

A photograph of three business professionals in a modern office setting. A woman in a light-colored blazer stands on the left, smiling. Two men in dark suits stand on the right, looking at a laptop on a desk. The office has large windows overlooking a city with a cloudy sky.

Construction Financial KPI Checklist: Executive Edition



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Constructing a solid foundation for financial success requires more than intuition; it demands data-driven decisions backed by key performance indicators (KPIs). In the complex realm of construction, CEOs and Presidents rely on these metrics to navigate strategic paths with precision. Our checklist serves as a compass, illuminating crucial KPIs from fundamental financial ratios to intricate cash flow metrics like days sales outstanding. By leveraging this invaluable resource, leaders can pinpoint areas for improvement, measure progress, and capitalize on strengths, ultimately steering their companies toward sustained growth and prosperity.

Understanding these metrics empowers construction executives, including Presidents, VPs, and Financial Managers, to make informed decisions that drive success. By incorporating KPI tracking strategies into their arsenal, leaders can enhance their ability to monitor project performance effectively. Moreover, every listed KPI in this checklist is accessible within ProNovos to facilitate streamlined analysis and maximize the utilization of critical financial data. Embracing this educational approach to KPI monitoring equips construction professionals with the tools needed to navigate challenges and achieve sustainable growth in the industry.



WHAT ARE KPIS?

You probably already know what KPIs are, but here's a brief refresher. KPIs are quantifiable metrics to assess a company's overall performance over time. They aid in evaluating strategic, financial, and operational accomplishments, often compared to industry benchmarks or internal targets. KPIs measure a company's success relative to predetermined objectives or industry peers.

WHY YOU NEED KPIS

KPIs are vital for construction businesses as they clarify strategic financial planning and analysis. The renowned quote by economist Peter Drucker, "You can't manage what you don't measure," underscores the significance of measurement ineffective management. By concentrating on select KPIs, busy construction executives can prioritize critical aspects amidst numerous tasks. In construction, KPIs are an excellent method to gauge project performance, especially in large, complex projects where tracking all factors can be challenging.

You can't manage what you don't measure.

— Peter Drucker

INTERNAL BENCHMARKING

Internal benchmarking is instrumental in establishing performance benchmarks, offering insights into relative performance, and setting realistic targets for KPIs. Businesses can identify performance gaps, strengths, and weaknesses by analyzing and comparing KPIs against benchmarks and previous months, quarters, and years.

Understanding the reasons behind differences allows for informed decision-making and assessment of potential impacts. Setting improvement targets based on benchmarking analysis and incorporating best practices enables focused efforts toward achieving goals.

Get strategic questions answered, such as:

- 1

How profitable is the company? What are the drivers of our profitability?
- 2

How do this project’s margins compare to the original estimate and similar project types?
- 3

Which client can we trust to provide timely payments?
- 4

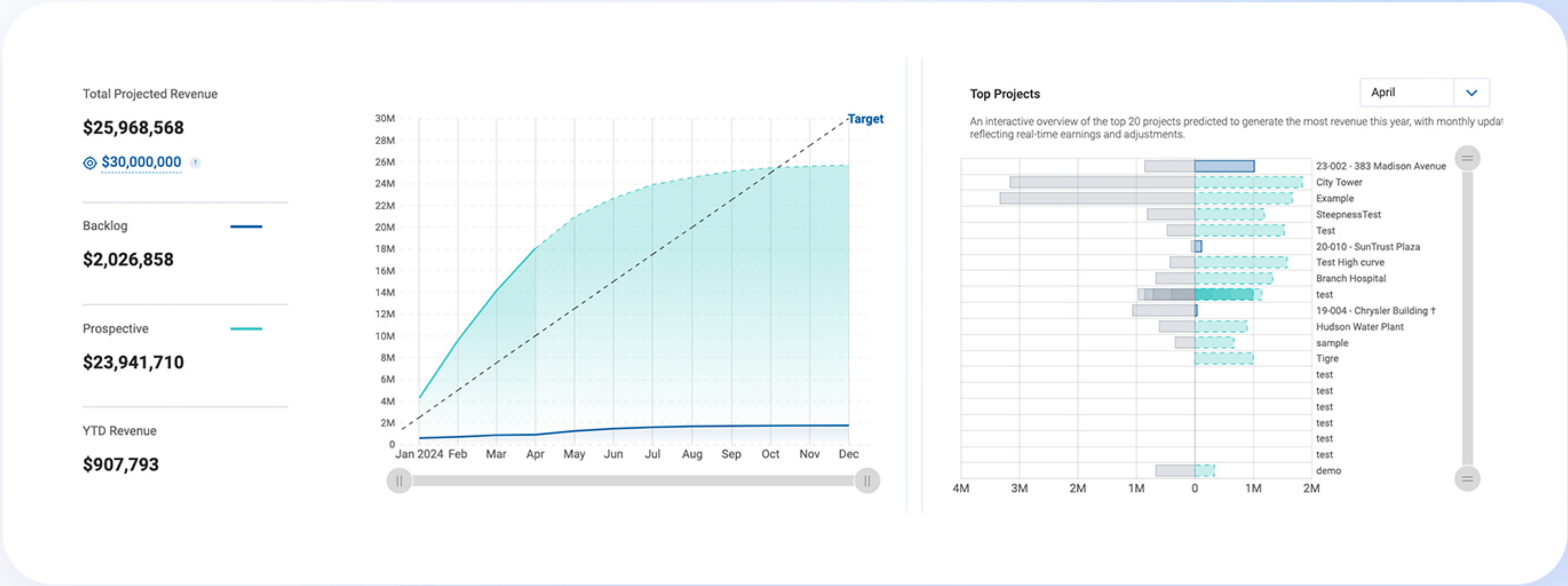
What are operational areas that need to be strengthened?
- 5

How are we from a cash flow perspective?
- 6

What market segment do we perform best in?
What region/geographic area?

KPIs to Track

This list is in alphabetical order



BACKLOG



Total Contracted Amount - Earned Revenue

Backlog is a critical metric that provides valuable insights into a company's future revenue, operational capacity, financial stability, and competitive position. It aids management in decision-making, resource planning, and strategic positioning to ensure sustainable business growth and success.

CURRENT LIABILITIES TO EQUITY



Current Liabilities ÷ Equity

Current liabilities to equity is a crucial financial ratio offering insights into a company's financial structure and risk profile.

A higher ratio suggests increased leverage and financial risk as the company relies more on debt financing, potentially raising concerns about its ability to manage short-term obligations.

Conversely, a lower ratio indicates stronger financial stability and liquidity, signifying sufficient equity to cover short-term liabilities.

Lenders and creditors utilize this ratio to gauge a company's creditworthiness, with a high ratio potentially raising red flags regarding debt repayment ability. Overall, current liabilities to

equity aids stakeholders in assessing a company's financial health and making informed decisions regarding investment, lending, and risk management.

CURRENT RATIO ☐

Current Asset ÷ Current Liabilities

The current ratio provides insight into a company's liquidity position and ability to meet its short-term financial obligations.

A ratio of 1 or higher indicates that a company has more current assets than current liabilities, suggesting it is in a strong position to cover its short-term obligations.

However, a very high current ratio may indicate that a company is not efficiently utilizing its assets.

On the other hand, a ratio below 1 suggests that a company may have difficulty meeting its short-term obligations with its current assets alone, which could be a sign of financial stress or liquidity problems.

DAYS IN CASH ☐

(Cash & Securities × 365) ÷ Revenue

Days in cash is a crucial metric that offers insights into a company's financial health from two perspectives.

A larger number of days in cash indicates greater financial stability, as the company can sustain its operations longer without external financing.

Conversely, a shorter number of days in cash reflects better cash flow efficiency, signaling the company's ability to convert cash into revenue effectively.

Striking a balance between these two factors is essential for maintaining a healthy financial position.



DAYS SALES OUTSTANDING (DSO)



$(\text{Accounts Receivable} \div \text{Net Credit Sales}) \times \text{Number of Days}$

AKA Days in Accounts Receivable, Days sales outstanding (DSO) is an accounting metric measuring the average number of days a business takes to receive payment for goods and services purchased on credit.

The lower the DSO, the faster payments are collected. The higher the DSO, the longer the company can see its money.

DEBT TO EQUITY

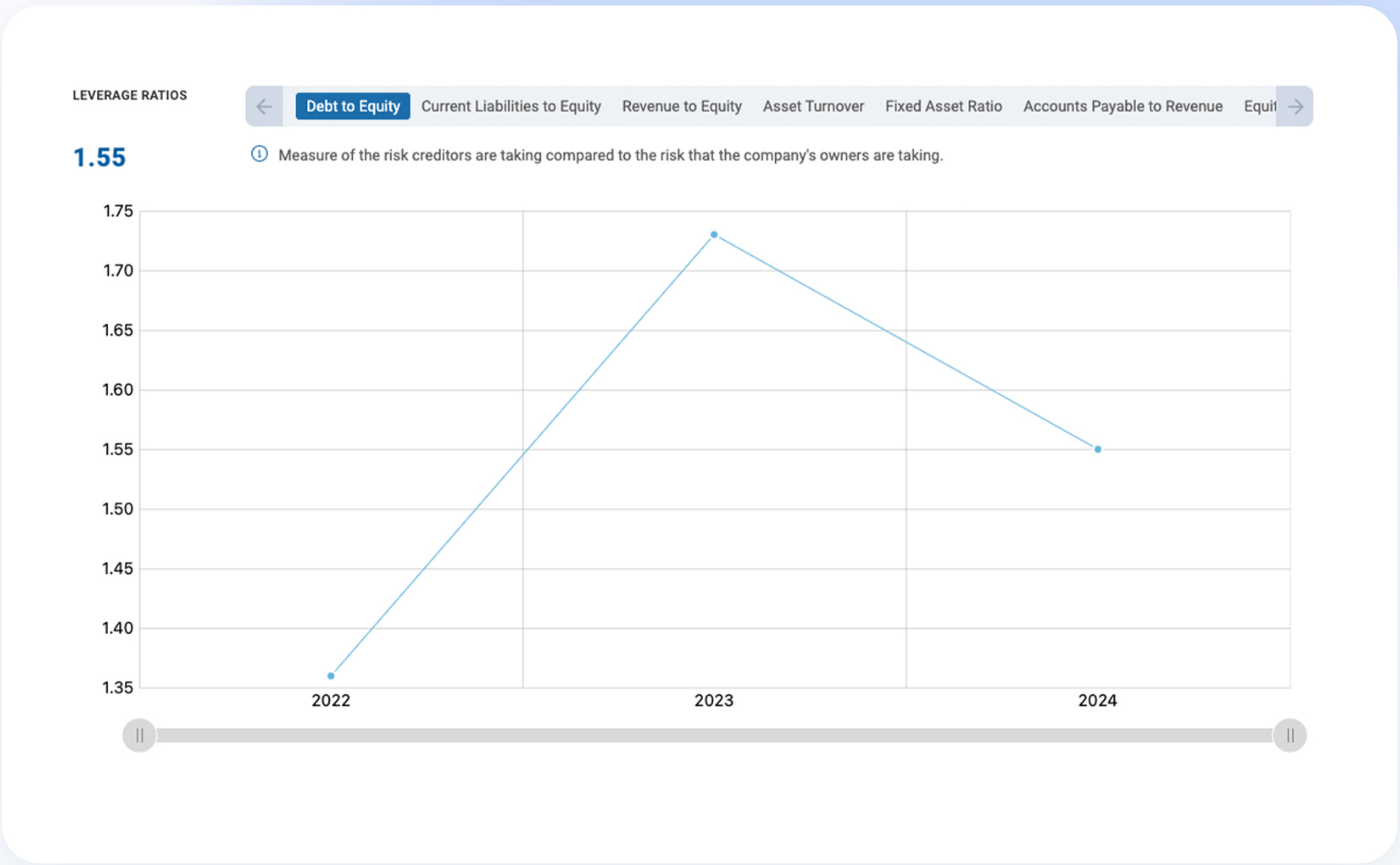


$\text{Total Debt} \div \text{Equity}$

The debt-to-equity ratio measures the risk creditors are assuming compared to the risk borne by the company's owners. By comparing total debt against shareholders' equity, this ratio provides crucial insights into a company's financial structure and risk profile.

A higher ratio indicates heightened reliance on debt financing, potentially signaling increased financial leverage and risk for creditors.

Conversely, a lower ratio suggests a more conservative financial approach, with less dependence on debt and greater stability for creditors and shareholders. This metric aids stakeholders in assessing the company's ability to manage debt obligations effectively while evaluating risk management strategies and making informed investment decisions.



G&A TO REVENUE



General & Administrative ÷ Revenue

The G&A to Revenue ratio provides insight into the company's cost structure and efficiency in managing administrative expenses.

A lower ratio indicates that the company effectively controls its overhead costs relative to its revenue, which is generally considered favorable.

On the other hand, a higher ratio suggests that administrative expenses consume a larger portion of the company's revenue, potentially indicating inefficiencies or the need for cost-cutting measures.

GROSS PROFIT MARGIN



$(Total\ Revenue - Cost\ of\ Goods\ Sold) \div Revenue$

The gross profit margin reveals the percentage of revenue that a company retains after subtracting the direct costs of producing goods or services. This metric provides crucial insights into a company's profitability, cost management effectiveness, and competitive positioning.

A higher gross profit margin signifies efficient control over production costs and greater profitability per dollar of revenue. Monitoring changes in this margin over time helps assess trends in cost structure and pricing strategies while comparing them with industry benchmarks, which aids in understanding competitive advantages.

The gross profit margin is a key indicator of financial health, guiding decisions for management, investors, and stakeholders.

NET PROFIT MARGIN



$(Net\ Profit \div Total\ Revenue) \times 100\%$

Net profit margin reflects the percentage of revenue converted into net profit after deducting all expenses.

A higher net profit margin signifies stronger profitability, indicating that the company efficiently manages costs and generates more profit per dollar of revenue. This efficiency underscores effective operational performance and is favorable for shareholders and investors, showcasing the company's ability to control expenses and maximize profits from core business activities.

OPERATING CYCLE



Days in Cash + Days in AR + Days in Inventory - Days in AP

Also known as the cash conversion cycle or working capital cycle is a financial measure that evaluates the efficiency of a company's cash flow management and operational processes. It represents the time it takes for a company to convert its investments in inventory and other resources into cash through sales and accounts receivable collection while also considering the time it takes to pay suppliers for goods

QUICK RATIO

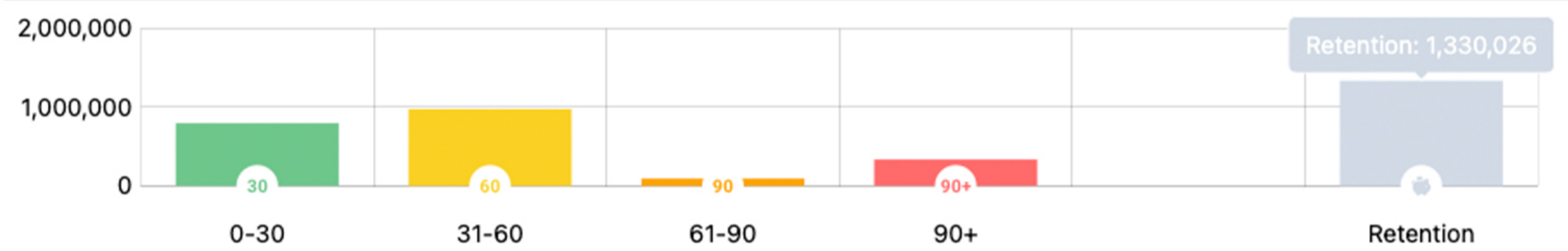


(Cash and Securities + Accounts Receivable) ÷ Current Liabilities

The quick ratio, the acid-test ratio, measures the most liquid assets against the current liabilities. If immediate payment of current liabilities is required, the quick ratio indicates whether that can be done in 90 days or less. This ratio provides a more conservative measure of a company's liquidity than the current ratio, focusing specifically on its ability to cover short-term obligations using only its most liquid assets.

A quick ratio of 1 or higher suggests that a company has enough liquid assets to cover its short-term liabilities, which is generally considered favorable. However, similar to the current ratio, a very high quick ratio may indicate that a company is not effectively utilizing its assets.

AR Aging + Retention



RETENTION



Total Contract Value × Retention Rate

Retention in construction projects directly impacts cash flow management for contractors, as a portion of the payment is withheld until project completion. This withheld amount necessitates careful consideration when managing cash flow and working capital requirements throughout the project duration.

While contractors may perceive retention as an added burden or risk, clients often view it as a crucial safeguard to ensure project quality and success, thereby influencing the dynamics of contractual relationships between the parties involved.

RETURN ON ASSET (ROA)



Net Profit ÷ Total Assets

Return on Assets (ROA) provides valuable insights into a company's profitability and asset utilization.

A higher ROA signifies more efficient profit generation per dollar of assets, reflecting effective asset deployment.

Conversely, a lower ROA suggests potential underutilization or inefficiencies in asset management. ROA is crucial for investment decision-making, as it indicates a company's financial health and attractiveness to investors and analysts.

A high ROA indicates strong profitability and efficient asset management, making the company an appealing investment opportunity.

WORKING CAPITAL TURNOVER



Revenue ÷ (Current Assets - Current Liabilities)

An indication of how well management uses current assets and liabilities to generate revenue. A lower ratio is an indication of greater efficiency and liquidity.

In conclusion, selecting the right KPIs tailored to your construction business is crucial for gaining insights into its health and performance. You can steer your business toward success by prioritizing profitability and efficiency, especially during uncertain times. Regularly reviewing these KPIs provides valuable foresight into future trends and the ability to navigate challenges effectively. Start with a few key indicators to avoid misunderstanding their significance before expanding.

With ProNovos automating these KPIs, you can ensure accurate and comprehensive financial planning and analysis, empowering you to make informed decisions that drive your bottom line.

Schedule a time to discover how ProNovos can put all this information in the hands of an Executive

SCHEDULE