Recession-Proofing & Managing through Slowdowns

For CEOs who don't have their team attuned to what must be done to respond to weakening demand or managing through a downturn, this experience can be lonely, traumatic and perilous. Thinking about such things only after they're upon us can lead to disaster, as few timely options may exist to sustain the business. Many busy leaders look up one day to find they don't have the cash flow to sustain operations and wonder what happened. Today, we'll examine preventive steps every business can take to avoid sailing into such dangerous waters as well as some ideas to help you "bail faster" when the ship is already taking on water.

Before we start, let's consider this topic from a faith perspective. We know all things are possible in Christ and He can choose to respond to our prayers during such trials by sparing or even prospering our business through unforeseen events and circumstances. However, throwing our hands up and asking God to bail us out when diligent stewardship could have prevented such a dilemma is tantamount to "putting God to the test;" something Jesus warned Satan not to do (Mt 4:7). Proverbs 22:3 advises *"The prudent see danger and take refuge, but the simple keep going and pay the penalty..."* As Christian leaders, our clear responsibility is to plan and execute with excellence. We're accountable for using the assets and relationships He providentially supplies us. We are called to look forward and operate our companies in such a way that we maintain "operational fitness" despite market fluctuations. As leaders, if we fail to act merely to avoid temporary discomfort for ourselves and our staff, we fail the entire company and its stakeholders who depend upon us. A poorly stewarded or unprepared company dishonors God and handicaps the performance of His ministry asset entrusted to our management.

We have a choice. We can decide to lead and help our team attain superior performance or we can just earn a living and hope that business will continue more or less as normal. C12 members generally choose the first path. They engage in personal and professional growth and lifelong learning alongside trustworthy peers who help them along the way. Sadly, it doesn't always work out.

A Case Study: When Nothing Changes, Nothing Changes

Meet Reuben,[1] a veteran manufacturer of custom motorcycle trailers with a heartfelt desire to give generously to Kingdom work. He owns and operates a modestly profitable firm of 25 employees with a one-shift factory. Reuben is good at what he does, and has many loyal local customers. However, he is *clearly* a creature of habit. The firm is virtually unknown outside his region. Flat sales for the past decade (actually down 30% in units) severely limit his ability to fund his favorite ministries. He pays himself a decent income, but hasn't been able to come up with sufficient funds to invest in new capabilities or expanded marketing.

A fellow C12 member explained how an active web presence, e-marketing, and targeted monthly emails to consumers and distributors could broaden his geographic reach. His Chair helped him do a "what if" analysis. It showed the company's cost effectiveness and capacity would greatly improve using existing equipment if he changed from a single-shift operation of 18 people to three rotating crews of six people each, where each employee would work four 10-hour days per week. Overall, the equipment would be utilized 20 hours per day, six days per week, and workers would normally have three days off each week. As the web-based marketing efforts began to pay-off, more workers could be added on a straight-time basis and the four-day work week would make it easy to recruit more workers. By leveraging his overhead across increased volume, his profitability would sharply increase. Better yet, customers would be thrilled because his shop would operate 120 hours per week, not 40, effectively cutting rush order times by two-thirds. Incredibly, the financial model showed that an expected doubling of revenue over the first two years (from $4 mil to $8 mil), combined with the more cost-effective factory schedule, would quadruple operating profits while requiring a modest 20% increase in total operating capital. Overall, his annual return on assets would soar from its current 8% level to 40%!

It seemed too good to be true! With this additional profitability, Reuben could generously fund his favorite ministries, hire a like-minded understudy with marketing skills who might eventually succeed him, and begin investing in "next generation" products and processes. Sounds like an open and shut case, no? Unfortunately, several day-to-day operating routines would need to change to accomplish the new, improved vision. New customers, new employees, new factory shifts, web-based order communication, a new right-hand man… the thought overwhelmed Reuben.

Consequently, it *never* happened. The comfort of doing business the same old way, and the prospect of "cashing in" by selling-off the land, building, and assets within a few years was "good enough." After deciding that he really didn't want to build a thriving business, Reuben decided that he couldn't afford to continue as a C12 member either, since it took a day each month and he was ***so*** busy! (Or was there some other unspoken reason?)

Your team depends on you for their future healthy growth — financially, in career terms, and in ministry for those the business serves. You can do it if you take advantage of your God-given opportunities each year to define "the ideal" and make plans with your team to steadily close the gap! As Vince Lombardi said, *"The quality of a person's life is in direct proportion to their commitment to excellence regardless of their chosen field of endeavor."*

How about you? How can you relate to Reuben? How have you demonstrated leading with vision, and the necessary action to carry it out?

Defining the Ideal & Driving Toward It

Imagine having the opportunity and skills to step away from your company's current problems, strategic limitations, and constraints. Using a "clean sheet of paper," you begin defining your ideal company from scratch. This company is the one *you wish you led* — highly profitable, the lowest cost and best quality supplier in its market; a debt-free innovator, with great teamwork and solid cash reserves ready to exploit strategic opportunities. Such a company would *surely* weather any storm that doesn't take the entire industry down, and would essentially be recession-proof. Wouldn't that be nice?! But is it realistic? After all, isn't it true most companies operate close to the edge, with few surviving more than a decade?[2]

The surprising answer is while *most* companies do spend much of their existence operating close to the edge — through indifference more than intentional strategy — many others have learned the secret to maintaining operational fitness in *all* economic conditions. These leadership firms keenly realize the extraordinarily high cost of losing the economic keys to the business. This is ample incentive to adopt on-going discipline aimed at maintaining positive cash flow and strategic strength, even in circumstances in which competitors struggle. They constantly compare themselves to the perfect clean sheet-of-paper firm, and are determined to make annual strides to close the gap between their *current* condition and what they know to be possible. They have few untouchable "sacred cows"[3] in their business model.

Diligent in good times and bad, these firms gain long-term advantage by (1) resisting the temptation to squander cash during boom cycles and (2) remain healthy and focused in tough times. They capitalize on such challenging situations by motivating their team to drive further improvements in their "standard" operating model. They plan strategic initiatives in advance and fund them by driving continuous improvement while keeping their "powder" (i.e., cash reserves) dry. Unlike firms that borrow to pursue short-term opportunities, they're able to pick up incremental market share at bargain prices when weaker competitors strain to stay solvent.

How do they achieve such focus and discipline? Fundamentally, they understand the *numbers that drive their business* far better than their competitors. They even have specific improvement plans and targets that link directly to staff performance metrics and compensation. Looking a bit deeper, such leadership firms...

- ***Begin with a commitment to performance leadership*** by objectively understanding what "robust good health" and exceptional performance look like in their field. They:
  - benchmark performance against their industry's best to see how they're doing in terms of topline growth, margins, asset management, and overall return on investment.[4]
  - set targets, delegate responsibility, establish accountability, and plot a course to move *forward* to close any gaps versus top quartile performance in any key area.

"Measuring Above Average" *— C12 Blue Ridge member, Duane Gentry, shares how benchmarking tools can help you measure success.*

- ***Engage their staff annually in a serious debate over what's possible*** to improve the fundamental performance drivers and metrics in the business. Led by the CEO, they:
  - challenge each other to improve in each area as a way to fund a ***war chest*** for incremental growth, innovation, debt pay-down, ministry initiatives, etc.
  - challenge all overhead and fixed cost elements in an attempt to drive down their breakeven point.
  - openly list and reevaluate their current operating practices, meetings, reports, and discretionary spending to identify old habits that have outlived their usefulness and identify wasteful areas that do not add value. This process of "confronting the brutal facts" includes looking at unprofitable product lines and customers to determine how to fix or shed them. In this process, the team properly evaluates the *contribution margin* and *gross margin return on investment* of each offering to make wise bottom-line decisions.[5]
  - use "what if" modeling to determine the beneficial impact of various operating changes (e.g., reducing material prices 2%, improving labor productivity 5%, cutting overtime and warranty costs in half, cutting inventory or lead-times by 20%, etc.).

- ***Actively compare alternative economic/competitive scenarios***, which could make the year more challenging or prosperous. They:

  - consider the capacity, cost, service, staffing, cash, and strategic consequences of potential best and worst-case scenarios. The most disciplined operating companies tend to build their Base Plan around very modest economic/volume/price assumptions and fairly challenging cost inflation assumptions (i.e., materials, insurance/benefits, rents, utilities, etc.) while still targeting improved operating performance. This forces their staff to deeply engage in driving cost reductions and better working capital management (i.e., receivables, payables, inventories).
  - define predetermined actions or countermeasures to take, if one of the alternative scenarios unfolds during the year. In a down year, for example, this means that predetermined cost/capacity/staffing cuts will go into effect more quickly, thereby protecting the financial stability of the company. Sometimes known as "triggering the B budget," such discipline pays significant dividends over time!

- ***Analyze detailed P&L, balance sheet, and cash flow statements*** by the middle of each month and respond quickly to dangerous "off-plan" trends to stay ahead of the curve. Regarding revenue, they:

  - track *volume drivers* (i.e., quotes/bids, backlog, economic factors, market share) and *pricing attainment*.
  - look forward at the "profit mix" impact of priced orders already in the hopper and active quotes likely to close. This helps them to forecast profit and cash for the next month and quarter and take actions to stay "on plan."

- ***Stay keenly aware of their current level and trends in both gross profit and pretax profit,*** *and* closely track all cost categories on a % of sales basis each month (e.g., materials cost, labor cost, sales compensation, marketing, administration, occupancy costs, etc.). They're committed to achieving the Operating Plan (budget) set for the year and know that maintaining margin is ultimately what takes care of everything else!

In which of these areas are you strong? Where do you need to improve? What experiences, disciplines, or unique ideas can you share in these areas?

If you are in **"survival mode"**, please see ***Appendix A*** for some immediate ideas to weather the storm.

[1] A *fictional* C12 member, but based on real-life observation of one or more members over time!

[2] Consider that (1) the U.S. has experienced one or two recessions per decade since World War II and (2) just one-third of new U.S. companies survive beyond their first decade (per U.S. Department of Commerce & U.S. Bureau of Labor Statistics).

[3] A phrase coined in Jim Collins' seminal business best-seller, *Built to Last* (HarperBusiness, 1994)

[4] Such benchmarking can be easily done versus other firms in your same region and industry by using a tool such as SageWorks' ProfitCents national database and their "Snapshot" benchmarking reports to highlight how your topline growth, margins, costs, asset management, and return on assets compare with the best in your industry. See your C12 notebook's strategic affiliates section to learn about the very special subscription rate available to C12 members. Reference ***Appendix C*** for an example report.

[5] "Contribution margin" identifies the financial contribution toward fixed overhead and profit that's made after covering direct out-of-pocket costs and the carrying cost of necessary working capital (i.e., inventory and receivables) for the offering. A related measure that's used in many manufacturing, wholesale, and retail environments is Gross Margin Return on Investment (GMROI) which is a ratio of the offering's gross margin over its average inventory investment. In both cases, executives can analyze a simple rank-ordering of products (often in the context of applying the "80/20" rule) to see where seemingly successful offerings may really be underperforming and to determine which products (and related processes) should be pruned, consolidated, or re-engineered to improve overall company financial performance.

Application Worksheet

C12

1. Do you currently look at monthly financial statements, including a cash flow statement and forward-looking profit/cash projections? If not, evaluate how to put this discipline in place and begin to have your CPA or CFO help you and your team learn to discuss key performance gaps versus Plan each month.

2. Do you (and your team) currently know how your firm is performing compared to best-in-class firms in your industry? If not, why not set a SMART goal to find out and set follow-on targets to "close the gap" against the best in revenue growth, margin management and asset management? See ***Appendix C*** for an example industry data report from *ProfitCents*.

3. If your staff and employees are currently unaware of the key performance metrics driving your firm's on-going "operational fitness", consider beginning a series of monthly or quarterly "lunch and learn" sessions where you and your management team teach fundamentals and answer questions on these topics. There's nothing like teaching to learn deeply! (To teach is to learn twice.)

4. If you, your CFO or CPA don't currently have a "what if" spreadsheet model to help you look at forecasting and implementing future improvements, talk to your C12 Chair about the possibility of subscribing to *ProfitCents* at C12's deeply-discounted member rate.

5. Do you have an annual planning retreat with your team? If not, what steps should you take to implement one?

6. Consider using ***Appendix D*** as a proactive evaluation of your business.

KP

1. Consider the items above and then invite your sponsor to lunch for the purpose of discussing this segment and the appropriate follow-up in your firm. Offer to help develop/pursue elements needed to drive improved understanding and performance.

2. Do you have a clear understanding of KPIs for yourself and your team? If not, develop them and share them with your CEO for agreement and alignment.

3. Do you have a planning session with your team to clarify vision, performance, and strategy? If not, what steps should you take to implement one?

Application Notes

APPENDIX A: *Draining the Swamp First*

You might be saying, "But *first*, I need to survive the next 90 days then I'll focus on such things as strategy, operating discipline, and teamwork. I need to stop the cash hemorrhage now, before the company bleeds to death!"

Actually, much of what we can do in the short-term, when spurred on by necessity, simply represents an urgent pull-ahead of what we should've been doing all along! Although a few of these short-term actions may not be sustainable over the longer term, most are. This requires determination and a sustained sense of urgency and focus by our team... the hallmark of leadership.

Most of us are already quite aware of the typical ways business owners slash short-term cash usage in a crunch situation. As servant leaders, we need to approach such threatening seasons in a distinctive way that communicates our sense of stewardship responsibility before God. We need to be keenly aware that our actions reflect what we truly believe and will be remembered by those we lead in these teachable moments. With this in mind, a few basic steps are in order:

1. ***Clearly communicate*** the urgency of the situation to your staff and all employees, enabling them to understand well enough to know that significant actions must be taken to ensure the continued health of the company. With a large work force, you may need to host a series of meetings using a standard communications package that helps your managers reinforce a clear, consistent message. Share your heart's desire to make changes responsibly. Openly solicit their prayers and ideas. Your message should assure them that *all* company areas (including management) will be examined, and that necessary steps will be rolled out quickly so that people won't have to wonder for long.

2. ***Provide opportunities for employees to participate*** in shaping and implementing the necessary changes. Enable them to submit suggestions and commit to review them prior to finalizing your overall action plan. Encourage voluntary participation in certain short-term cost saving ideas and get their feedback on action plan alternatives before you make final decisions.

3. As you implement changes, ***lead by example***. Company leaders must share in the pain and demonstrate their commitment first. In doing so, they must be true to the core principles of the firm, including its on-going Christian ministry commitment. It's particularly vital for us to maintain clarity and access to wise counsel to be sharp, remain focused on our long-term purpose, and navigate the storm with the best ideas possible. As *your firm's single most important non-renewable resource*, resist the temptation to view your C12 involvement as a discretionary expenditure. Instead, actively tap your C12 peers to test your thinking and help you shape the best, most God-honoring path forward. A seafaring captain doesn't throw the steering wheel and rudder overboard to eliminate weight in a storm!

For those desiring a greater understanding of some of the detailed possibilities available to most businesses, please refer to ***Appendix B***. Get started recession-proofing your company before the inevitable next cycle begins!

Appendix Notes

APPENDIX B: *Selected Thoughts on Achieving Operational Fitness*

Developing a management team capable of benchmarking and targeting "best-in-class" performance forecasting – and then making annual operational improvements to "close the gap" between the current and future conditions of the firm – starts with having team discipline in owning the numbers and achieving the Operating Plan. In this process, several areas for discussion can help to galvanize your management team's thinking. Some of these are discussed briefly below.

- ***Respond to each month's performance vs. Plan:*** After receiving each month's financials, engage your managers in a debriefing and deep discussion regarding what drove the prior month's performance, as well as actions necessary to bring any areas of shortfall back up to year-to-date expectations. This might begin with a staff meeting and result in follow-up one-on-one meetings as needed. Give particular intense attention to highlighting waste areas (overtime, premium shipping, scrap, rework, warranty, etc.) and get to root causes and improve your *actual* (versus standard) margins.

- ***Look closely at your pricing to determine what you might be leaving on the table:*** Nearly every company is riddled with leakage and bad habits in this area. Every point of price adds a full point to your pretax profit margin! For the typical company with a 5-10% pretax profit margin, an additional point of price can grow profits by 10-20%... something worth thinking about and thoughtfully testing! A little more healthy focus on better understanding the customer, objectively benchmarking competitive market prices, managing change-order scope/deliverables (to actually get paid for requested order changes), reviewing the pricing/margins on incoming orders, and ensuring pricing discipline among sales people can easily add a couple of margin points! Consider changing your sales commission approach to incorporate pricing and actual margins "as delivered" instead of simply revenue generated (with perhaps a sliding commission scale based on margins earned) . Retrain your sales people to know that as a "hunter," the idea isn't to just leave the carcass in front of the cabin door to rot, but to bring it in on a timely basis and in a condition where the family can effectively "process" and enjoy it!

- ***Deal with the Cost/Price Squeeze:*** Teach your team to understand that every point of increased cost accepted due to inflation, waste, higher specs, etc., must be offset by either increasing your prices or finding other cost reductions. For example, if you accept a 4% price increase on your purchased materials and they account for 50% of every revenue dollar generated, then you have a new 2-point margin problem (i.e., 4% x 50% = 2%-sales margin erosion). Likewise, if payroll goes up 5% from a combination of, say, a 3.5% base pay increase and medical premium inflation of 10%, and compensation costs represent 30% of each dollar of sales, this gives you a 1.5-point margin problem. In each case, managers need to be held responsible for spearheading cost reduction and productivity improvement efforts to more than offset the inflationary pressure and achieve "net" company profit improvement in their area of responsibility utilizing the many means available to them (e.g., value analysis, finding more cost-effective sources, improving work habits, eliminating waste/premiums, establishing lower cost designs or factory locations, etc.). A pay-for-performance compensation system helps to make this connection much more clear and helps to serve as a shock-absorber and built-in "call-to-action" during tough times.

- ***Instill 80/20 discipline:*** For most of us, 20-30% of our customers, products, and projects generate 80+% of our profit and cash flow. Routinely study simple rankings of your products, individual sales people, and customers – from top to bottom – in terms of profit margins to objectively determine who/what is really making a contribution. Commit to fixing major profit leaks! This will help to challenge "legacy" activities, which are no longer justifiable, yet occupy a disproportionate amount of company staff and resources. By doing this, we can free-up cash to more fully support and grow truly worthwhile areas!

- ***Target improved Operating Capital management:*** Typically ignored, this area is a large source of untapped cash, because most companies have the equivalent of 20-50% of their annual sales dollars tied up in working capital (i.e., inventories + accounts receivable – accounts payable) and excess fixed operating assets. If a company making pretax profit of 5% of sales cuts their ongoing level of operating capital by roughly one-third (e.g., 10% to sales), with improved focus and new-found asset management discipline over a period of two to three years, they'd generate the equivalent of another two years of profits along the way! The ways to do this are many, including: better materials planning and inventory flow discipline (e.g., adopting reduced "days-on-hand" targets and improving supplier lead-times toward "just-in-time" [JIT]), staying on top of receivables to reduce aged/risky situations, negotiating with suppliers upfront with comfortable payment terms in mind, gaining greater weekly clock utilization of fixed assets with creative staffing/shifting approaches, etc.

- ***Sharpen and streamline your operation to reduce cost, deliver faster with better reliability:*** Continuously look at your current standard operating approaches on a line-by-line basis (from revenue generation to production to administration and after-sale service). Brainstorm ways to "do it better for less." This will help you to continuously improve your company's capabilities by adopting ideas such as:

  - Lowering payroll costs by using permanent part-timers in certain areas (to take advantage of the legions of empty nesters and moms with school-age children who desire a stable < 30 hour weekly job and don't need benefits).

  - Revising your workflow to incorporate "cells" to build cross-trained teams and reduce dead time and confusion between hand-offs.

  - De-layering your organization and creating product line or small business unit P&Ls to enhance clarity on roles, responsibilities, and performance.

  - Stepping back to look at your overall operating costs and capabilities to see what you must do in the longer-term to become the best cost/quality/service supplier in your market so that you will easily weather economic dips that cripple others.

Please scan the table on the next page for further ideas – both short-term and long-term – that might bear fruit as you seek to instill on-going operational fitness in your company:

Category	Short-Term Actions	Long-Term Actions
Compensation	Voluntary leadership pay cuts/delays Reduce/eliminate overtime hours Voluntary unpaid leaves Short work weeks to protect vital skills Don't back-fill vacancies (cross-train) Encourage early retirement Lay-off least productive staff Coordinated vacation/shut-down week	Pay for performance (incr. variable%) De-layer/cross-train/de-specialize Tie sales commission to actual margins Permanent part-timers ($\leq$ 30 hrs/wk) Incent voluntary health plan opt-outs Remix payroll using lower cost sites Eliminate internal rework/scrap labor Adopt lean cell flow (office & shop) Revise medical plan (co-pays, features)
Materials/ Suppliers	Request immediate cost reductions Supplier buyback/restock of excess Re-examine order points/quantities Replenish supplies by exception only Make/buy analysis of contracted services to protect in-house skills	Rebid commodities (long-term contracts) Initiate tight rec'g dock controls (JIT) Drain stock w/JIT short-lot discipline Sell surplus/excess assets for cash
Customer Management	Canvass for shipment/qty. pull-aheads Re-look at pricing by acct/category Re-price accounts currently below direct cost to supply Pursue slow-paying accounts	Eliminate warranty abuse Ensure terms have late payment fees
Facilities/ Occupancy	Re-look at utilities/rent/tax valuations Make/buy on maint./cleaning activity Sub-let excess space, parking, acreage	Adopt lean layout methods to reduce space required.
Expense Spending	Moratorium on discretionary spending Re-examine/re-time risky projects	
80/20 Analysis	Re-look at lowest third margins across all products & customers Cost reduce, re-price, or cut if not at least covering direct costs Reduce capacity/staffing accordingly	Quarterly repeat short-term actions
Banking	Assess/discuss better rates & terms	Annually repeat short-term actions

Appendix Notes

APPENDIX C:
ProfitCents Industry Report

sageworks Industry Data

Industry:	236220 - Commercial and Institutional Building Construction
Sales Range:	Yearly sales $50 Million to $150 Million
Data Source:	Private Companies
Location:	US - South
Prepared On:	4/6/2016

INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Last 12 Months (36)	2015 (39)	2014 (72)	Last 5 Years (338)	All Years (786)
Current Ratio	1.41	1.40	1.84	1.72	1.50
Quick Ratio	1.32	1.31	1.59	1.43	1.30
Gross Profit Margin	8.39%	8.48%	10.09%	9.92%	9.18%
Net Profit Margin	5.34%	5.23%	6.77%	5.07%	3.79%
Inventory Days	3.63	4.21	4.20	3.68	2.74
Accounts Receivable Days	65.39	64.58	64.13	61.10	59.72
Accounts Payable Days	54.56	54.87	57.03	54.88	54.25
Interest Coverage Ratio	20.33	20.33	25.37	21.49	29.66
Debt-to-Equity Ratio	3.29	3.27	3.29	3.00	3.21
Debt Service Coverage Ratio	10.71	10.71	9.07	9.65	9.98
Return on Equity	35.20%	37.09%	29.34%	30.05%	33.10%
Return on Assets	10.25%	10.57%	8.69%	9.03%	9.36%
Gross Fixed Asset Turnover	46.43	46.89	42.19	36.85	41.75
Profit per Employee	$47,453	$47,453	$16,403	$25,614	$19,864
Growth Metric	**Last 12 Months (22)**	**2015 (23)**	**2014 (52)**	**Last 5 Years (241)**	**All Years (542)**
Sales Growth	18.07%	17.75%	32.29%	23.61%	18.43%
Profit Growth	42.51%	42.51%	51.65%	41.59%	30.75%
Industry-Specific Metric	**Last 12 Months**	**2015**	**2014**	**Last 5 Years**	**All Years**
Billings in Excess of Cost to Total Assets	11.80% (12)	11.80% (12)	12.80% (19)	12.40% (110)	13.10% (172)
Costs and Earnings in Excess of Billings to Total Assets	3.80% (13)	3.80% (13)	4.40% (17)	4.00% (108)	3.70% (177)

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Months in Backlog	5.79 (9)	5.97 (10)	7.40 (8)	6.32 (56)	6.39 (86)
Direct Materials to Sales	11.20% (9)	11.20% (9)	12.30% (10)	9.40% (49)	10.10% (84)
Direct Labor Ratio	8.40% (9)	8.40% (9)	9.30% (11)	7.90% (39)	7.50% (42)
Backlog to Working Capital	9.69 (8)	9.91 (9)	10.46 (7)	7.72 (63)	8.30 (90)
Subcontractor Expense to Sales	70.10% (8)	70.10% (8)	70.50% (7)	73.60% (39)	72.40% (60)
Revenue per Employee	$923,021 (5)	$923,021 (5)	$1,298,490 (4)	$1,074,193 (23)	$904,786 (83)
Backlog to Equity	4.85 (8)	5.24 (9)	6.95 (6)	6.70 (21)	6.70 (21)
Revenue to Working Capital	19.47 (19)	19.42 (20)	19.03 (23)	18.75 (78)	18.64 (79)
Days in Cash	26.22 (20)	26.40 (21)	23.65 (25)	23.91 (83)	24.17 (84)
Fixed Asset Ratio	0.12 (20)	0.12 (21)	0.15 (24)	0.14 (80)	0.14 (81)
Asset Turnover	3.70 (20)	3.70 (21)	3.69 (24)	3.74 (81)	3.73 (82)
Equity to G&A Expenses	2.02 (17)	1.97 (18)	1.70 (23)	1.97 (76)	1.98 (77)

INDUSTRY DATA COMMON SIZE

Average by Year (Number of Financial Statements)

Income Statement	Last 12 Months (36)	2015 (39)	2014 (72)	Last 5 Years (338)	All Years (786)
Sales (Income)	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	91.61%	91.52%	89.91%	90.08%	90.82%
Subcontractor Expense	70.10%	70.10%	70.50%	73.60%	72.40%
Gross Profit	8.39%	8.48%	10.09%	9.92%	9.18%
Depreciation	0.12%	0.13%	0.15%	0.22%	0.20%
Overhead or S,G,& A Expenses	2.88%	3.07%	3.10%	4.53%	5.11%
Payroll	2.80%	2.80%	3.37%	3.15%	3.85%
Rent	0.33%	0.33%	0.37%	0.31%	0.29%
Advertising	0.17%	0.17%	0.17%	0.13%	0.11%
Other Operating Income	0.00%	0.00%	0.00%	0.00%	0.00%
Other Operating Expenses	0.05%	0.05%	0.09%	0.12%	0.14%
Operating Profit	5.34%	5.24%	6.75%	5.05%	3.73%
Interest Expense	0.03%	0.03%	0.05%	0.07%	0.06%
Other Income	0.04%	0.05%	0.08%	0.13%	0.14%
Other Expenses	0.02%	0.02%	0.02%	0.03%	0.03%
Net Profit Before Taxes	5.34%	5.23%	6.77%	5.07%	3.79%
Adjusted Net Profit Before Taxes	5.34%	5.23%	6.77%	5.07%	3.79%
EBITDA	5.49%	5.39%	6.96%	5.36%	4.05%
Taxes Paid	0.23%	0.23%	0.76%	0.52%	0.63%
Net Income	5.11%	5.00%	6.00%	4.55%	3.16%
Balance Sheet	**Last 12 Months (36)**	**2015 (39)**	**2014 (72)**	**Last 5 Years (338)**	**All Years (786)**
Cash (Bank Funds)	23.42%	24.03%	20.29%	20.88%	22.38%
Accounts Receivable	58.80%	58.65%	56.38%	52.26%	54.90%
Inventory	0.44%	0.41%	0.53%	0.35%	0.20%
Other Current Assets	5.34%	5.28%	6.73%	7.17%	7.21%
Costs and Earnings in Excess of Billings	3.80%	3.80%	4.40%	4.00%	3.70%
Total Current Assets	88.49%	89.05%	85.99%	85.41%	88.41%
Gross Fixed Assets	16.83%	16.40%	22.48%	24.03%	17.54%
Accumulated Depreciation	10.37%	10.32%	13.18%	13.86%	9.54%
Net Fixed Assets	6.46%	6.09%	9.29%	10.17%	8.00%
Other Assets	5.04%	4.86%	4.71%	4.42%	3.60%

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Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Accounts Payable	45.76%	46.49%	44.24%	43.83%	46.39%
Notes Payable / Current Portion of Long Term Debt	0.40%	0.36%	0.31%	0.43%	0.46%
Other Current Liabilities	20.51%	20.44%	17.18%	16.41%	18.54%
Billings in Excess of Costs	11.80%	11.80%	12.80%	12.40%	13.10%
Total Current Liabilities	67.19%	67.77%	64.59%	62.92%	66.94%
Total Long Term Liabilities	3.87%	3.59%	7.08%	5.82%	4.50%
Total Liabilities	71.06%	71.36%	71.66%	68.74%	71.44%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%
Common Stock	0.36%	0.34%	0.39%	0.34%	0.23%
Additional Paid-in Capital	1.15%	1.06%	1.12%	0.98%	0.93%
Other Stock / Equity	1.47%	1.35%	0.79%	2.21%	2.59%
Ending Retained Earnings	23.35%	22.72%	26.63%	25.71%	22.79%
Total Equity	28.94%	28.64%	28.34%	31.26%	28.56%
Total Liabilities + Equity	100.00%	100.00%	100.00%	100.00%	100.00%

APPENDIX D:

PROACTIVE STEWARDSHIP

AN EVALUATION IN RECESSION-PROOFING YOUR BUSINESS

C12 GROUP

PERFORMANCE LEADERSHIP (PROVERBS 22:3)

PERFORMANCE METRICS FOR MY COMPANY (PREV. 12 MOS)	TOP QUARTILE BENCHMARKS FOR MY INDUSTRY
1	1
2	2
3	3
4	4

ACTION:

ANNUAL BUSINESS PLANNING (PROVERBS 27:1)

Readiness to Grow (Capital):	1	2	3	4
Annual Brainstorming:	1	2	3	4
Scenario Modeling:	1	2	3	4
Strategic Planning Process:	1	2	3	4

ACTION:

COMPETITIVE & ECONOMIC SCENARIOS (PROVERBS 24:5-6)

- Do we know our industry competitive benchmark performance metrics? YES ☐ NO ☐
- Do we know our local trade/professional association forecasts and trends? YES ☐ NO ☐
- Do we know the economic indicators which directly impact our business or supply chain? YES ☐ NO ☐
- Have we brainstormed competitive threat scenarios that could impact our business plan? YES ☐ NO ☐
- Have we evaluated economic scenarios and how our business would respond? YES ☐ NO ☐

ACTION:

AGILITY (PROVERBS 6:6-11)

GP%	WEAK	HEALTHY	ROBUST
Labor	WEAK	HEALTHY	ROBUST
Pricing	WEAK	HEALTHY	ROBUST
Material Costs	WEAK	HEALTHY	ROBUST
SG&A	WEAK	HEALTHY	ROBUST
Sales Trend	WEAK	HEALTHY	ROBUST
Line of Credit	WEAK	HEALTHY	ROBUST
Cash Reserves	WEAK	HEALTHY	ROBUST
Debt Ratio	WEAK	HEALTHY	ROBUST
Retention/Turn	WEAK	HEALTHY	ROBUST
Other ________	WEAK	HEALTHY	ROBUST

ACTION:

FINANCIAL MANAGEMENT (PSALM 90:12)

FREQUENCY OF REVIEW:

P&L:	WKLY	MTHY	QTLY	LESS
Balance Sheet:	WKLY	MTHY	QTLY	LESS
Cost Flow Statements:	WKLY	MTHY	QTLY	LESS
KPIs/Performance Metrics:	WKLY	MTHY	QTLY	LESS

ACTION: