

FINANCIAL STATEMENTS AN AID IN PROCURING CONTRACTS*

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A DECADE or two ago, a contractor who had just finished a large contract upon which no money had been made, and with his plant or outfit tied up so he could not move it, put about \$250 in his pocket and went into an adjoining state to procure a new contract and get another start in his business. By sheer force of character and keen judgment, together with diplomacy in talking to and handling the engineer and other officials of the company letting it, he obtained a contract for more than half a million dollars of work. With this as an asset he was able to borrow ample money to get the job under way quickly.

A number of such examples of securing valuable contracts with little or no capital, and carrying them to completion upon a shoestring, could be cited from the experience of the writer and his friends. It still can be done in some cases, but it is the exception to-day rather than the rule.

Financial Responsibility Now Necessary

The first step in obtaining a contract under present-day conditions is a matter of finance, a setting forth of the contractor's assets. Certified cheques must be used for bidding, bonds made to qualify before figuring, and for some public contracts a certificate must be furnished before bidding that a bonding company will make bond should the contractor get the job. There are even cases in which a contractor must show his responsibility to the owner before the contract is awarded.

Finances thus become the basis of procuring nearly all contracts, and this means that the modern contractor must look closely after his financial standing in the business world. With ample capital this is seemingly an easy matter, yet many contractors who possess large capital do not always enjoy the best of credit or possess the financial standing of those with less means, due to the fact that they are not careful of their credit, and think they are always likely to be in a position of meeting their obligations with ease.

Benjamin Franklin told how he borrowed money and built up his credit when he did not need money and could pay cash, in order to have a good line of credit extended to him when his needs were urgent. This is a valuable lesson in which all contractors can find profit.

Credit is obtained by two methods to-day. One is by means of statements showing assets and liabilities, thus disclosing the net worth of a growing concern. The second method is by means of references. In this last, personal integrity and the esteem and confidence in which a man is held counts for much. In most cases these two methods go hand-in-hand, and the second is frequently the result of the first. In spite of this it is quite surprising how many contractors refuse to make statements of their financial condition.

Even Large Contractors Borrow

Only recently, as the writer was giving a statement to the solicitor of one of the large national mercantile agencies, the solicitor remarked upon the fact that a large per cent. of contractors refused to make statements, with the result that their standing was greatly reduced and their credit limited. Definite knowledge of a man's standing, even though he has only a few thousand dollars, has been proved better than meagre information regarding a man who may be worth more.

Take the question of deposits on bids, for example. If the cheque is only a few hundred dollars, almost any contractor can furnish it, but if some thousands are demanded, even the contractor who is conducting a large business may not be able to spare the sum, and must arrange to borrow the money. As this is written, an eastern state is asking

for a \$25,000 certified cheque with a bid. Even if a bidding bond is used instead of a certified cheque, the bonding company will want to know the financial condition of the applicant.

This likewise is true if a bond must be obtained when a contract has been awarded. If there is a maintenance clause or guarantee to the contract, the bonding company will want to know if the contractor is financially strong enough to live up to the contract he is about to make.

If the engineer, architect or owner is careful to whom he lets work, a close investigation will be made of the standing and reputation of the successful bidder. In some cases this is done before bids are asked from contractors. The only way to meet this demand for information is to have carefully prepared reports of a contractor's standing in the hands of commercial agencies and of his banker. A great saving of time will thus be effected.

Money frequently must be borrowed from banks to start new contracts, and if close relations are to be maintained with a banker he will demand information in regard to the general business policy of the contractor and what his net worth is from time to time. Some people are not favorably impressed with bank references, while others prefer them. In many cases large contracts have been captured by aid of letters from bankers saying the contractor was able to handle the transaction, or else that they were willing to give him financial assistance. In many cases during the world-war, the national government demanded information from contractors and their bankers before awarding contracts.

Lost Municipal Paving Contract

There is a growing tendency among state and city governments to look into such details, and some few are asking for this information direct from the contractor. On the other hand, most of this information is gleaned from outside sources, and frequently to the detriment of the contractor. Only during last spring the writer knew of a city refusing to award a paving contract to the lowest bidder on account of meagre information about the financial standing of the contractor.

Thus, to obtain contracts, the first consideration for a contractor is to set his house in order. He must have financial standing in order to bid, in order to get the contract after bidding, in order to make bond, and in order to purchase plant from manufacturers, especially in lease sale agreements. The making of a financial statement does not mean the actual putting of capital into his business, but it does require the furnishing of accurate and detailed information to insure confidence. Thus, indirectly it increases his capital, for by it he may obtain contracts, valuable assets in themselves, and also credit to purchase machines and supplies far beyond what actual capital would supply. It establishes more firmly his position in the business world.

The John ver Mehr Engineering Co., Ltd., has moved from 154 Simcoe St. to 32 Church St., Toronto.

Declaring that high officials of the American Federation of Labor are responsible for "tendencies that threaten the foundations of the government of the United States," a union of draftsmen employed in the U.S. Treasury Department withdrew last week from the American Federation of Labor. The movement is part of a general campaign to secure withdrawal by all government employees' unions.

The Milwaukee Chapter of the American Association of Engineers has submitted a schedule of salaries for the various engineer employees of the city to the city council. The council did not take definite action on October 21st, when the request was presented, but will do so inside of a week or two. The following positions are the principal ones affected by the proposed increases:—Chief engineer of sewers, office engineer of water department, field engineer of water department, chief draftsman, division engineer of street construction, and chief estimating engineer.

* From "Successful Methods."