

Anatomy of a Builder Bankruptcy

How to Fail or
Improve Your Odds of Avoiding It

LEARNING OBJECTIVES

01

Digest the data about small business success and failure and accept that the odds are not favorable.

03

Discover specific missteps and failure points of multiple construction related companies.

02

Understand the general characteristics of successful builders that make them resilient to challenges.

04

Recognize that it is OK to fail, and take away strategies to communicate that to others.

DOES THIS GUY HAVE STREET CRED?



- Founder and CEO of BrightLeaf Homes, 2012-2022
 - Small Chicago builder, 56 total homes
 - 1,700-3,500sf and \$400k-\$1.5M
 - Inc 5000 Fastest Growing Company
- Former project manager for NVR/Ryan Homes
- Current Director of Construction at Kinexx Modular
- Developer, consultant, national speaker on high performance building

GROUND RULES and EXPECTATIONS

Specific companies won't be named

Info and anecdotes from 9 different companies

I am not an attorney

20 minutes of Q&A

Text me at 708-655-3924

WHAT IS FAILURE

- An inability to accomplish important goals that you have set out for yourself?
- Something undesired that happens?
- Acceptable?
- Expected?
- Out of your control?
- Not allowed?
- Personal?
- ??

WHAT IS FAILURE



WHAT IS FAILURE



WHAT IS FAILURE



IS FAILURE OK?



A red inspection form with the logo of the Utah State Office of Construction in the top right corner. The form contains the following text:

For Information Call: _____
Permit No. _____

NOT APPROVED

BUILDING ELECTRICAL
FIRE
 PLUMBING PROTECTION

Type of Inspection _____
Date _____ Inspector _____

REASON FOR FAILURE:

| | |
|--|---|
| <input type="checkbox"/> Contractor had Bad Attitude | <input type="checkbox"/> Inspector not invited to Lunch |
| <input type="checkbox"/> No Coffee / Coffee Cold | <input type="checkbox"/> Inspector in Bad Mood Today |
| <input type="checkbox"/> No Minorities on Payroll | <input type="checkbox"/> Too Shitty a Job in my Town |
| <input type="checkbox"/> Contractor is a Racist | <input type="checkbox"/> General Principle |
| | <input type="checkbox"/> Guess |

IS FAILURE OK?



IS FAILURE OK?



IS FAILURE OK?



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NATIONWIDE NUMBERS ON BUSINESSES



NATIONWIDE NUMBERS ON BUSINESSES

What percentage of businesses in the US are small businesses?

99.9%

of business in the US
are small businesses

59.9M

people employed by
small businesses

30.7M

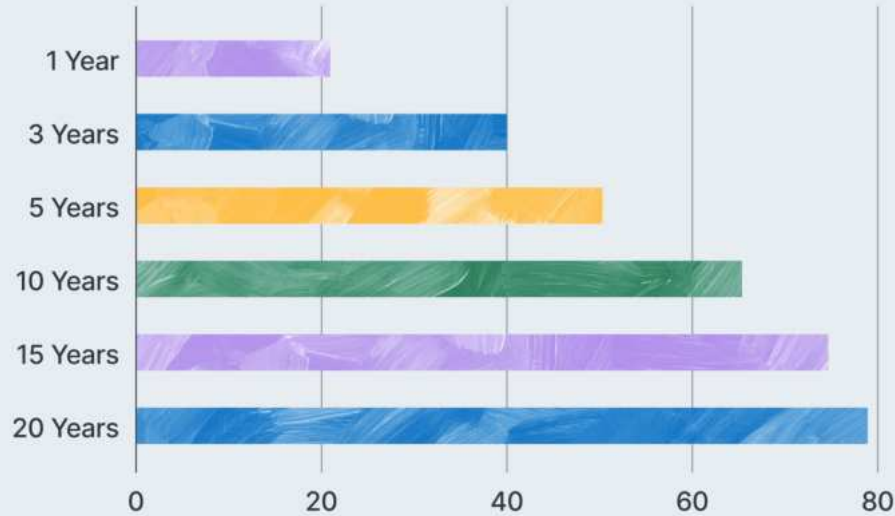
total small businesses

Source: cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf

- Less than 500 employees
- Less than \$7.5M in annual revenue

NATIONWIDE NUMBERS ON BUSINESSES

Business Failure Rates by Year

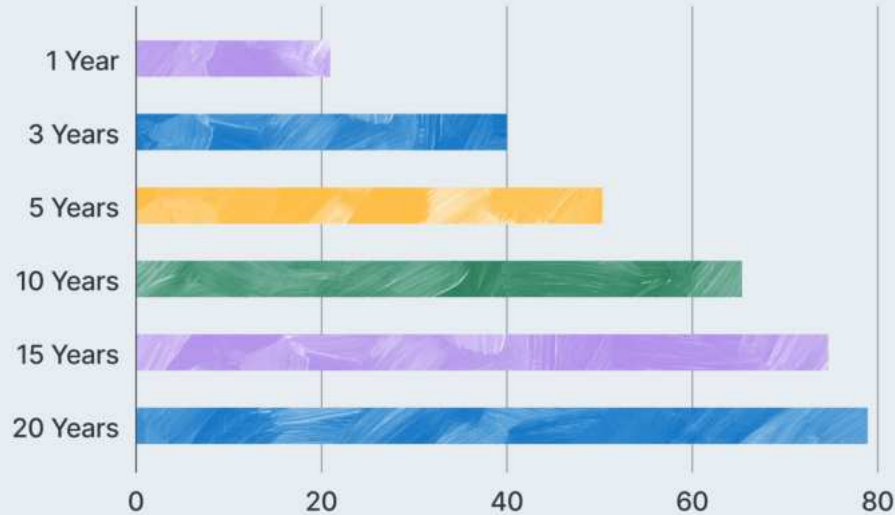


Source: BLS

- 80% "fail" within 20 years
- Is being a small business a terminal condition?

NATIONWIDE NUMBERS ON BUSINESSES

Business Failure Rates by Year



Source: BLS

- Acquired or sold
- Death of the owner
- Shut down
- Forced out

20% after 1 year
40% after 3 years
80% after 20 years

NATIONWIDE NUMBERS ON BUILDERS

401,000

NAICS 236117: New housing for-sale builders (6,671)

NAICS 236115: New single-family housing custom (363,271)

NAICS 236116: New multifamily housing construction (31,196)

NATIONWIDE NUMBERS ON BUILDERS

401,000 firms built **1,420,000** housing units in 2023

The top 10 builders built 280,958 (15%)

The top 100 builders built 468,161 (33%)

The top 200 builders built 498,358 (35%)

NATIONWIDE NUMBERS ON BUILDERS

401,000 firms built 1,420,000 housing units in 2023

The top 10 builders built 280,958 (15%)

The top 100 builders built 468,161 (33%)

The top 200 builders built 498,358 (35%)

The remaining **400,800** builders construct **65%** of homes each year, totaling **921,000** units

NATIONWIDE NUMBERS ON BUILDERS

| Overall Business Failures | Construction Business Failures |
|---------------------------|--------------------------------|
| 20% after 1 year | 25% after 1 year |
| 40% after 3 years | 44% after 3 years |
| 80% after 20 years | 83% after 20 years |

100,000 builders will close this year!

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COMMON TRAITS of SUCCESSFUL BUILDERS

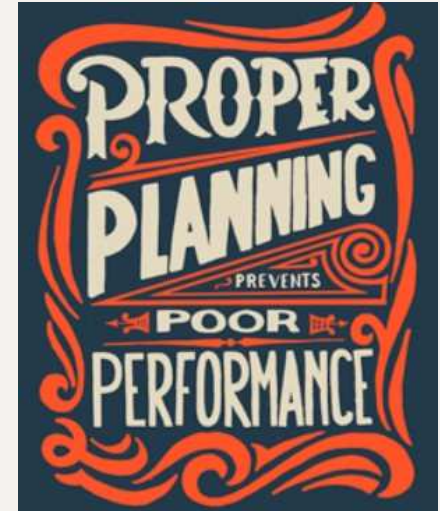


COMMON TRAITS of SUCCESSFUL BUILDERS

Fit Small Business One-Page Business Plan

Answer each question with one or two sentences

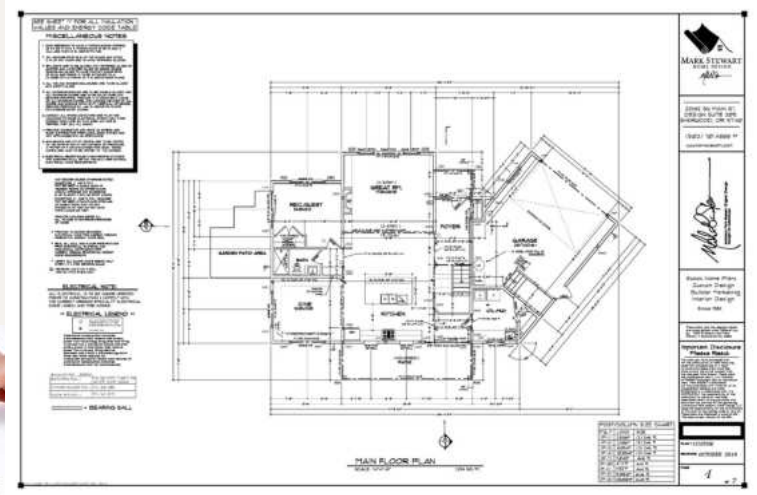
| | |
|---|---|
| PROBLEM What problem will your business solve? | PROMOTION How will your target customers learn about your business? |
| _____ _____ _____ | _____ _____ _____ |
| SOLUTION What will your business provide to solve that problem? | COMPETITIVE ADVANTAGE What will your business do better than the competitors? |
| _____ _____ _____ | _____ _____ _____ |
| BUSINESS MODEL How will your business make money? | FINANCIAL PROJECTIONS How much money do you need to start? Spend every month? Earn every month? |
| _____ _____ _____ | _____ _____ _____ |
| TARGET CUSTOMERS Who will purchase your products or services? | FUNDING REQUIRED How much money do you need to start and operate the business? |
| _____ _____ _____ | _____ _____ _____ |



COMMON TRAITS of SUCCESSFUL BUILDERS

Elements of the Scope of Work

- Project Overview
- Project Deliverables
- Project Scope
- Schedule Summary
- Project Management



COMMON TRAITS of SUCCESSFUL BUILDERS

take the
initiative



Connecting with your customers before
they feel the need to reach out to you

= Customer

Advocacy
Loyalty
Satisfaction



COMMON TRAITS of SUCCESSFUL BUILDERS

| Income Statement | | | | |
|---|--------------|--------------|--------------|--|
| Figures in Millions | 2020 | 2021 | 2022 | |
| Total revenue | \$ 5,254 | \$ 5,525 | \$ 6,278 | |
| Cost of goods sold (COGS) | 2,850 | 2,869 | 2,998 | |
| Gross profit | 2,404 | 2,656 | 3,280 | |
| Selling, general, administrative (SG&A) | 1,065 | 1,125 | 1,348 | |
| Research & development (R&D) | 120 | 125 | 129 | |
| Operating income | 1,219 | 1,406 | 1,803 | |
| Interest expense | 102 | 106 | 108 | |
| Pretax income | 1,117 | 1,300 | 1,695 | |
| Taxes | 260 | 299 | 383 | |
| Net income | 857 | 1,001 | 1,312 | |

Budget Variance Report

Income statement for ACME Corporation
For the month ending 28 February 2014

| | Current Period | Budget | Difference | Budget Variance |
|--|------------------|------------------|-----------------|-----------------|
| Operating Income | | | | |
| Product sales | 29,540.32 | 25,000.00 | 4,540.32 | 18.16% |
| Labor sales | 4,232.04 | 3,000.00 | 1,232.04 | 41.07% |
| Net Sales | 33,772.36 | 28,000.00 | 5,772.36 | 20.62% |
| Cost of Goods Sold | 14,500.00 | 12,000.00 | 2,500.00 | 20.83% |
| Gross Income | 19,272.36 | 16,000.00 | 3,272.36 | 20.45% |
| Operating Expenses | | | | |
| Salaries | 6,743.96 | 6,500.00 | 243.96 | 3.75% |
| Advertising | 432.32 | 500.00 | -67.68 | -13.54% |
| Travel | 100.08 | 200.00 | -99.92 | -49.96% |
| Office | 394.39 | 500.00 | -105.61 | -21.12% |
| Other | 92.99 | 100.00 | -7.01 | -7.01% |
| Total Operating Expenses | 7,763.74 | 7,800.00 | -36.26 | -0.46% |
| Operating Income | 11,508.62 | 8,200.00 | 3,308.62 | 40.35% |
| Other Income & Expenses | | | | |
| Other Income | 118.13 | 50.00 | 68.13 | 136.26% |
| Other Expenses | 748.21 | 750.00 | -1.79 | -0.24% |
| Total Other Income & Expenses | 866.34 | 800.00 | 66.34 | 8.29% |
| Net Income Before Taxes | 10,642.28 | 7,400.00 | 3,242.28 | 43.81% |
| Taxes | 3,129.23 | 2,000.00 | 1,129.23 | 56.46% |
| Net Income | 7,513.05 | 5,400.00 | 2,113.05 | 39.13% |

FAILURE CASE EXAMPLES

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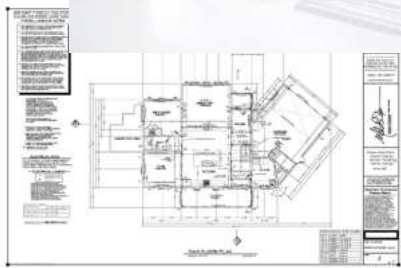


- Established home builder in the Carolinas
- Took on 3 location build out of a franchise fitness brand outside of typical area
- Commercial code, inspection timing, franchise requirements, client payments, builder cash flow crunch
- Franchise backed litigation and corporate bankruptcy

FAILURE CASE EXAMPLES

Elements of the Scope of Work

- Project Overview
- Project Deliverables
- Project Scope
- Schedule Summary
- Project Management



- New construction builder in the midwest
- Complete gut-rehab projects started without final scope and selections
- COVID material price escalations, client non responsive to selections and change orders, subcontractor management issues
- Lawsuits filed against the company and individual partners
- Corporate and personal bankruptcies

FAILURE CASE EXAMPLES



- Small spec builder in the Pacific Northwest
- Customer had a plumbing fitting failure, builder didn't communicate let other customers know
- Other failures followed and first customer shared email communication with others
- Lawsuits from three separate insurance companies & negative social media activity
- Builder closed operations

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- Modular builder in the Southwest
- Investor backed scaling with no individual job costing
- Cash on hand and additional investor money camouflaged losing on each project
- Projects continued to be sold at a loss
- Company closed down and left open contracts



SOME GUIDANCE IF YOU'RE IN TROUBLE

- TALK TO SOMEONE!
- Talk to more people (attorney, other builders, HBA, spouse/partner)
- Talk to even more people (suppliers, subs, clients, me)
- Get OK with making the least bad choice
- Be careful with any remaining money
- Go forward a day at a time, but with a plan for where you'll be in a year

FURTHER LEARNING

How I Built This, podcast series and book by Guy Raz

How to Succeed at Failing, Freakonomics podcast series

Running a Successful Construction Company, book by David Gerstel

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655-3924**