# What are Your Key Performance Indicators?

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**You're probably familiar with the term, "Key Performance Indicator" (KPI), which are measurable results for your business that can be tracked on a regular basis to ensure the company is performing at the level you want it to.**

If you don't have any KPI's in place or you think they could use an update, your surety agent can be a great resource for helping you with industry benchmarks given the number of contractors they work with.

> **As the saying goes, what gets measured, gets done. Make Key Performance Indicators a part of your management tool kit...**

The chart at right offeres a few examples that bond companies focus on and consider best practices, which can be a great starting point for contractors.

## Financial Measurement

These are just a sample of the financial measurements that sureties look at, and we are happy to go over other examples that might fit your organization on a one-on-one basis. There are of course plenty of other non-financial operational measurements that can make great to add into your collection of KPI's as well.

As the saying goes, what gets measured, gets done. Make Key Performance Indicators a part of your management tool kit, and you're sure to see improvement in your business and your bonding capacity. ∆

| KPI | What does it tell you? | Notes: |
|---|---|---|
| Working Capital (Current Assets - Current Liabilities) of Greater than 10% of your backlog. | It shows your ability to cash flow your existing backlog and how much capacity you have financially for new work. Most contractors that maintain this level of a healthy working capital can sustain a hit to their financials in the event of a project dispute. | You will want to subtract from working capital any questionable accounts receivable, prepaid expenses, or loans to stockholders/employees to get an accurate picture. |
| Debt to Worth (Total Liabilities/Net Worth) Less than 3:1 | Measurement of how leveraged the company is. When a company has a high debt to worth ratio it often indicates the company is undercapitalized. While in some sense it can be positive that a company can operate at high levels with little capital, it is also increases the risk in the event of a downturn in company performance. | There is a difference between running an undercapitalized company, because all of the profits are distributed and invested personally and a company that either makes very little profit or what profits are made are distributed and spent on a high-end lifestyle. Owners that have significant personal investments can always put capital in as needed. |
| Interest Bearing Debt to Worth Less than 0.75:1 | How much bank debt is healthy for a construction company to have? That is exactly what this ratio measures. It includes equipment loans, line of credit borrowing or any other third party interest bearing debt. | Some companies are very debt adverse and have zero debt. Others tend to have the view that there is no limit as long as they can cash flow it. A good middle ground is to use some measurement like this. It will serve as boundary for yourself when considering new purchases. If you're at the top end, you can either wait to pay down some debt or pay cash for |
| | | the new investment. Just remember that any time you pay cash for a fixed asset, it will lower your working capital, so you'll want to make sure that ratio doesn't get out of whack by making the purchase. |
| Net profit % | Establishing a baseline that you try to stay above can help you make decisions about whether to invest in people and equipment and whether those investments are helping you or hindering you from meeting your targets. | Your own historical performance can be a good starting place to get a number, but your surety agent can also give you an idea of what profit percentage similar contractors make. |
| Number of Jobs with Profit Fade at Completion. | Tracking the consistency of your job profits from the time you bid work through completion can highlight issues with estimating and/or project management. | It's one thing to track individual job performance, but it can be a powerful tool to take it a step further and look at all of your jobs in a given year. If you see a constant trend of declining profits (even if you make money at the end), it is worth seeing what adjustments you can make to improve the performance. |