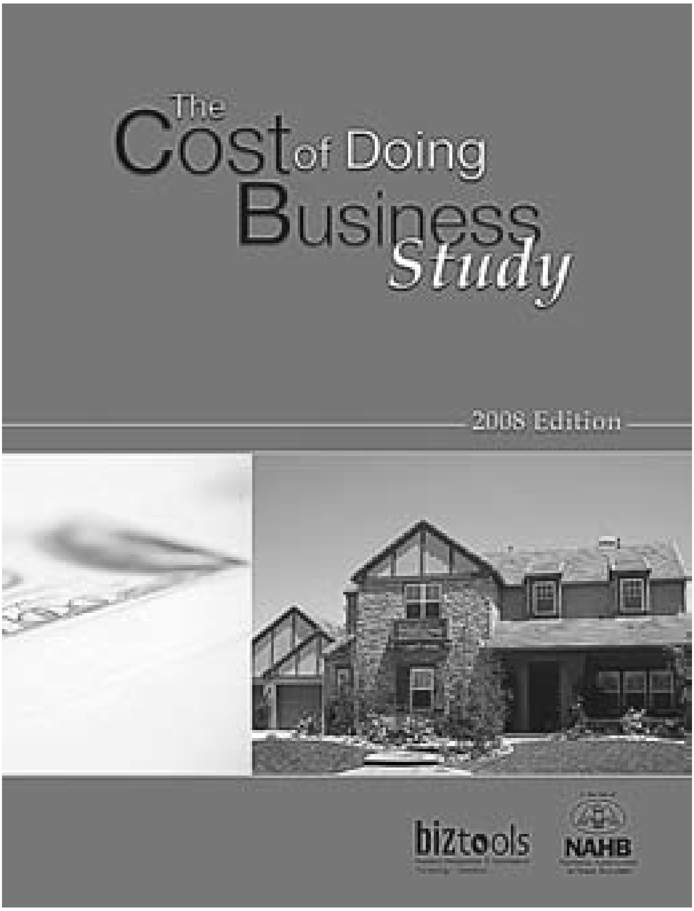

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Financial Management for Home Builders
Understanding Cash Flow
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Financial Management for Home Builders
Understanding Cash Flow

Designed by Joshua Nester

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Cash Flow Forecasting: Your Crystal Ball

By Steve Maltzman, CPA

I am sure you have heard the old expression that cash is king. This expression is especially true within the building business where cash flow is more important than the bottom line because if you don't have cash, you're never going to make it to the bottom line. Many builders fail in their first several years of operations as a result of mismanaged cash flow. They get into a rut of "robbing Peter to pay Paul" taking the cash from a current job draw to cover the sins from a prior job.

Cash flow forecasting is one of the key components to a builders' financial success. There are two levels of cash-flow planning that all builders should engage in; long-term and short term. Long term cash flow planning should be an integral part of the budgeting process and should look at your cash sources and requirements on a monthly basis. In addition to developing a monthly cash flow forecast, I suggest you begin to look at weekly cash inflows and outflows. I recommend using a six to eight week rolling schedule.

Many builders, when developing their annual operating budget, identify their annual expenditures and divide that amount by 12 in order to come up with a monthly operating budget. By budgeting this way you really can't get a true picture of your monthly operations. When preparing your annual budget, try to identify the month in which the expenses will be incurred. For example, when planning the amount you expect to spend for advertising, identify when you plan on running your ads and put the planned expenditures in that particular month, if you have a yellow pages ad, budget for the cost of the ad in the month that the expenditure is to be made.

After you have identified your monthly operating expenses in the month you anticipate them occurring, you need to adjust you total expenses for other cash flow items. Deduct items such as depreciation since this is a non-cash expense, and add in non-expense related cash items such as note payments (the interest portion should be considered as an expense while the principal payments affect cash flow), cash payments of other liabilities, cash purchases for equipment, as well as cash payments for federal and state income taxes. After completing this process, you should have identified the amount of cash needed on a monthly basis in order to operate your company.

The next step in your annual cash forecast is to look at cash flow from jobs. Depending upon the number of units you build, this budget can be prepared by unit or by subdivision. There are four items you need to have when developing you job cash flow: your draw schedule (whether from the bank or from your customer), construction schedule, payment terms for your subcontractors and suppliers and job estimate. With all of these in hand you should easily be able to predict cash inflows and outflows for your jobs.

When you combine your cash flow from jobs with the cash outflows anticipated from operations you will be able to identify the months in which you will have excess cash and those which you identify cash shortfalls. Use this projection to make strategic decisions for the year such as do you need to develop a line of credit to smooth out your cash flow, should I start a spec home to provide me with cash flow from my construction loan, do I need to renegotiate payment terms on a note coming due?

Just as you do with your other financial reports your monthly cash flow projection should be reviewed and updated regularly. In addition to a monthly forecast, builders with tight cash needs should prepare a more detailed weekly cash flow projection. This projection should include information on what subcontractors and suppliers are to be paid on a job-by-job basis as well as look at weekly cash inflows such as draws and collections of receivables. This forecast should be updated each week and will assist you in identifying weekly cash problems and communicating payment plans with your vendors (if necessary).

Cash Management Tips

Developing a cash forecast will assist you in planning for your cash inflows and outflows. Following are some tips on managing your cash flow and making additional profits at it.

- One of the advantages of the custom building business compared to spec building is that you can use the customer's money to pay off your trades and suppliers instead of using internal funds or construction loans. You should try to always be ahead of the customer and maximize the use of your client's funds by taking a deposit and "front-loading your draw."

- If you are front loading your draws it is imperative that you manage your books on a percentage of completion basis. This will enable you to understand and account for overbillings on your jobs. By using percentage of completion accounting you will always know when you are ahead on a job.

- Try to set up benchmarks for payments that correlate to the start of a phase rather than its completion.

- Take advance of vendor discounts. It is cheaper to borrow money to take a vendor discount. A 2 percent discount for paying in 10 days is like 72 percent per year. Considering it would be due in 20 more days anyway, pay up, where else can you be earning that great a return?

- Ask your subcontractors to take a discount if you pay them prior to the scheduled payment date.

- Set up a systematic method of paying your bills (e.g. the 10th and 25th). Keep "hand checks" (issued outside of check paying days) to a minimum. You may also want to consider mailing checks on a Thursday in order to take advantage of the "float" over the weekend.

- Use a "sweep account" to invest your excess cash. In a sweep account the bank will automatically move any amount that remains in your checking account over and above a specified balance needed to avoid bank fees into an interest bearing account. Many banks will allow you to sweep excess funds into a money market or higher interest bearing account than a normal savings account. I have found that with most banks, a builder having an average daily balance of greater than $35,000 would be able to earn interest income which would more than offset any bank fees related to having a sweep account.

- Time your larger draws so that you can get money into the bank before the close of business on Friday to take advantage of earning interest over the weekend.

- Time your loan draws to only take them when you are ready to disburse the cash. If you are borrowing money to build a house you can minimize your construction loan interest by only taking down the funds when you need them.

- Explore the possibility of obtaining a line of credit even though you may not need it at this time. It is easier to start up a credit line when you really don't need the funds. A credit line will also provide you with flexibility in taking advantage of discounts.

- When setting up credit lines or construction loans don't be afraid to ask for better rates. In most markets if you have a good set of financial statements, points and rates are negotiable.

Over the years I have seen more and more builders add some nice amounts to their bottom line in interest income and discounts earned as well as reducing interest expense by proper management and projection of cash flow.

Steve Maltzman is a CPA and is president of SMA Consulting, Inc. (www.smaconsulting.net). SMA Consulting, Inc. provides financial and business management services for builders and remodelers. Maltzman is Past Chairman of NAHB's Business Management & Information Technology Committee.

Basic Cash Management Skills

Emma S. Shinn, MBA, CPA

In hard economic times, as the homebuilding industry is going through right now, cash management becomes a daily chore. Because, you see, a company can continue to operate with annual losses or even deficits on the owners' equity, but it will have to close the doors if there is no cash. In other words: CASH IS KING. This is true in the good times and particularly so in the bad times.

Do not confuse net profits with cash balance; many times they are looked as being one and the same. Therefore, the process to calculate net profit does not take into consideration when cash actually changes hands, nor does it recognize all cash expenditures as expenses; cash is used to buy fixed assets, such as furniture, equipment and vehicles. These costs will be recognized as an expense through a span of several years. Other uses of cash could be for investments in future operations such as deposits on or purchase of lots or parcels of land. Therefore, you need to differentiate between cash, revenues and expenses. Profits do not equal cash; the flow of income and expenses has a different time line than the flow of cash.

One of the tools to help with cash management is the cash flow statement. A cash flow statement can be prepared based on historical data or it could be prepared by making a forecast of cash sources and cash needs.

Historical cash flows statements look back in time and report where the cash came from and what it was used for. Even though historical cash flows generally show what the immediate future will look like, they are of little value to forecast further into the future particularly if operations are deteriorating and the financial conditions are changing dramatically from the prior year as they are today. The Cash Flow Statement, or Statement of Funds as it is sometimes referred, is one of the standard reports CPAs prepare during every audit assignment.   As you can see in the example below it is difficult to understand since it expresses the sources and uses of cash by adjusting the net income for non-cash expenses and then analyzing the changes in the balance sheet accounts.

The cash flow report in this format is hard for builders to use to be able to establish policy or strategies based on the information presented.

EXAMPLE OF TRADITIONAL STATEMENT

ABZ Homebuilding Company

Cash Flow Statement	December 31, 20xx
Funds provided from Net Profits	$ 36,595.70
Plus non-cash items:	
Depreciation	10,031.00
Amortization	4,736.75
Decrease in Prepaid Assets	2,818.66
Funds provided by operations	54,182.11
Sales of Fixed Assets:	
Autos and trucks	6,500.00
Decrease in other assets	5,120.35
Total funds available	$ 65,802.46
Uses of Funds:	
Purchase of Fixed Assets	
Autos and trucks	$ 14,940.00
Computers	6,000.00
Decrease in deferred Assets	800.00
Decrease in Loans Payable	14,794.03
Decrease in other Liabilities	3,296.50
Total Uses	$ 39,830.53
Increase in cash balance	$ 25,971.93

I favor a much simpler approach where the sources of cash are clearly identified; and the uses of funds are also clearly identified. This approach presents a clear picture to the builder as to where exactly the cash came from and where the cash has gone.

When dealing with cash management, a look into the future has greater value than the analysis of historical performance. Anticipating cash flow sources and needs, and preparing a cash flow forecast has always been a challenge for building organizations. The cash stream is tied into closings and construction draws, which, in turn, are tied into the construction schedules. As a general rule most builders do not do a very good job of keeping to their construction schedules, making it a guessing game as to when the houses are going to be ready for closing. Today we are adding another dimension to this predicament; even when we know for sure when the houses will be ready to close, there is uncertainty as to whether or not the buyers will show up.

Demand for cash is usually not hard to predict; vendors, trades, services and employees have to be paid by a given date. Lenders are also requiring payment for interest, lot take downs and equity balancing to maintain the covenants of the lending agreements. The demand for cash has increased substantially, while the sources of cash continue to deteriorate. Therefore, whereas in good times the builders will be managing their cash flow on a monthly or weekly basis at the most, now builders are looking at cash flow on a daily basis.

The process is relatively simple if you follow the format presented below. I have identified typical sources and uses of cash; you need to customize it to your company. Start with the cash balance on hand. Then identify from where and how much cash will be coming to determine how much cash is available. The next step is to identify the cash needs and calculate whether or not there is enough cash to cover the cash requirements. In good times, it used to be relatively easy to establish an operating line of credit to cover short-term cash needs. Today, it is not that simple. As it occurs in every downturn, lenders do not like to lend builders money when they really need it; they like to lend builders money when they don't need it.

EXAMPLE
Cash Flow Statement

CASH FLOW	Jan	Feb	Etc.	Year Total
BEGINNING CASH BALANCE				
CASH RECEIPTS:				
Cash Sales				
Collection on Receivables				
Collection of Notes Receivable				
Deposits by Customers				
Construction Loan				
Other				
Total Available Cash				
CASH DISBURSEMENTS:				
Payment of Accounts Payable				
Payroll – Net				
Construction Loan				
Taxes				
Income Tax				
Payroll				
Real Estate				
Land Purchase				
Interest				
Other				
Total Disbursement				
Total Cash Available				
Minimum Cash Requirement				
Cash Excess (or Shortage)				
CASH REQUIREMENTS				
Borrowed Funds				
Repayment of Borrowed Funds				
ENDING CASH BALANCE				

Identifying the shortages of cash is the first step in being able to take positive action. Once you identify your need, the next step is to figure out what you can do to make up for the shortage; either postponing payments, securing cash from sale of homes in inventory, negotiating with lenders or securing non-traditional sources such as private investors, or increasing the efficiencies of your operations.

The cash flow example shows a column per month. However, present conditions dictate the builders to project the cash flow at least on a weekly basis if not on a daily basis. In the short-term, a useful way to look at cash flow is to project six periods; being days, weeks or months. Start with three historical periods and then prepare projections for three future periods. The historical numbers help validate the forecast by passing a reasonable check based on historical numbers. Look at what is changing and be conservative with the projections.

One of the benefits of cash management is the ability to predict cash problems before they really happen. Do not just focus on the short-term but also look at the long-term; six month to a year projections. Make sure you know your cash balance; not the bank balance. Timing can create significant differences between the two balances and the one that counts is the cash according to your records.

During good times we strongly advocated the creation of a rainy day fund. How much is enough? This cycle is proving that probably the amount should have been much higher than planned. The debt structure of the company has also played a key part in the cash shortages many companies are experiencing. During good times, high debt maximizes the owners' return on investment; during downturns, high debt consumes cash heavily to service the debt and as is the case in many instances today, to bring lending covenants into compliance because of the loss in value of the underlying assets.

As the industry pulls out of the downturn, pay special attention to the construction cycle time. Cycle time has a great impact on cash flow and debt requirements as well as on indirect construction cost, financing expenses and general and administrative expenses. The longer the cycle time, the longer you have to wait to convert the sale into cash. The longer the cycle time, the higher the financing expenses are going to be.

The higher the cycle time the more people you will need to have in the field and at the office to handle the volume of work during a given day. Take a look at the table presented below explaining the impact that cycle time has on the resources needed to build the same number of houses.

THE POWER OF TURNS
Number of Homes under construction at a given time

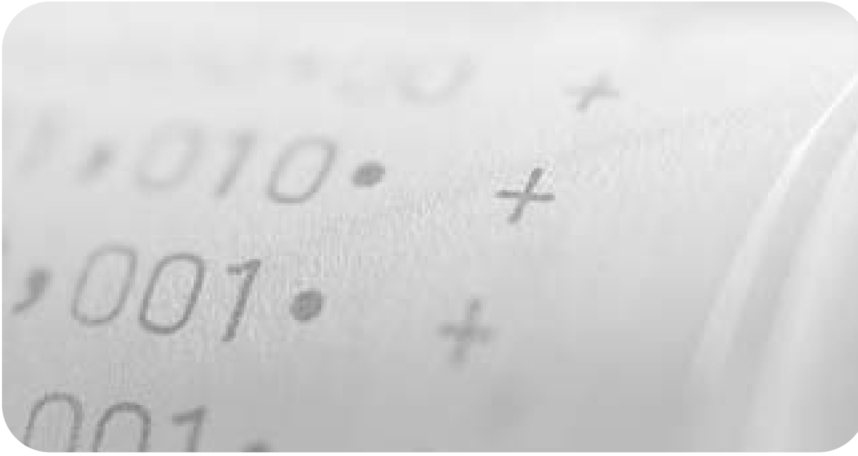
Target Homes Closed

Cycle Time	300	420	600	720	900
180 days 2.0 turns	150	210	300	360	450
150 days 2.4 turns	125	175	250	300	375
120 days 3.0 turns	100	140	200	240	300
90 days 4.0 turns	75	105	150	180	225

What the chart is showing is how many houses you will have under construction at a given time based on the cycle time and the plan target for closings. For example, if the target is to close 300 units, if it takes 180 days or two turns a year, the builder will have at all times 150 units in production. On the other hand, if it takes 90 days or the equivalent of four turns the builder will only have 75 homes under production at a time. At the same time, the cash will be flowing in 90 days after start instead of 180 days after start; a significant difference.

Remember, the name of the game has always been having positive cash flow. Now and in the future it will be even more critical. Focus on your cash management; make sure you can identify your needs with enough time to be able to negotiate options that will keep you alive until the good times come back once again. And then, remember the rainy day fund.

Emma S. Shinn, a certified public accountant with a Masters Degree in Business Administration, has worked in the home building industry since 1970. She is a business consultant with the Lee Evans Group in Littleton, Colo., and is a popular guest lecturer at universities and home builder seminars. She is an active contributor to and past chair of NAHB's Business Management & Information Technology Committee.



Accounting Basics for Builders and Remodelers

By Steve Maltzman, CPA

Good accounting practices benefit contractors in a variety of ways. Having your books in order makes it easy to provide accounting and financial information to the IRS. You can also use your accounting records to show lenders or potential investors that you're worth the money you're asking for.

As worthy as those goals are, however, there's an even better reason to use good accounting practices and get to know the information in your books: It can help you run your business more effectively and profitably.

In the normal course of business, you probably record your transactions in a journal or ledger. If you are like most builders, you probably then turn over your books to your accountant, who summarizes them and prepares tax returns and financial statements for the bank.

But if you're like most builders, you probably also let those financial statements lie dormant. Very few builders I know spend time studying their financial statements closely. That's a mistake, because contractors can find out a lot about where they have been and can get a better understanding of where they are going by analyzing their financial information.

Accounting is normally pretty simple. It matches the revenue from the sale of an item with all the costs of producing and delivering the item within the same accounting period. In most industries, this matching process is straightforward. However, accounting is different in the building and remodeling industries because the sold item (a home or project) usually does not exist at the time of sale (contract), and the ultimate cost cannot be known until the job is done.

There are two major accounting methods: cash and accrual. Percentage of completion and completed contract are subsets of the accrual method. You can use these accounting methods to recognize income, costs, and profits on construction contracts. Some work well for tax purposes or for making a pitch to a lender or investor. Others do a better job of helping you make smart decisions about your business. Here is an explanation of each accounting method:

Cash Method

Under the cash method, income is recognized as cash is received and expenses are recognized as cash is disbursed. The cash method may be beneficial for filing tax returns, when your responsibility is to report to Uncle Sam the amount of income actually received. But the cash method may not give you useful information for managing your business. Since transactions aren't entered until cash is received or disbursed and bills usually aren't paid as soon as they are received, cash-method accounting information often isn't timely.

Accrual Method

The accrual method works well for time-and-material or cost-plus type contracts. Under this method, income is recognized when it is earned (typically when you prepare the invoice), and expenses are recorded when they are incurred (when you receive invoices). The accrual method provides more timely accounting information than the cash method does, but it may not give a true picture of a company's financial position. For example, to maximize cash flow on a remodeling project, it is common practice to "front-end load" construction billings; this results in billing amounts unrelated to actual costs incurred.

Completed-contract Method

Contractors who use the completed-contract method don't record revenue and expenses until contracts are complete and homes are closed. Costs incurred during construction are considered assets (work in progress), while customer payments are recorded as liabilities. The completed-contract method may be good for tax purposes because it enables a builder to defer paying taxes on a project's profit until the job is completed, but for management purposes, this method does not give builders and remodelers tools they need to run their businesses.

Percentage-of-completion Method

The percentage-of-completion method may give most builders the best picture of how their businesses are performing because it recognizes gross profit, cost, and revenue throughout the life of each contract based on periodic progress measurements. The percentage-of-completion method is most desirable for remodeling projects because it more accurately matches costs with revenues — and therefore profit — for a given period. Successfully using the percentage-of-completion method relies on an accurate estimate, as well as job-cost systems that provide precise and current records of expenses to date.

Let's say that ABC Builders is working on a $500,000 home that will have costs totaling $400,000. The following transactions occur during the first month of the project: ABC pays $10,000 for permits and other start-up costs, receives a $10,000 invoice from the excavation company, and receives $60,000 in progress payments (or draws) from the customer.

Cash	Accrual	Completed	Contract	% of Completion
Revenue	$0	$60,000	$0	$25,000
Costs	$10,000	$20,000	$0	$20,000
Gross Profit	$(10,000)	$40,000	$0	$5,000

If the above transactions were the only ones ABC Builders had for the month, the company's income statements under each accounting method would look like this:

Under the accrual method, revenue earned equals the amount invoiced on the first progress billing ($60,000). Under the percentage-of-completion method, revenue is computed with the following formulas:

1. Calculate what percentage of the job is complete:
   Costs to Date / Total Estimated Costs = Percent Complete
   $20,000 / $400,000 = 5 Percent Complete

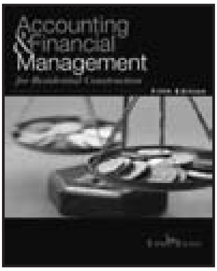
2. Calculate the amount of revenue to be earned:
   Contract Amount x Percent Complete = Revenue Earned
   $500,000 x 5 Percent = $25,000

Examining the four income statements, you can see that the percentage-of-completion method best reflects the company's revenue, costs, and gross profit for the period. If ABC's president received an accrual basis statement, he may think the company is really prospering because ABC has already earned $40,000 of gross profit even though the job is just 5 percent complete.

However, this statement doesn't give a true picture of the company's profitability as of the end of the month. Because the job was only 5 percent complete, ABC earned only 5 percent ($20,000) of the total projected gross profit ($100,000) during that period.

So which accounting method should you use? That depends on what you build. Most builders use completed contract accrual, but more and more custom and small-volume builders who primarily build pre-sold homes use the percentage-of-completion accrual method.

Steve Maltzman is a CPA and is president of SMA Consulting, Inc. (www.smaconsulting.net). SMA Consulting, Inc. provides financial and business management services for builders and remodelers. Maltzman is Past Chairman of NAHB's Business Management & Information Technology Committee.



For more information on accounting methods, read Accounting and Financial Management, Fifth Edition. *Go to www.BuilderBooks.com, or call 800-223-2665 to order.*

Tips to Survive Now: Builders Offer Advice on Carrying on

SURVIVING THE CREDIT CRUNCH

I survived the 17 percent mortgage market and 21 percent construction loans as well as credit tightening of the early 1980s by changing my operation from purely speculative to purely custom. In other words, every home I started had a written commitment to lend money to my client with the only condition in the commitment being I build the home as designed and appraised. I required a deposit from the client sufficient to close the sale, i.e., their down payment and closing costs. This removed all contingencies except for me to construct the home.

Every lender was willing to lend money with a known take out. What it also required was a higher margin to deal with the customer who was closely watching the construction and almost never completely understood from the plans and specifications exactly what they would receive in the home. The major learning curve was dealing with the customer during and after construction.

Further, 95 percent of the time I purchased the lot and obtained the construction loan, thus giving me control of the property and not having to fight for my final draw. Customers will sign anything at the execution of the purchase agreement, and most everything to get to an act of sale or own the home. Once they are in the home, they will sign very little. Their highest motivation is to occupy the home. The longer I operated in this method, the more I was able to anticipate the customer's reactions and prepared them in writing of what to expect. Controlling their expectations requires brutal honesty in the beginning. The worst words you will hear are "I thought I got …". Try to cover every possibility in writing as early as possible.

Randy Noel
Reve Inc.
New Orleans, LA

Savings and Revenue

Tip #1 - Savings:

In this downturn, many builders are looking to cut employees, but are having a hard time deciding just whom to cut, especially since they may have long-time, dedicated employees. We have faced this and here is what we have done to date:

We have cut everyone down from 40 hours per week to 35 hours per week, thus working seven hours per day vs. eight hours per day. This gave us the flexibility to not lay off anyone. It has saved us the cost of an average of one full time employee's wages.

Even though employees' wages were cut by five hours, they all understand the circumstances and are glad to be retaining their jobs.

If more cuts are needed, we have a plan to cut back to 32 hour weeks at four days per week with alternating days so that we maintain coverage for five day weeks.

Tip #2 -Savings:

This may be a small item, but every little bit helps. To cut back on office supply costs, we had everyone empty their own desks of all tablets, note pads, pens, pencils, paper clips, folders and any other supplies. (We have 14 desks in our office). We had everyone then keep the minimum of what they felt they needed. After collecting all of the excess, we discovered that we had at least a six month supply of items we did not even realize we had on hand. Now, everyone only takes what they absolutely need from our supply closets.

We also recycle all extra paper from e-mails, faxes and extra copies and cut them up for note pads. File folders from the "dead" files are recycled and relabeled. No purchases can be made without management approval.

Tip #3 - Revenue:

Many people are remodeling their homes rather than trying to sell them and buy a new home.

If you have not already diversified into remodeling, a good place to begin to do so is with customers you have built homes for in the past.

Take your list of your past customers. Send letters to them announcing that you would be interested in doing any renovation/remodeling work that they might need. They already placed their trust in you to build their home originally, so why wouldn't they want you to do their remodeling as well. You can then also send information to their neighbors.

Some of the jobs might be small, a sun deck or a screen porch, but maybe they are ready to finish off that bonus room space over their garage, or add a recreation room in their basement, or possibly they would like an addition due to their expanding family. In remodeling, one job leads to another. Just be certain that you use a higher markup than you would in building a new home and this will turn into another profit center for you.

Just some food for thought.

Ed Nikles, Sr.
Nikles Custom Home Building
Milford, PA

Dollars and Cents

The current economic conditions are stifling all business sectors and no matter whom you talk to, the prevailing sentiment is these conditions will most likely last well into 2009. However, there are some steps you can take that will thicken your armor and allow you to climb out of these conditions a much stronger organization. One of the best steps to take is to make the accounting process more efficient. Like many organizations, as the volume decreases, the number of people in the accounting staff decreases. At some point, however, you cannot decrease any more people and still complete all of the necessary accounting functions. The trick will be growing the business on the back side of this downturn without needing to add new people as the volume increases. So how do you accomplish this?

First, take a good look at your monthly closing process. Take some time and be sure the list of necessary monthly, quarterly and annual closing items is complete. Did you include items such as Sales and Use Tax reporting, updating fixed asset schedules, bidding new General Liability and workmen's compensation insurance policies? Be sure that every aspect of your accounting function is captured.

The second step is to organize the steps into functions: accounts payable, cash management, general ledger, job costing, government reporting, insurance, sales reporting, financial reporting, etc.

Third, organize the groups of steps within each function and organize each function according to when it must be completed during the closing process. For example, you most likely have to close accounts payable prior to closing job cost, prior to closing general ledger.

Also, within accounts payable, you have to be sure all invoices are input, credits input, checks recorded, entries posted to the general ledger and reports run. Then you can reconcile the accounts payable to the general ledger.

The fourth step involves determining how many of these items can be accomplished prior to month end. Can you post recurring entries in the middle of the month? Can you cut off accounts payable on the 25th of the month except at year end? Answer the question: what can I do before the end of the month, regardless of when I have done it in the past?

Your final step is to convert this list to a closing checklist that you can use each month, quarter and year end. Create this in a word processor as a template so you can update it as you use it. Performing this work now while you have time will actually create time for you when volume picks up. Improving your checklist each month is a first step to continuing process improvement. You should try and set a goal of closing the books and creating a financial package by the end of the third business day each month. As an extra tip: check out the special features of your accounting software to see if you can use macros or bundled printing of reports.

Cathy Judson
Evergreen Group
Charlotte, NC

Reach out

One thing that I do each year is to get letters out to architects, commercial agents, designers, investors and anyone I have done business with. The letters contain a little background on my company and my Web site.
I say, “If you, or your client, are having trouble getting a project off the ground, and if a builder partner can help get it off the ground, call me." This is a simple way to keep you and your business in the back of their minds. I have put many projects together over the years. I do this usually around the end of a year, every year.

John Piazza, Sr.
Piazza Construction Inc
Mt. Vernon, WA

Cut the Fat

To fend off the current economic conditions, we were forced to reduce staff. Layoffs are painful, but it’s one of the fastest ways to mitigate the cash flow hemorrhage. Most of us tend to hold off too long, hoping that tomorrow the market will turn and we can justify keeping the individuals we have trained and nurtured for years on our payroll. The most expensive employees are the most obvious – especially if they have become "managers" and you need to cut back your staff to the extent that you do not really need managers.

What you need during times like these are "boots on the ground." Sometimes managers are willing to take a pay cut and go back out into the field. That is the best option. However, many are not willing or simply have adjusted to a higher income and cannot. Some are willing to take reduced hours.

We moved some employees to a 32 hour week and gave them Friday off. This allows them to pick up another part time job to get through the cool period. I heard of one builder who was doing "rolling layoffs." Each of his employees took turns taking two months off. This was voluntary, and he let them know in advance so they could save up for the layoff. They were also entitled to unemployment benefits which helped. They all viewed it kind of like a long "vacation."

We are having some people cover two jobs. Our land acquisition and entitlement person has a real estate license and is helping on the sales floor until we get into a position that we need her back in action full time in land acquisition. We have also used layoffs to re-structure our organization. We are now a leaner and more efficient company.

Kristen Nilssen
Gold Medallion Homes
Salt Lake City, UT

Buckle Down

You have got to review your overhead! You must cut back as much as possible and still have an operation, but you must do it. It could be your vehicles, office space, assistant, bookkeeper, labor, but also your private life style. Keep the core personnel that you can rebuild from, if possible

The longer you wait the worse it may get. Do not think, "Oh it will get better in six months. I can weather the storm." Take precautions early, and plan ahead.

Pay your subs before you pay yourself. I know these ideas are very, very simple, but to a builder who has never been through anything like this, it may save a business.

E Ray Kothe
Kothe Contr &
Const Management LLC
Baton Rouge, LA

Network, Network, Network

The builders need to be involved with their local associations, take continuing educations courses, participate in buyer's co-ops and attend trade shows. Network, network, network.

Joel Katz
Katz Builders
Austin, Texas

NAHB Business Management Resources

PRO BUILDER: Business Planning
by Steve Maltzman and Mike Benshoof

You don't have to let your business control you. This great resource will show you how to do market research, forecast sales, allocate resources, control costs and more.

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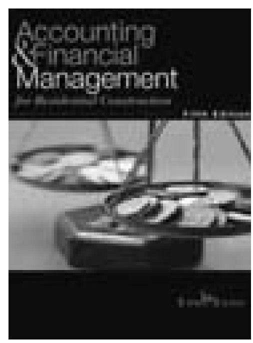

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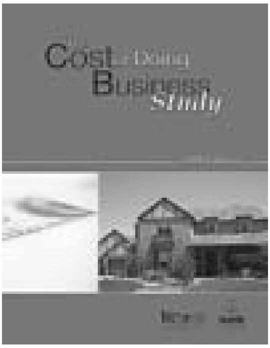

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Experts in financial management discuss, in plain language, the benefits of smart forecasting and how to manage your cash more effectively. These articles are a foundation for a sober plan to increase profitability.

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- Business Management & Information Technology Committee
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