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How to tame the workers' compensation beast

In a perfect world, accidents never happen. Unfortunately, hazards abound on job sites and, therefore, someone is bound to get hurt … eventually. Although you may not have a spotless workers' compensation record, your premiums don't have to break the bank. Even small cost-saving moves may minimize expenses and help tame the workers' compensation beast.

Safety first and always

Creating a safe work environment should be a priority, not just to reduce premiums, but also to ensure the long-term health of your employees.

To that end, insist that employees keep job sites clean and orderly, and require workers to wear appropriate protective gear at all times. Provide regular safety training classes for all employees and consider giving bonuses to those who reach measurable safety goals. Welcome suggestions from employees about how to make job sites safer for all.

Experience modification rating

Construction companies with strong safety records are rewarded with lower workers' compensation premiums. It all comes down to your experience modification rating (EMR), which is based on your company's safety record and is calculated by the National Council on Compensation Insurance (NCCI) or, in some states, an independent rating agency.

An EMR is determined by comparing your company's workers' compensation claims to industry average losses in other construction companies of similar size. If you're at the industry average, your EMR is 1.0. If your workers' compensation claims history is 20% better than average, your EMR would be 0.80.

A history of small, recurring claims can affect your premiums more than one large claim, because it shows there may be an ongoing problem that isn't being addressed.

On the other hand, if your claims history is 20% worse than average, your EMR would be 1.20. And, if so, you could pay as much as 20% more in workers' compensation premiums than a company with an EMR of 1.0 would, according to the Indianapolis-based Safety Management Group.

An EMR calculation gives more weight to the *frequency* of injuries but doesn't overly penalize a company for the severity of one particular claim. Put another way, a history of small, recurring claims can affect your premiums more than one large claim, because it shows there may be an ongoing problem that isn't being addressed. Reducing claims, obviously, will improve your EMR.

Job classifications matter

As the risk of injury associated with construction positions increases, so do workers' compensation premiums. Lower-risk jobs, such as clerical work and estimating, have lower injury rates than do hazardous ones, such as roofers. The NCCI assigns classification codes to every job type.

Re-evaluating your classification codes can result in significant savings. First determine whether your employees

qualify for the lowest rates for the types of work they do; then try to reduce the number of employees whose jobs warrant higher classification rates.

Accident investigations

Be aggressive in managing and investigating workers' compensation claims. If handled correctly, the investigation can improve employee morale and promote safety by showing management's concern for workers' well-being.

Require employees to report all accidents or illnesses immediately; the sooner injured workers get medical attention, the faster they'll recover and return to work. Plus, they may be less likely to file a lawsuit. Follow up with injured workers regularly and let them know how much you value them.

Just rewards

You might not be able to avoid accidents entirely, but you can better manage their outcomes. Proactively evaluating and managing workers' compensation costs may save you considerable money and even add to your construction company's bottom line.

Assessing your company's value — priceless

In today's sluggish economy, your main concern is likely keeping the work coming in and grinding out a profit. Obtaining a valuation of your construction company is probably the last thing you want to pursue, but it may be one of the smartest moves you can make. That's because you'll learn how much your business is worth today and get a better understanding of what you need to do to increase its value tomorrow.

Dollars and sense

Contractors often decide to obtain a valuation because of a change in ownership. But valuations also can be crucial in determining how much you can borrow, whether it's smart to grow the business and whether your estate plan needs updating. Moreover, a valuation can help you understand the drivers that affect the value of your business and identify changes that can make your construction company more competitive.

So, how can a dollar value be placed on all the years of sweat equity you've poured into your business? Many factors affect your company's value, such as bonding capacity, internal controls, leadership expertise, bidding success rates, stability of earnings and overall performance.

Your company may also have a distinctive level of specialization or skills that can boost its market value. For example, a contractor renowned for renovating historic buildings or one that has staff certified in green building might be worth more than one that doesn't have such talent.

3 approaches to valuation

There are generally three primary approaches to business valuation:

1. Income. This approach is typically used when valuing small and midsize closely held businesses, typical of most construction companies. Value is based on projected future sales, earnings and cash flow. Common valuation methods used under the income approach include capitalization of earnings (or cash flow) and discounted earnings analysis.

With the *capitalization of earnings* method, a valuator determines the capitalization rate (a rate of return required based on the risk associated with that business).

Preparing to sell your business? Think valuation

If a sale of your construction company is in the offing in the near future, getting a business valuation *now* is particularly important. Buyers evaluating a company generally want at least five years of financial statements, and you'll need time to determine just how much you need to boost your earnings or cash flow to raise the asking price.

Professionally prepared statements and supporting documents can make a better impression but, if you did them yourself, it won't be a deal-breaker. Whatever you do, don't try to hide anything. Prospective buyers will scrutinize your business in excruciating detail and, if they learn you've not been completely forthcoming, they might walk.

They'll also want to review legal paperwork such as vendor contracts, permits, leases and articles of incorporation. Make sure everything is current and in order. A little due diligence goes a long way toward impressing prospective buyers.

Finally, if you don't already have a succession plan, you'll need to establish one long before putting your business up for sale. Whether the company passes on to your heirs or is sold, it should be disposed of according to your wishes. A carefully considered and executed plan will ensure the continuity of your legacy and allow you to accomplish your financial goals.

Earnings are then divided by that capitalization rate. With the *discounted earnings analysis* method, on the other hand, the valuator determines the value of a business based on the present value of projected future earnings, divided by an appropriate discount rate.

2. Asset-based. This approach is generally used in conjunction with capital-intensive enterprises reporting weak earnings (or losses) which don't contribute to the value of the business. Construction companies may fall into this category because of their heavy investment in equipment and patterns of one-time projects. And niche contractors, such as excavators, are especially well suited to asset-based valuation.

Your company may have a distinctive level of skills that can boost its market value.

In an asset-based valuation, the valuator adjusts assets and liabilities to their fair market value equivalents. The sum of a company's assets less its liabilities yields its fair market value.

3. Market. This approach measures value using ratios or factors derived from the earnings, sales and assets of similar businesses. For reliable results, the companies must share certain characteristics such as size, methods of operation, markets and customers served, and accounting methods.

Because many construction companies aren't publicly traded, their information is private and can be difficult to obtain. So the market approach may not be appropriate.

Seek outside help

Professional valuators have the financial expertise and knowledge of the construction industry required to establish an accurate picture of your company's value. In addition to examining tangible measures of value, they'll take into consideration intangible sources of value, such as your company's management strength, relationships with customers and suppliers, and unique skills.

Whether your goal is to figure out where your construction company stands today or where it needs to be in five or 10 years (or both), a comprehensive valuation will supply the information you need to make informed business decisions. Your future — and that of your business — may depend on it.

It's your choice: Go green … or go broke?

For years, "green" construction was seen as a niche market in the building industry. Today, it's almost a given that you must have a solid knowledge of — and even experience in — green building if you want to stay competitive.

Green is the thing

Buoyed by political and celebrity support, the demand for sustainable (or green) construction is burgeoning. In 2003, only one in nine architectural, engineering and construction companies had completed a Leadership in Energy and Environmental Design (LEED)-certified project, according to a Building Design+Construction green building survey. Just four years later, 25% of respondents had at least one certified green project under their belts.

Additionally, the survey showed that 19% of respondents said they had "no experience" or "little or no interest" in sustainable projects. By 2007, that percentage had dwindled to 4%. Today's owners and buyers want to go green; if you're among the 4% of companies with no experience in the field, you're behind the curve.

Catch up and benefit

The good news is that it's not too late — or too painful — to catch up. Green building standards and guidelines are available from a number of sources, including:

- LEED (usgbc.org/leed),
- U.S. Environmental Protection Agency programs, such as ENERGY STAR and Building for Environmental and Economic Sustainability (energystar.gov and bfrl.nist.gov/oae/software/bees), and
- Green Globes (greenglobes.com).

LEED certification, however, is the most widely recognized measure of excellence in sustainable construction, both for buildings and for the professionals who design and build them. LEED building accreditation is based on 69 points, and contractors directly affect 27 of them. Having LEED-certified employees on staff can help ensure you don't lose points because you didn't follow required procedures.

There are other benefits for going green in your construction projects: LEED certification may make

the building eligible for tax credits, though benefits and requirements will vary by state.

Perhaps more important, however, is that LEED certification establishes you as a leader in a rapidly growing and increasingly popular segment. It may boost your market share as well as your standing in the community.

Start slow, but start

Even if you decide not to pursue LEED accreditation immediately, you can incorporate sustainability into any project from a single-family home to a commercial skyscraper or public school.

ENERGY STAR equipment and appliances, low-flow water fixtures, and energy-efficient lighting are easy to include. And if you can increase the use of natural light at the same time, so much the better. Other environmentally friendly components, including recycled building materials and low-volatile organic compound paints and finishes, can add value to projects as well.

More significant efforts must begin at the design stage to be cost-effective. If you begin working with the owner and architect as early in the process as possible,

you can collaborate on how to structure the building envelope and HVAC systems to take maximum advantage of the climate and positioning of each building. Increased use of south-facing windows for natural light may help lower heating costs in Maine, for example, but it might drive up cooling costs in New Mexico.

Cost isn't a problem

One of the most significant barriers to green construction has been cost. Traditionally, the initial cost of a green building has been higher than that of a conventional building. That's changing, however, as the popularity of sustainable components is driving down their cost. Today, the first cost of a sustainable building is often the same as or lower than that of a traditional structure.

Even when components cost more, however, they pay for themselves quickly through reduced costs of ownership. Lower energy, maintenance and water costs are among the benefits that owners realize — as well as the benefits to the environment, of course. Add in possible improvements to workers' and occupants' morale and health, and the benefits of sustainable design may outweigh any increase in upfront costs.

Time to get your green on

In an age of rising energy costs, increasingly strident public support and growing governmental regulation, contractors who don't embrace the green movement will soon appear short-sighted and out of touch. Worse, they may find themselves unable to compete in a market that's definitely no longer a niche.

High-tech vs. hands-on training

Contractors have traditionally used on-site, face-to-face training to instruct workers in procedures, safety, personal protection equipment and job functions. There's nothing wrong with this conventional approach, but there's an alternative that can be equally, if not more, effective. Interested?

Computer-based training through DVDs, CD-ROMs or the Internet offers a cost-effective, efficient and flexible solution to hands-on training. Training can be done during off-peak hours to minimize time spent away from the job site, and it saves the expense of sending employees to a training facility or bringing in an instructor.

High-tech training ensures that courses are completed as quickly and efficiently as possible because workers have easy access to interactive diagrams, engaging programs and competency tests. This allows them to finish material at their own pace, repeat and review sections as needed, and get the training in their own language if they aren't proficient in English.

In addition, you can cost-effectively provide employees instant access to ongoing refresher courses. The expense associated with traditional lecture-based training can be a disadvantage for contractors who want to provide continuing education to their employees.

Face-to-face instruction offers at least one advantage over computer training, however: Class discussion and interaction, role playing, and live demonstrations allow employees to get customized answers and a level of understanding often not available with the electronic approach. To this end, many companies find that using a combination of live training and computer-based instruction provides the greatest flexibility and savings while helping create an educated and prepared workforce.

If you're interested, there are many software applications and Internet-based training programs available in a wide range of prices and topics. Plus, many professional industry associations, as well as OSHA, offer electronic-learning opportunities.

Tighten up job schedules without sacrificing quality

In these days of economic duress, contractors are under the gun to finish projects as quickly and inexpensively as possible. But they're also being pressured to maintain strict standards for quality and safety.

The good news is that those two goals don't have to be mutually exclusive: You can build top-quality projects safely and quickly without breaking the budget. The secret is in the planning.

No padding required

One common way to shorten construction cycle times is to leave yourself some wiggle room in the job schedule. After all, subcontractors may not show up on time, there may not be room for more than one trade to work during a given period or materials may be slow in arriving. Whatever the reason, you have to build a little extra time into your project schedule.

Or do you? Rather than simply accepting that delays are inevitable, take another look at your operations. Are your sites always ready when subcontractors arrive? How much time do your workers spend lugging materials or tools from inconvenient storage areas? You may be causing your own delays.

Now consider what you can do to add efficiency. The first step for most contractors is to take a page from Henry Ford's book: Standardize and streamline. If you do a large number of similar projects, standardize the schedule by starting new jobs on the same day each week. That way, subcontractors and suppliers will know — in advance — what day of the week to leave open for your work.

Also, to speed up back-office processing, make procedures such as change orders and progress reports consistent across phases and jobs. You might also streamline projects by looking for areas in which you can use prebuilt or stock components to enhance installation without jeopardizing quality.

Use your head to save crews' legs

Store materials, tools and equipment as close as possible to where they'll be needed. Not only will your project go faster, but you'll reduce the risk of injury associated with carrying objects around job sites.

While you're looking for efficiencies, revisit your scheduling procedures. Meet with your subcontractors before each job begins and let them help decide when and how long they should be slotted into your plans. Consider using half-day blocks rather than full days, and look for ways to ensure that one subcontractor's work doesn't impede another's.

Once you've identified time- and labor-saving methods, communicate them. Train your construction crews, office personnel, subcontractors and suppliers in your new procedures, so everyone does things the way you want them done. Put everything in writing so nobody — including you — forgets.

Build your own success

Building lean schedules is not only a prerequisite to getting through hard economic times; it's a key to more profits in the future. Workers and clients alike want to be associated with a savvy construction company, and if you emphasize quality, safety and efficiency, savings and new business will likely follow.