Executive Summary

This paper determined the feasibility of expanding a residential construction company from southern California to Coeur D’ Alene (CDA) Idaho. The researcher sought to answer the current market demand and profitability for a residential framing company in CDA, and the feasibility of establishing a residential framing company to be capable of earning a net income of $90,000 annually in the second year of operation in Coeur d’ Alene Idaho. This paper explored open source statistics and scholarly research to support the findings to the research questions. The researcher developed a business plan to establish a residential construction company in the CDA, Idaho area. The researcher concluded that it is not feasible to expand a construction company to CDA, ID and make a net income of $90,000 while independent of the parent company by the second year of operations. The researcher recommends the company hires double the labor force the second year to transition from the expatriated labor force from California to a local force from CDA. Once the labor force transition is complete the company will be independent of the parent company and estimated to earn a net income of $90,000 for the CEO the third year of operation.
A Feasibility Study to Expand a Residential Construction Company From Southern California to Coeur d’Alene Idaho

MSA 699 Project Report

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Chapter 1
Definition of the Problem

The feasibility of expanding a residential construction company from southern California to Coeur D’ Alene (CDA) Idaho is unknown. The construction company plans to expand part of its company from California to CDA Idaho. The part of the company that will expand to CDA Idaho will be named WC Construction and will specialize in residential framing. The researcher explored the market demand, the profitability, and the supply of resources a framing company would need to establish in CDA, Idaho for this paper.

The researcher is affiliated with the southern California residential construction company. The construction company has been around since the early 1980s and has endured the turbulent economy in the early 1990s and the recent recession in 2008. The researcher’s objective is to examine the feasibility of expanding the residential construction company that specializes in residential framing to CDA, Idaho. Residential framing companies are currently in operation in CDA. CDA has had a steady two percent increase in population in the last three years and is projected to have a three percent increase in residential building growth for the next eight years (Idaho Department of Labor, 2016b, c).

Purpose of The Study

To determine the feasibility of expanding a southern California construction company that specializes in residential framing to the Coeur d’ Alene, Idaho area. The expansion will consist of one leadership team capable of framing up to three residential framing projects at a time until more leadership is recruited from the local population. The team will be capable of managing construction projects within an 80-mile radius from Coeur d’ Alene, Idaho.

Research questions.

Research question 1: What is the current market demand for residential framing in the Coeur d’ Alene Idaho area?
Research question 2: What is the profitability of residential framing companies in the Coeur d’Alene Idaho area?

   Research question 2a: What is the average square foot of residential framing projects?

   Research question 2b: What is the average net profit of a residential framing project?

Research question 3: What is the feasibility of establishing a residential framing company to be capable of earning a NET income of $90,000 annually in the second year of operation in Coeur d’ Alene Idaho?

**Assumptions.**

1. The Coeur d’Alene (CDA) Idaho area will be defined as the city and the surrounding area within an 80-mile radius.
2. Financing will initially come from California based construction company, thereby there is no requirement for soliciting investment.
   a. Analyzation of initial dollar amount investment is for WC finance reasons.
3. Procurement of supplies will come from the California based construction company’s existing relationships with supply companies, such as lumber, nails, screws, saw blades.

**Decision Criteria.**

The decision criterion to proceed is the leadership team’s ability to earn a net income of $90,000 a year in the second year of business. CDA Framing company will be independent of finances from its southern California parent company after the second year of operations.

**Residential Building Construction Industry**

This section will explain how the categorization of residential framers is under the Residential Building Construction Industry. Residential framing is a specialty in the occupation of carpentry. Carpenters according to the Bureau of Labor Statistics (BLS) construct many different types of frameworks from wood and other materials within a residential building (BLS, 2016a). Carpenters are the
most employed specialty in the residential construction industry (BLS, 2016a), therefore trends that occur in the industry will also affect carpenters. Potential Framing Company owners can understand the factors that influence the framing occupation by understanding what industry the occupation is in and what variables affect the industry.

Residential framing is the business of constructing the skeletal structure of a residential home from wood and sometimes metal. “The skeleton consists of the structural lumber forming the floors, walls, and roof” (Simpson, 2007, Kindle Locations 298). The drywall covers the skeleton of the home from the inside and stucco, brick, or siding hide the skeleton of a home on the outside. Most home designs cover up the skeleton. A few home designs do not cover up the skeleton. An example are homes with cathedral or high ceilings that reveal the rafters that hold up the roof of the house. Most production homes cover up the skeleton while custom homes usually reveal the skeleton for the artistic effect. Homes that do reveal the skeleton cost more to build because they require aesthetically nicer pieces of wood and require more complicated plans then an average production home.

The BLS (2016a) categorizes framers under the umbrella of the carpentry occupation, since framers on a residential housing project perform many carpentry skills. The BLS website stated that carpenters build frameworks such as joists, studding, rafters, wood stairways, window and door frames, and hardwood floors (BLS, 2016a). Framing companies will subcontract these jobs to specialty carpenters when the specialty carpenter can perform the job better and at a lower cost compared to performing the job with his own employees. When it is not profitable to subcontract, the specialty framers build those frameworks themselves. The BLS (2016b) stated that the national mean hourly wage in 2015 for a carpenter was $22.49 and the annual mean wage was $46,780. According to the BLS (2016b), carpenters are mostly employed in the Residential Building Construction Industry. In 2015, the employment of approximately 192,580 carpenters were in the Residential Building Construction Industry which amounted to 28.3% of the total employees in the industry (BLS, 2016b). This indicates that the Residential Building Industry has a healthy supply of carpenters for a framing company to hire.
The carpentry occupation is category under the Residential Building Construction industry with a North American Industry Classification System (NAIC) number of 2361 per the BLS (BLS, 2016c). The NAIC numbers provide businesses and researchers an easy method to categorize and look up statistical data on each industry by their assigned NAIC number. The industry consists of all occupations that deal with the construction of residential buildings. The most predominate occupations in the industry are carpenters, electricians, insulation installers, HVAC technicians, and plumbers according to the American Builders and Contractors Inc. website (2016). After the recession in 2008, the Construction of Buildings Industry drastically lost jobs. Between 2008-2011, approximately 600,000 jobs within the industry were lost across the nation per the BLS (BLS, 2016c). Figure 1 depicts the national decrease in employment and the gradual rise of employment nationally in the Construction of Buildings Industry. This can indicate that one of the industry’s threats to its employment is a weak economy. In 2012, the Building Industry Association of Washington released an article that stated despite the weakened economy from the recession, the “new home construction industry is the state’s third-largest employer” (BIAW, 2012). The article went on to state that as the economy grows, so does the demand for new homes, and consequently more jobs in the construction industry. This provided evidence that despite the industry’s ties to the fluctuations of the economy, the industry is a top contender with in the state of Washington on providing employment. Spokane, Washington is a reasonable location for the CDA construction company to execute projects in, because it is approximately 30 miles from CDA Idaho.
Residential framing is a specialty within the Residential Building Construction Industry. The industry is effected by the economy as described in Figure 1. In recent years, the employment of carpenters across the nation has risen (BLS, 2016c). The industry has shown considerable strength by being the third highest employer in the state of Washington (BIAW, 2012). Residential framing is a specialty occupation that is a category under the Residential Building Construction Industry, which has shown positive signs in the Northwest for the past five years.

**Summary**

The feasibility of expanding a residential framing company from Southern California to CDA, ID is unknown. This study analyzed the feasibility by examining the market value, and the potential of growth in the housing market in CDA, ID. A decision criteria was established to determine if the southern California company should expand to CDA, ID. This study will determine if the decision criteria can be meet.
Chapter 2

Literature Review

Introduction

Home Price Indexes (HPI) help determine the value of houses in a particular area. HPIs are good tools to understand the trends in the housing market by comparing the rise and falls of HPIs with other economic variables. To determine if the housing area is a buyer’s or seller’s market it is useful to understand the average days on the market (DOM) houses in the area are for sale. An analysis of new home sales and construction in Spokane Washington and CDA Idaho can provide insight on how healthy and strong the construction market is for those areas.

Market demand for residential construction in CDA, ID

Understanding the methodologies used to determine HPIs will help one understand how HPIs help determine the value of houses. HPIs are determined in four methodologies. The methodologies are Median-price models, Hedonic models, Repeat sales models, and hybrid models. The simplest method is the median-price model which is developed from the median or mean sales price in a particular geographical area, but this model can have its limitations in not measuring price appreciation because the model does not take into account the specific characteristics of the houses being sold (Nothaft, 2016). Hedonic models on the other hand do take into account the “characteristics, or amenities, of a property that make it more attractive” according to Nothaft (2016). The Hedonic model overcomes the limitations of the median-price model by accounting for the specific characteristics. Hedonic data considers the internal characteristic such as size, appearance, features, conditions and external factors such as accessibility to schools and shopping, level of water and air pollution, value of other homes (Investopia, 2017). The drawback of the hedonic model is that a lot of data must be researched that is not always available across the country (Nothaft, 2016). The third method accounts for appreciation and requires less data to obtain. The third method is called the repeat sales model. The repeat sales model compares the price of a particular home that has been sold at least twice within a set period of time (Nothaft, 2016). The
limitation of the repeat sales model is the need for large numbers of at least two sales prices of similar type houses to create the indexes for example detached homes versus attached homes (Nothaft, 2016). The hybrid model is to combine the data of any of the prior three models to create an index. According to Nothaft (2016) the National association of Realtors publishes median-price index for existing homes and the U.S. Census Bureau releases a median-price index and Hedonic price index for new homes. The most well-known example of the repeat sales model index is the Standard and Poor Case- Shiller index according to Nothaft (2016).

HPIs are good tools to understand the trends in the housing market. An analysis of the HPIs in an area will provide the information if the house prices in that area have been rising or decreasing in recent years. A comparison with other economic factors can identify what economic variables affect the house prices in that area. The researcher decided to compare HPIs from Coeur D Alene ID and Killeen Texas, because of the first- hand experience the researcher has with the Killeen Texas housing market. The researcher bought a house in Killeen Texas in 2009 under the assumption that the housing bubble of 2007 affected the housing market in the area. The researcher assumed the housing market was in the trough and should soon drastically rise in value after the purchase of the Killeen Texas house. Several years later the researcher concluded that the housing bubble did not drastically affect the housing market in the area because of the minute increase in home value. Figure 2 displays the HPI from the Federal Housing Finance Agency for Coeur D Alene (CDA) ID and Killeen TX. Figure 2 shows a steep increase in the HPI for CDA from 2000-2006 whereas Killeen TX held a steady growth. An analysis will show that CDA was affected by the housing boom that occurred up to 2007 more than Killeen TX was. More analysis will show that Killeen TX has a more stable housing growth than CDA does. In analyzing the CDA housing market figure 2 does show that despite the impact the recession has effected CDA, the overall HPI are higher than Killeen TX.

When analyzing HPIs over time it is critical to understand if the HPI has been adjusted for inflation or not. HPIs that have not been adjusted for inflation will give a false sense of growth in the
housing market. HPIs that have been adjusted for inflation are called real price whereas HPIs that have not been adjusted are called nominal price (Nothaft, 2016).


HPIs help understand how the economic variables affect a particular housing area. A housing area’s location will determine the effects that growth acceleration will place onto it. Large cities, small cities, suburbs, and areas outside of suburbs will be impacted differently during times of high growth and the aftermath. Bogin, Doerner, Larson, (2016) stated that there are four main accelerations periods within the US since 1980: the private equity boom in late 1980s, the dot-com boom of the late 1990s, the subprime boom of the mid 2000s, and the oil boom of early 2010s. In the same article, it is stated that most areas experienced only one or two of these accelerations periods except for California, Florida, and New England who have experienced all four acceleration periods (Bogin, Doerner, Larson., 2016). It is also important to note that the accelerations are more frequent in large cities compared to the other areas, yet large cities showed more resilience in bouncing back compared to the other areas (Bogin, et al., 2016). Large cities have also displayed larger price increases than other areas when traffic congestion existed prior to the acceleration (Bogin, et al., 2016). Bogin et al., (2016) theorized the larger price increase could
be due to the number of housing units outpacing the transportation network improvements which create a larger demand to live in the city as opposed to fight the traffic because one lives outside of the city.

HPIs will identify if the value of the houses is rising and what economic factors affect the local housing prices. Location of the housing areas will determine its vulnerabilities and strengths during acceleration growths in the economy. Rising home values will increase revenue for a construction company. HPIs nor locations do not identify if the area is in a seller or buyer’s market. To determine if the Housing market is more favorable for a buyer or seller it is helpful to understand the concept of number of days on the market.

Days on the market (DOM) is a realtors term that is defined as the “number of days a listing is active in a multiple listing service before it is entered into pending status” to sell (Weintraub, 2016, para 1). Averaging the DOMs on the market within the last 30 days to six months of sold listings will help identify if it is a seller’s or buyer’s market (Weintraub, 2016). The lower the DOM which is a seller’s market entails the higher the demand and lower the supply, while vice versa for a buyer’s market. According to Weintraub (2016) buyers typically believe that houses with high DOMs are either overly priced, or the house has some problem undisclosed in the listing, and the seller is most likely desperate. In most cases these facts are true, according to Weintraub (2016) other factors might be occurring such as the seller tried to test the market, seller’s stubbornness in letting the house go, the house has been unavailable or unsuitable to show, and poor marketing by the seller’s real estate agent. When analyzing an individual house all factors must be accounted for, but finding the average DOM is a good indicator in determining if the area is in a current buyer’s or seller’s market.

HPIs are tools to identify if a housing market has been increasing in value or decreasing. HPIs also help identify what type of economic variables impact a housing value in a particular area. Location aspects of the housing area affect the market’s reaction to a growth acceleration within its economy and the resiliency of the housing market to experience the price acceleration. These aspects are available area
to build, current traffic congestion, if area is in rural, suburbs or inner city (Bogin, et al. 2016). DOM is an effective tool to determine if the housing area is a seller’s market or buyer’s market.

**New home market data in Spokane Washington and CDA Idaho**

CDA Idaho and Spokane WA are the two major cities within the CDA construction company’s operational reach. New home sales since 2014 in Spokane Washington have steadily increased while new home sales since 2014 in CDA have decreased (Builder, 2017a, b). The Square foot average price has increased in both CDA and Spokane since 2014 (Builder, 2017a, b). Closing sales price in Spokane has increased since 2014 while closing sale price in CDA has decreased since 2015 (Builder, 2017a, b).

New home sales in Spokane Washington steadily grew from 7% of the total market share in November 2014, to 8% in NOV 2015, to 10% in NOV 2016 (Builder, 2017a). New home sales in CDA Idaho have steadily declined from 14% of the total market share in November 2014, to 12% in NOV 2015, to 10% in NOV 2016 (Builder, 2017b). The market share includes foreclosures, regular resales, real estate owned, and new sale. Home sales price per square foot in both Spokane and CDA have both grown since 2014 (Builder, Spokane, CDA, 2017). Spokane square foot average in NOV 2014 was 97 dollars with an average sale at 179,635 dollars, in NOV 2015 the average square foot was 105 dollars with an average sale at 192,610 dollars, and NOV 2016 the average square foot was 125 dollars with and average sale at 211,315 dollars (Builder, 2017a). According to builderonline.com, Spokane shows a healthy and strong market because it has a positive increase in both closing sales and price per square footage (Builder, 2017a). CDA square foot average in NOV 2014 was 123 dollars with an average sale at 240,300 dollars, in NOV 2015 the average square foot was 136 dollars with an average sale at 270.996 dollars, and NOV 2016 square foot average at 154 dollars with an average sale at 256,226 dollars (Builder, 2017b). CDA market does not show the steady increase in both square foot and closing sales. The CDA the square foot average continues to rise which shows home values are increasing, nevertheless the decline in closing sales could be contributed to less sales of larger homes.
New homes sales have increased in the market share for Spokane while they have decreased in CDA. According to the United States Census Bureau new home permits have increased for both Spokane and CDA from 2015 to 2016 (US Census Bureau, 2017). Spokane new home permits went from 2738 in 2015 to 3703 in 2016 which is a 35% increase, while CDA went from 1414 in 2015 to 1498 in 2016 which is a 6% increase (US Census Bureau, 2017). The larger increase in new home permits for Spokane can be indicative of why new home sales has been able to increase its percentage in the market share while the relatively little new home permits in CDA can explain why new home sales has not been able to increase its percentage in the market share. Another analysis of this data can highlight that Spokane’s new home sales can become saturated in the following years. Indicators that can prove this hypothesis would be the decline in home values. Spokane’s home values have steadily increased since 2014, making this hypothesis unlikely and gives a positive sign construction business can still flourish in the Spokane market. The small increase in new home permits for CDA can indicate that the new home market is unlikely to become saturated and potential for the rise in new home construction is possible.

**Summary**

The HPIs for CDA indicate that variables such as the housing boom of 2007 influenced the CDA housing market. A comparison between Killeen Texas and CDA Idaho demonstrated that Killeen Texas was immune to the housing boom while CDA was not. This indicates that Killeen Texas is not influenced by the aspects that created the housing boom while CDA is influenced by those aspects. Further analysis of the HPIs showed that despite the housing booms influence CDA’s HPIs have risen more than Killeen Texas which indicates that CDA housing market is resilient and is close to pre-housing boom values. Average square foot price for CDA and Spokane Washington have risen each year since 2014. New home sales in Spokane have gained a percentage in the market share each year since 2014 while CDA has decreased each year since 2014. An analysis into the new home permits for CDA shows a slim increase in permits from 2015 to 2016 which could be indicative on why new home sales in CDA has been unable to
increase its percentage in the market share. This also supports that new home construction is not increasing to a point that can possible saturate the market and decrease home value.
Chapter 3

The Problem Restated

A Southern California framing company wants to expand to the Coeur D’ Alene (CDA) Idaho area. The area has observed a steady rebound from the 2007 housing bubble to 2016. The Southern California framing company plans on relocating one leadership team capable of framing three residential framing projects at a time. The leadership team will recruit more leadership within the surrounding area to increase the output of framing projects within the area. The decision criteria to execute is determined on the ability of the leadership team to achieve a $90,000 NET profit and financial independence of the Southern California base company after the second year in operation.

Methodology

The researcher used a quantitative approach to collect and analyze secondary data from periodicals, trade journals, interviews, and internet resources. The secondary data served as the basis to determine the feasibility of establishing a framing company in CDA, Idaho. The data was analyzed from 2006 to 2016.

Data Collection Methods

On-line open source statistics and scholarly research through libraries, trade journals, and trade associations to obtain secondary data. Sources of the data were, but not limited to: Bureau of Labor Statistics, Idaho Labor of Statistics, US Census Bureau, and trade associations in Washington and Idaho. Data was also collected from a developer company owner in the CDA area via phone interview. The data collected focused on the quantitative analyses of the ability to profit off establishing a framing company in the CDA area.

Data Analysis Methods

Researcher analyzed secondary data to form opinions and develop conclusions. Secondary data was used to analyze the variables that influenced the industry and market from the last 10 years. Synthesis that supported predicting the industry and market’s ability to sustain an additional framing company in the region was used to determine the feasibility of establishing a framing company in the CDA area.
## Research Questions

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<th>#</th>
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| 1 | What is the current market demand for residential framing in the Coeur d’ Alene Idaho area? | - Number of houses built 2007-2016  
- Average number of houses a year  
- Number of framing companies in the area | CDA and Spokane area.                                                         |
| 2 | What is the profitability of residential framing companies in the Coeur d’ Alene Idaho area? | - Average net profit of house the Southern California company makes  
- Average number of houses a framer would build in a year in CDA | Southern California Company and CDA and Spokane area.                        |
| 2A| What is the average square foot of residential framing projects?         | Idaho and Washington State statistics websites                                 | CDA and Spokane area.                                                         |
| 2B| What is the average net profit of a residential framing project?         | - Average bids from framers by square foot submitted in CDA  
- Compared above number to the expenses the Southern California company had to build a house, by square foot. | Southern California Company and CDA and Spokane area.                        |
| 3 | What is the feasibility of establishing a residential framing company to be capable of earning a net income of $90,000 annually in the second year of operation in Coeur d’ Alene Idaho? | Synthesis data from research questions 1-3 to determine feasibility.          |                                                                             |
Chapter 4
Data Analysis

Introduction

A California based construction company plans to expand to Coeur D’ Alene (CDA) Idaho. The CDA ID branch company will be named WC Construction. WC Construction takes its roots from an established residential construction company in California. Members of the California construction company are confident that there are opportunities to build and expand a residential construction company in the CDA area. This new expanded company from the California construction company will be named WC Construction.

WC Construction will become a Limited Liability Company of highly experienced carpenters consisting of one CEO, two Foreman, one secretarially administrator, and nine carpenters. WC Construction will take on projects within a 80 Mile radius from CDA Idaho. WC Construction is a specialty Framing company that falls into the Residential Building Industry. The industry has showed considerable strength by being the third highest employer in the state of Washington (BIAW, 2012). Forecasters are predicting that the economy will continue to grow in the next several years. A growing economy will benefit WC Construction as the housing market turns into a seller's market. WC Construction will take on production home and custom home projects as the housing market continues to grow. WC construction will also take on remodel projects and production of apartment complexes to ensure survivability when the housing market dwindles. WC Construction must register in Washington and Idaho to be able to operate on projects in the identified states. Spokane Washington is within the 80 mile radius of CDA ID. New homes sales and home values in both CDA, ID and Spokane, WA have steadily grown in recent years. This is indicative that the housing market is healthy and is not saturated with too many homes to sale. The CDA ID area has multiple competitors that WC Construction will have to maneuver around to obtain a steady flow of projects. WC Financials' provides data that the company can yearly average $31,076 Net income the first five years with $35,941 ending cash balance the first year. Cash flow projections identified that WC Construction will be deficient $16,747.88 the first quarter
due to $0 cash on hand at the start of the quarter. WC must borrow or create a savings of $16,747.88 prior to the start of business.

This chapter will cover the following topics:

- Company description
- Industry Analysis
- Target Market
- The Competition
- Strategic Position and Risk Assessment
- Marketing Plan and Sales strategy
- The Financials

**Company description**

WC Construction is a Coeur D’ Alene Idaho based company providing production framing on residential track and custom homes. WC Construction also provides remodel construction on wood framed residential homes and businesses.

The WC Construction owner has over 20 years of experience in residential construction. The leadership team consists of two Forman and the CEO. Nine carpenters and one secretarial administrator will be included in the initial expansion team. The leadership team and nine carpenters will all have over 10 years’ experience in large scale residential track home construction, custom homes, and remodels. They have built numerous high quality homes under California state code with an impeccable job site safety record.

**The Company’s Mission**

WC Construction LLC provides quality construction with supreme customer service in the Coeur D’ Alene Idaho area while never missing a deadline.

The company’s priorities are:

- Job site safety
- Customer service is paramount.
- Establish positive rapport with superintendants and customers.
- CEO and Foreman available 24 hours seven days a week to superintendants and customers.
- High quality and reasonable price.

The Company’s End state:
Customers will always have peace of mind because WC Construction employees constantly provide attention to detail and excellent work.

**Legal Issues**
The best legal option for WC Construction is to become a Limited Liability Company (LLC). LLCs retain limited liability for its owners, but operations and the tax process of the company are the same as a partnership (Keown, Martin, Petty, 2017, p. 16). Corporations can be owners and there are no limits to the amount of owners in a LLC (Keown, et al., 2017, p.16).

The advantage of an LLC is that the owners are liable to what they invest in unlike in a partnership where the owners can take on the whole company's debt. LLCs also do not get double taxed like a corporation does (Keown, et al., 2017, p.16). A corporation gets taxed on the profits, and then the shareholders have to pay tax on the dividends (Keown, et al., 2017, p.15).

The below information provides the steps and resources to file as an LLC in Idaho and Washington.

- Idaho information to file as a Limited Liability Company:
  - The Idaho application to file as a Limited Liability Company is $100.00 and can be found at: [http://www.sos.idaho.gov/corp/2015/LLC%20Cert%20org%202015%20FILL.pdf](http://www.sos.idaho.gov/corp/2015/LLC%20Cert%20org%202015%20FILL.pdf)
  - Idaho tax information and rates for LLCs can be found at: [https://tax.idaho.gov/i-1044.cfm#sub1](https://tax.idaho.gov/i-1044.cfm#sub1)
Businesses outside of Idaho can file a foreign registration statement for $100.00. The form is found at:


- Companies applying for a Foreign Registration must submit a Certificate of Existence or good standing with their application. The Secretary of State’s office from the original state of incorporation can provide the certificate.


- Washington information to file as a Limited Liability Company.

  - An LLC in Washington must register with Washington Secretary of State according to the business.wa.gov website (2017). The link to the website is http://business.wa.gov/plan.html#BusinessDescription.

    - The fee to register is $180 by paper and $200 online, according to the Secretary of State for Washington website (2017).

  - The business and occupation (B&O) tax information website for Washington is http://dor.wa.gov/content/FindTaxesAndRates/BAndOTax/.

    - The Washington B&O tax rate website is http://dor.wa.gov/content/FindTaxesAndRates/BAndOTax/

  - Businesses outside of Washington can file for a foreign entity registration for $200. All information and links to foreign entity registration resources are at the following website http://www.sos.wa.gov/corps/Foreign-Entity-Registration-and-Forms.aspx.

WC Construction must file as an LLC in one state and a foreign entity in the other, or file in both Idaho and Washington as an LLC to be able to operate in CDA Idaho and Spokane Washington. State laws govern the LLCs, which is the reason why WC construction must file in both states. The researcher recommends to file as a LLC in Washington and file as a foreign entity in Idaho. The Washington
secretary of state website is more user friendly, and registration fees for a foreign entity in Washington is $20 more whereas both Idaho foreign and new LLC are the same price at $100.

Industry Analysis

Residential Building Construction Industry

WC Construction part of the Residential Building Construction Industry with a specialty in residential framing. Residential framing is a specialty in the occupation of carpentry. Carpenters are the most employed specialty in the residential construction industry (BLS, 2016a). The Bureau of Labor Statistics (BLS) (2016a) categorized framers under the carpentry occupation. Framers on a residential housing project perform many carpentry skills. The BLS (2016a) website stated that carpenters build frameworks such as joists, studding, rafters, wood stairways, window and door frames, and hardwood floors. Framing companies will subcontract these jobs to specialty carpenters when the specialty carpenter can perform the job better and at a lower cost compared to performing the job with his own employees. When it is not profitable to subcontract these specialties, framers build those frameworks themselves. The BLS stated that the national mean hourly wage in 2015 for a carpenter was $22.49 and the annual mean wage was $46,780 (BLS, 2016b). According to the BLS (2016a), carpenters are mostly employed in the Residential Building Construction. In 2015, approximately 192,580 carpenters were employed in the Residential Building Construction Industry which amounted to 28.3% of the total employees in the industry (BLS, 2016b).

Trends in Residential Building Construction Industry

The carpentry occupation is categorized under the Residential Building Construction industry with a North American Industry Classification System (NAIC) number of 2361 per the BLS (BLS, 2016c). The industry consists of all occupations that deal with the construction of residential buildings. The most predominate occupations in the industry are carpenters, electricians, insulation installers, HVAC technicians, and plumbers according to the American Builders and Contractors Inc. website (2016). After the recession in 2008, the Construction of Buildings Industry drastically lost jobs. Between
2008-2011 approximately 600,000 jobs within the industry were lost across the nation per the BLS (BLS, 2016b). Figure 1 depicts the decrease in employment and the gradual rise of employment in the Construction of Buildings Industry. This can indicate that one of the industry’s threats to its employment is the strength of the economy. In 2012, the Building Industry Association of Washington released an article that stated despite the weakened economy from the recession the “new home construction industry is the state’s third-largest employer” (BIAW, 2012). The article went on to state that as the economy grows so does the demand for new homes, and consequently more jobs in the construction Industry. This provided evidence that despite the industry’s ties to the fluctuations of the economy, the industry is a top contender within Washington State on providing employment. Spokane Washington is a reasonable location for the WC Construction to execute projects in because it is approximately 30 miles from CDA Idaho.


Residential framing is a specialty within the Residential Building Construction Industry. The industry is affected by the economy as described in Figure 1. In recent years, the employment of carpenters across the nation has risen (BLS, 2016c). The industry has showed considerable strength by
being the third highest employer in the state of Washington (BIAW, 2012). Residential framing is a specialty occupation categorized under the Residential Building Construction Industry, which has shown positive signs in the Northwest for the past five years.

**Strategic opportunities in the Residential Construction Industry**

The strategic opportunity for a residential construction company is to have a broad work scope that enables its survivability during fluctuations in the supply and demand for houses. A construction company that builds large track home productions, remodels, and rental properties such as apartments will withstand fluctuations in supply and demand for houses.

A 2017 forecast from Transunion predicts there will be lower unemployment and a rise in median household income which would create favorable conditions for first time home buyers (Bundrick, 2016). This will benefit the large production track home market that provides nice neighborhoods at reasonable prices. The other aspect to a healthy economy is the rise in federal interest rates which could ultimately affect home mortgage rates. Conventional wisdom believes that rising rates will decrease affordability and slow demand as depicted in Figure 4.1 (Marino, Kiersz, 2015). Figure 4.1 shows the national housing statistics on permits ready to start production (housing starts) from 1959 to 2014 compared to the federal interest rates.
Geffner (2014) from Bankrate explained that higher interest rates may influence buyers to adjust their buying strategy to place a larger down payment, seek an adjustable rate mortgage, or settle for a less expensive home. Geffner (2014) also explained that higher interest rates may impact the tipping point which home buyers may determine that the cost of renting a house is more advantageous then buying and waiting until interest rates go back down.

The federal reserve bank raises interest rates when the economy is healthy and spending is high (Oyedele, 2017). The federal reserve raises the interest rates to control the inflation (Oyedele, 2017). When an economy is growing and interest rates are low people borrow and spend more then what is out there to buy which raises inflation (Oyedele, 2017). While in theory higher interest rates may affect the demand for houses, the higher interest rates are indicative of a growing economy which means people have more money to spend.

Fleming (2015) stated that a reasonable rate hike will not be the “death knell for America’s housing market” but it could make the housing market more competitive due to the strong economic
growth. The housing market turns into a seller’s- market during growing economies which benefits the residential construction industry. The Federal Reserve raises interest rates during growing economies to control inflation. These interest rate rises can decrease the demand for new homes, yet the growing economy means money is still out there to be spent and people must have places to live. During a growing economy homeowners will have money to remodel, and those people who take the option to rent increase the demand for rental properties to include apartments. The strategic opportunity for a Construction business in the residential construction industry is to be able to take on large track home production projects during economic growth and take on remodeling projects and rental production projects when the housing demand decreases either from rising interest rates or a slow economy.

**Regulation/ Certification**

WC Construction will have to register in Idaho and Washington. There is no licensing or testing requirement for contractors in Idaho and Washington (IBOL, 2017c)(Washington State Legislature, 2017). Idaho law title 54 Chapter 52 covers the requirements for contractors to work in Idaho (Idaho legislature, 2017). The Idaho Contractors Board provides information on current and proposed state laws that effect contractors, and provides all the information needed to register as a contractor in Idaho. The Idaho Contractors Board (2017a) link is at https://ibol.idaho.gov/IBOL/BoardPage.aspx?Bureau=CON.

Appendix Idaho CON_CONTRACTOR_LAW_BROCHURE provides a complete step by step instruction to register as a contractor in Idaho (IBOL, 2017b).


There is an eight-step process for contractors in Washington to register and will take 2-4 weeks to get approved. The eight steps are:

1. Choose a business structure
2. Register with WA Secretary of state (fee is $180)
4. Get an IRS Employer ID#
5. Fill out the application for contract registration and have it notarized.
6. Purchase bond and liability insurance
7. Pay contract registration fees. $113.40 for two years for a new or renew registration application
8. Submit application and required documents to Labor and Industries.

The complete step by step process to register as a contractor in Washington with all applicable links to the necessary resources is at http://www.lni.wa.gov/TradesLicensing/Contractors/HowReg/Register.asp.

**Target Market**

WC Construction’s customers fall into three categories. The first category entails that the builder is the customer, and WC construction provides the service of building the track homes and custom homes. Usually the builder markets the houses to sell to the customer during production or after production. In the first category, the homeowner does not have a lot of input in the design of the house unless they purchase the house during production or before production. When the customer purchases the house during or before production they have limited options on what they can do to alter the design. The second category is when a future homeowner funds a project to build a custom home. In the second category, the homeowner usually contracts out a general contractor which hires the specialties and manages all the scheduling and inspections of each specialty’s services. In rare circumstances the homeowner may perform the job as the general contractor to save money or if the homeowner themselves has the expertise to manage all the contractor specialties. The third category is when a homeowner hires a general contractor or specialty contractors to remodel their existing home. In the first category, the customer is the builder and markets the house to future homebuyers. In the second and third category the homeowner is the customer.

**Category One, The Builders**

The researcher concluded open source searching on the internet for the most successful builders in the CDA Idaho area is unreliable. Local area construction insider information is the most reliable method to determine which builders are the best to acquire as customers. There are numerous
registered builders within the CDA Idaho area (IBOL, 2017f). Several websites on the internet rank order the best builders in the area. The websites that do not charge a fee to view the list of builders are homeadvisor.com and houzz.com. Both homeadvisor.com and houzz.com have a list of builders that are different from each other. Searching the listed builders from homeadvisor.com and houzz.com in the Better Business Bureau (BBB) bring more inconclusive reports. The BBB either lists the company as BBB accredited or not BBB accredited, the latter of which means they have not registered with the BBB or that they are out of business. The list of builders that are out of business according to the BBB are in a “current” status in Idaho Bureau of Occupational Licenses (IBOL). The accredited builders according to the BBB were not listed in IBOL. An open source search on Bing.com for Builders in Coeur D Alene area or residential construction in Coeur D Alene area produces a list of builders. The researcher concluded the outlying variable that sets these companies apart from other builders in the area is that they have functioning websites. These companies were Messina Construction at http://www.messinahomebuilders.com/ and Aspen Homes at http://aspenhomes.com/.

**Category Two, the Homeowner for a Custom Home**

The CDA area provides numerous opportunities for homeowners to build custom homes. These homes can range in size and location. Homeowners can build custom homes in the surrounding city of CDA with beautiful views overlooking the Harrison Slough or Spokane river. There are other opportunities to build houses overlooking the lake or in the mountains on larger acreage land plots throughout the area.

Custom home construction values in CDA ranged from $145,580 to $321,116 from March 13-17, 2017 (City of CDA, 2017). Custom home construction values in Spokane in March 2017 ranged from $165,976 for a 2033 square foot single family residence with garage, to $422,581 for a 4805 square foot single family residence with garage (Spokane County, 2017).

**Category three, the Homeowner for a remodel**

Homeowners spent $326.1 billion on home improvement and remodels on their homes and rentals through the United States in 2015 (Statista, 2017). Home remodel and repair will increase revenue for
WC Construction even when demand for new homes are low. There were nine remodel project permits accepted from March 13-17 2017 in CDA Idaho. They ranged from $300 (detached porch) to $25,000 (detached garage with living unit) (City of CDA, 2017). The city of Spokane does not list permits under $100,000. The researcher was unable to determine statistical data on Spokane remodel values.

**Demographics for CDA ID. and Spokane WA.**

CDA Idaho had a population of 49,122 people in 2015 which is the seventh most populated city in Idaho (Idaho demographics, 2017). The median household income was $43,033 (Idaho demographics, 2017). The average listing price of a house from JAN-MAR 2017 in CDA was $497,270 (Coeur D Alene Idaho real estate, 2017). Several places within CDA have considerably higher house prices than the median. South west of the lake near Mica the median price is $643,250, and north east of the lake vicinity of Armstrong park the median price is $622,500 (Coeur D Alene Idaho real estate, 2017).

Spokane Washington had a population of 490,945 in 2015 making it the fourth most populated city in Washington (Washington State Employment Security Department, 2017). Spokane County’s average annual wage was $44,050 in 2015 (Washington State Employment Security Department, 2017). The median sales price from Mar15-Dec16 was $171,200 based on 690 home sales in Spokane with an average price per square foot at $88 (Trulia.com, 2017). Few areas south of Spokane have higher housing median prices. They are Mica, Valleyford, Freeman, and Duncan. Duncan has the highest at $529,500, while the other three are at $440,000 (trulia.com, 2017).

**Geographic Description**

Figure 4.2 depicts the geographic area that WC Construction will service. It is an 80 mile radius from CDA, ID.
New home market data in Spokane Washington and CDA Idaho

CDA Idaho and Spokane WA are the two major cities within the WC Construction’s operational reach. New home sales since 2014 in Spokane Washington have steadily increased while new home sales since 2014 in CDA have decreased (Builder, 2017a, b). The Square foot average price has increased in both CDA and Spokane since 2014 (Builder, 2017a, b). Closing sales price in Spokane has increased since 2014 while closing sales price in CDA has decreased since 2015 (Builder, 2017a, b).

New home sales in Spokane Washington steadily grew from 7% of the total market share in November 2014, to 8% in NOV 2015, and 10% in NOV 2016 (Builder, 2017a). New home sales in CDA Idaho have steadily declined from 14% of the total market share in November 2014, to 12% in NOV 2015, and 10% in NOV 2016 (Builder, 2017b). The market share includes foreclosures, regular resales, real estate owned, and new sale. Home sales price per square foot in both Spokane and CDA have grown
since 2014 (Builder, 2017a, b). Spokane square foot average in NOV 2014 was 97 dollars with an average sale at 179,635 dollars (Builder, 2017a). In NOV 2015 the average square foot was 105 dollars with an average sale at 192,610 dollars, and NOV 2016 the average square foot was 125 dollars with an average sale at 211,315 dollars (Builder, 2017a). According to builderonline.com Spokane shows a healthy and strong market because it has a positive increase in both closing sales and price per square footage (Builder, 2017a). CDA square foot average in NOV 2014 was 123 dollars with an average sale at 240,300 dollars, in NOV 2015 the average square foot was 136 dollars with an average sale at 270,996 dollars, and NOV 2016 square foot average was at 154 dollars with an average sale at 256,226 dollars (Builder, 2017b). CDA market does not show the steady increase in both square foot and closing sales. The CDA square foot average continues to rise which shows home values are increasing, nevertheless a reason for the decline in closing sales is the fewer sales of larger homes.

New homes sales have increased in the market share for Spokane while they have decreased in CDA. According to the United States Census Bureau new home permits have increased for both Spokane and CDA from 2015 to 2016 (US Census Bureau, 2017). Spokane new home permits went from 2738 in 2015 to 3703 in 2016 which is a 35% increase, while CDA went from 1414 in 2015 to 1498 in 2016 which is a 6% increase (US Census Bureau, 2017). The larger increase in new home permits for Spokane can be indicative of why new home sales has been able to increase its percentage in the market share while the relatively low number new home permits in CDA can explain why new home sales has not been able to increase its percentage in the market share. Another analysis of this data can highlight that Spokane’s new home sales can become saturated in the following years. The indicator that can prove this hypothesis would be the decline in home values. Spokane’s home values have steadily increased since 2014, making this hypothesis unlikely and gives a positive sign construction business can still flourish in the Spokane market. The small increase in new home permits for CDA can indicate that the new home market is unlikely to become saturated and potential for the rise in new home construction is possible.

The Competition
There are three main categories of competitors for WC Construction in the CDA Idaho area. These competitor categories are peer framers, manufactured homes builders and sellers (also known as mobile homes), and contractors that remodel homes. Peer framers operate primarily through word of mouth. Peer framers obtain their projects through requests from builders who sub contract out to specialty contractors to build residential homes. The industry technique is for builders to solicit bids for a job from specialty contractors with whom they have established a trusted relationship. Builders may not be able to obtain their trusted framers because the trusted framers are committed to another job during the time the builder wants to start the project. Residential framers that are new to the area can establish relationships with builders by placing competitive bids for a job while the supplies for the specialty are low. New residential framers to the area can establish themselves by identifying the builders they can best trust and become loyal to them by being available to commit to their projects. Another way for a framing company to establish themselves in the CDA Idaho area is to segment their scope of work in the market. WC Construction will use their 20 plus years of experience to continue to specialize in production home projects and custom homes. WC Construction will not become preoccupied in other projects that include log cabin builds. Excluding log cabin builds will detract the need to refine new techniques in constructing the log home and negate the need to acquire a supplier of log materials. WC Construction will establish a foothold in the market by competitively bidding projects and establishing trusting relationships with builders of production and custom homes.

**Competition registered in CDA Idaho**

A search for registered contractors in Coeur D Alene Idaho from IBOL brings up a total of 106 registered residential contractors (General Contractors, 2017). 65 out of the 106 are current with the state registered requirements (IBOL, 2017d). 42 out of the 65 either have “incorporated” or “LLC” in their business name (IBOL, 2017d). Three of the 65 do not have an “LLC” or “INC” in their business name, but they do have company or Homes (e.g. Victory Homes) in their Business names (IBOL, 2017d). Five incorporated companies out of the 65 current registered companies were listed as framing labor and rough carpentry as their specialty (IBOL, 2017d). The researcher concluded that there are potentially 45 active
construction companies of which five specialized in framing labor and rough carpentry that registered in CDA Idaho with which WC Construction will have to compete.

**Competition in Spokane WA**

Approximately 100 residential framing contractors can be found at porch.com (2017). The listed framing companies have various specialties which include track home, customs, and remodels (porch.com, 2017). A bing.com (2017) search for "number of residential framers in Spokane Wa" provided numerous websites that provide a list of residential framing contractors that operate within Spokane Wa. The researcher was not able to find a public data base that lists the registered contractors to include framers for the public to view.

**Manufactured homes competitor**

Manufactured homes are factory built homes that are shipped to the customers desired location. Manufactured homes provide an option for home buyers that enables them to get good quality homes designed to their specific interest quicker and at a lower cost than non- factory built homes. According to Peter's Homes (2017) "construction costs per square foot for a new factory-built home average from 10 to 25 percent less than a comparable new site- built home". There are three major Manufactured home producers near CDA Idaho. KIT Homes is out of Caldwell Idaho. Kit Homes (2017) business model is to provide quality homes that meet the specific desires of the customer at an affordable price. Kit homes (2017) solicits potential customers to visit their factory to view their quality production. Kit Homes (2017) competes for residential home buyers that are willing to spend at the lower end of the spectrum or want a quicker product. Marlette Homes is the second manufactured home builder in the area. Marlette Homes is located in Hermiston Oregon. Marlette homes’ (2017) business model is also centered around building quality custom homes at an affordable price, but they do not solicit tours from potential buyers as much as Kit Homes does. The third manufactured home builder is Nashua Builders. Nashua Builders has the same model as both Kit and Marlette homes. The difference with Nashua (2017) is that they claim they have the largest manufactured home indoor facility west of the Mississippi and they also specialize in commercial buildings to include warehouses, modular motel, hotel, and lodging units that can be built
in half the time as on site construction. There are two distributors of manufactured homes located in CDA Idaho. They are Peter's Homes and Mobile Corral Homes.

**Remodel contractors**

Remodel contractors focus on the home buyer as the customer. A remodel contractor obtains business through word of mouth and advertisement. Many website companies provide services to link up home owners and contractors. These websites charge a nominal fee, usually to the contractor for listing their service. WC Construction can utilize the remodel business to augment cash flow. As a production and custom home framer WC Construction will be able to solicit customers on the job. There are a few companies that specialize in remodeling, but they are numerous individual contractors soliciting customers on the yellow pages’ website. 14 companies that registered with CDA Idaho are listed as general remodel (IBOL, 2017d). A search on yellowpages.com (2017) for remodeling contractor in CDA provided 465 results of individual contractors and company services from Spokane WA and CDA Idaho capable of remodeling homes.

**Strategic Position and Risk Assessment**

**Industry Trends**

In 2012 BIAW stated that new home construction is the third largest industry in Washington (BIAW, 2012). The strength of the industry in 2012 is a good indicator that new home construction were in high demand. The steady rise in new home permits from 2015-2016 is another good indicator that the market for new homes is still healthy (US Census Bureau, 2017). The steady rise is comparatively better than a steep rise as to not saturate the market with too many new homes. Transunion predicts that 2017 will have lower unemployment and a rise in median income, which further supports that favorable conditions will exist for new home buyers in the future (Bundrick, 2016). The future industry trend in CDA, Idaho and Spokane Washington shows that new home construction has been on a healthy rise since 2012 and the future is indicating that new home construction will continue to be in demand.

**Target Market**
WC Construction strategic target market is to have a broad work scope that enables its survivability during fluctuations in the supply and demand for houses. A construction company that builds large track home productions, remodels, and producing rental properties such as apartments will withstand fluctuations in supply and demand for houses.

The Competitive Environment

The CDA and Spokane environment has multiple residential framers operating in the area. Home construction is occurring every day. WC Construction will face a competitive environment and must establish itself in the mature market.

Strengths, Weaknesses, Opportunities, and Threat (SWOT) analysis Threats (Abrams, 2014).

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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</thead>
<tbody>
<tr>
<td>• California licensed contractor</td>
<td>• No relationships with builders</td>
</tr>
<tr>
<td>• 20 plus years' experience building high standard California homes.</td>
<td>• Limited employee base</td>
</tr>
<tr>
<td>• Achieved high safety standards in California</td>
<td>• No established relationship with suppliers</td>
</tr>
<tr>
<td>• Designed and manufactured bracket scaffold system to enhance workplace safety</td>
<td></td>
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</tbody>
</table>

Opportunities

<table>
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<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Can use California references to establish high quality reputation</td>
<td>• Unknown trustworthy builders.</td>
</tr>
<tr>
<td>• Advertise higher safety and quality standards than competitors</td>
<td>• Unknown inappropriate jobsite practices that exist in the area to avoid (e.g. onsite vandalism could be prevalent, employee false injuries)</td>
</tr>
</tbody>
</table>

Risks

The expansion of WC Construction to the CDA area provides several risks listed below.

a. The lack of established relationships with builders provides a risk to obtaining contracts for projects.

b. Recruitment for employment will initially be difficult as a new startup company in the area.

c. Establishing business with reliable suppliers will be a challenge because of the need to depend on their on-time delivery with quality products.

To mitigate against these risks, WC Construction will conduct the following:
a. WC Construction will network with current Builder relationships in California to seek point of contacts in the CDA area. Once reliable Builders are identified WC Construction will develop trusted relationships by being available and dependable to the Builders.

b. WC Construction will initially work on CDA area projects with internal employees from California based business. WC Construction will recruit locally for replacements of the California based workforce once CDA area projects are contracted with Builders.

c. WC Construction will use current suppliers from the California business. WC construction will network with current supplier for suppliers in the CDA area to obtain items that are not cost efficient to ship.

**Marketing Plan and Sales strategy**

The focus on WC Construction's marketing message is high quality at a reasonable price. The detail of the construction will be to local and state standards or higher on all projects. Quality also means the level of safety and customer service on the job site. Safety measures will be instituted on every aspect of a job, and cleanliness is number one. Interaction with builders and other sub-contractors are focused on team work and respect. WC Construction will use two marketing methods. These methods are networking and continuous advertising.

**Networking**

WC Construction will use current relationships with Builders and suppliers in California to build relationships with builders and suppliers in the CDA area. This will be the cornerstone of WC Construction's path to obtaining a steady supply of projects in production and custom home builds. WC Construction will provide referral monetary gifts to customers who recommend WC construction for future remodel projects. Word of mouth will be used to increase customers for future remodels. Word of mouth will be the path WC Construction uses to obtain remodel projects.

**Continuous**

WC Construction will develop its image around quality and professionalism by actively displaying the WC logo around all WC Construction jobsites. All company vehicles will display the WC logo.
Buildasign.com (2017) sells 12x18 inch magnet signs for $24.29. All jobsites will post the WC logo on supply Containers located near the entrances of jobsites to ensure the signs are visible to people passing by. A durable sign with mounting can be purchased between $500-$650 (Elliot, 2017). The continuous strategy will target builders, and remodel customers. As builders pass the jobsite and home buyers, either are viewing their future home, or viewing the new homes in the area, they will see the WC Construction and attribute the company with professional builds.

**The financials**

The following financials are in the appendix section:

Appendix 4- Staffing Budgeting worksheet  
Appendix 4- Monthly Cash Projections  
Appendix 4- Income Statement  
Appendix 4- Cash Flow Projections

Staffing and Budgeting worksheet provides data for three categories of employees in WC Construction. The three categories are management, administrative support, and operations/productions. The following are the assumptions for each category in the staffing and Budgeting worksheet.

- **Management team** consists of three personnel. The CEO and two foremen. This enables WC construction to take on up to three projects at a time with each foreman and CEO managing each project.

- **One administrator** will handle schedules, payroll, and manage daily office affairs

- **Nine carpenters** to include one of the nine carpenters with a special skill in heavy equipment operations. At least three carpenters will work on each job.

- **Average annual mean wages** source Idaho department of labor website at http://lmi.idaho.gov/oes

- **Statistical data** for average employer cost per employee for health care is $3771 annually (managingyourhr.com. 2017).

- **Annual state unemployment insurance data** is 1.395% (Idaho state tax board. 2017)
Monthly cash projections worksheet provides data for itemized costs for three categories of product lines which are; production homes, custom homes, and remodel projects. The following are the assumptions for determining the data in the Monthly cash projections.

- Average days to complete a project determined source (b4build.com, 2017).
- Average itemized cost for each product line determined from parent company bids on three production home projects, and two custom home projects, with each project included additions and options which determined the remodel averages.

Income statement worksheet provides financial data for the first five years. The following are the assumptions in obtaining the Income statement data.

- Note 1: $4,620.00 monthly rental for 4x4 forklift. One Forklift for all jobs (Star Rentals, 2017).
- $100.00 for miter saw to be used to prep lumber for the jobs. Will be used 14 weeks out of a year. Total is $1400 (Star Rentals, 2017).
- Note 2: Three fixed signs at $550 equals $1650. 20 magnetic signs for 10 WC construction worker vehicles at $485.8. Signs should last two years. (Elliott design, 2017) (Build a sign, 2017)
- Note 3: average cost for a small business accountant service is approximately $300-$400 (Small Business, 2017).
- Note 4: Worker compensation insurance approximately $1.25 per every $100 the employee makes (All Business, 2017) (Small Business, 2017).
- Note 5: Business Owner's Policy $639 plus Umbrella insurance $2020. Total is $2659 (Construction Insureon, 2017)
- Note 6: Lumber totals $697960 + Trusses total $281782
- Note 7: Year two WC Construction will hire local carpenters to replace southern California carpenters. This will take one month hand over of new workers. This will increase WC
expenses by adding one month of an extra nine carpenters working in the company until the old carpenters return back to the parent company.

Cash flow projections include the first-year cash flow by quarters. Cash flow projection data was determined from the staffing and budget worksheet, Monthly cash projections, and income statement. Cash flow projections identified that WC Construction will be deficient $16,747.88 the first quarter due to $0 cash on hand at the start of the quarter. WC must borrow or create a savings of $16,747.88 prior to the start of business.
Chapter 5
Summary, Conclusion and Recommendation

Summary
The researcher explored the feasibility of expanding a residential construction company to Coeur D'Alene (CDA) Idaho. A California based construction company has expressed a desire to expand to CDA Idaho. The CDA branch company will be named WC Construction. The researcher sought to answer the following questions:
Research question 1: What is the current market demand for residential framing in the Coeur d’ Alene Idaho area?
Research question 2: What is the profitability of residential framing companies in the Coeur d’ Alene Idaho area?

   Research question 2a: What is the average square foot of residential framing projects?

   Research question 2b: What is the average net profit of a residential framing project?

Research question 3: What is the feasibility of establishing a residential framing company to be capable of earning a net income of $90,000 annually in the second year of operation in Coeur d’ Alene Idaho?

The researcher considered the Coeur d’ Alene (CDA) area would encompass an 80-mile radius around CDA, ID. The financing and supplies would initially come from the California based company. The research considered the following assumptions. The decision criterion to proceed is if the leadership team can earn a net income of $90,000 a year in the second year of business. WC Construction will be financially independent from its southern California parent company after the second year of operations.

Conclusion
The researcher identified the current market demand for a residential framing company service in CDA is healthy, and the supply of residential framers is high (porch.com, 2017). The researcher has also determined that the CDA, ID market demand for new homes is healthy and growing at a steady pace.
New homes sales in Spokane have steadily increased since 2014 while new home sales in CDA have slightly decreased since 2014, yet the square foot average price has increased in both Spokane and CDA since 2014 (Builder, 2017a, b). The researcher determined that the 4% decrease in new home sales in CDA since 2014 is not a negative factor for a future residential construction company (Builder, 2017b). The continued rise in the average square foot for the CDA area showed that the local housing market is self-controlling to ensure the market does not become over saturated, this is because home values did not decrease. The forecasted rise in median household income (Bundrick, 2016) showed the possibility for new home sales to rise as the demand increases. The researcher did determine that there are numerous competitors for a residential construction company in the CDA area. The researcher concluded that a company's ability to create positive relationships with builders and a positive reputation among custom home buyers will enhance the company’s ability to obtain projects within the competitive market. This is because the need for residential construction services was in high demand, but there was also a high supply of residential construction companies to provide the service.

The researcher forecasted WC Construction’s financials by obtaining secondary data from city and state statistical websites on labor mean wages, rental construction equipment costs from local area suppliers, and averaging the California based construction company operating costs and profit margins from three production home project bids, and two custom home project bids. The researcher determined that a residential construction company can earn a net profit of $155,379 over a five-year period. The yearly net average would be $31,075. Year two would decrease the average by approximately $5,249 because of the increase in employment to replace the California based construction employees with local employees. After year two the average yearly income would maintain at $36,324. The researcher identified that WC Construction will be deficient $16,747.88 the first quarter of operation, due to $0 cash on hand at the start of the quarter. WC Construction must borrow or create a savings of $16,747.88 prior to the start of business to be able to pay operating expenses for that quarter.
The researcher determined that WC Construction cannot meet the decision criteria to earn a net income of $90,000 annually the second year and become financially independent of the California based company, but can meet the criteria the third year if cash balance and CEO salary are combined for that year. The researcher recommends WC Construction to hire double the employees the second year to train and replace the existing expatriated California work force. The extra employees will decrease the net income for that year, which is the reason why WC Construction leadership will not be able to earn a net income of $90,000 that year, but will enable WC Construction to become independent of the California based construction company. The third and following years, WC Construction could earn a net income of $36,324 and the CEO will take a salary pay of $65,540. This recommendation enables the CEO for WC Construction to earn net earnings of $101,864 the third and following years if he combines the cash balance with his salary pay.
Contractors Must Provide Disclosures

Idaho law requires general contractors to provide certain disclosures to property owners and customers.

Initial Disclosure
General contractors must provide a disclosure statement, prior to entering into a contract in excess of $2,000 to construct, alter, or repair residential real property, or for the purchase and sale of newly constructed property. The contractor must also provide an acknowledgment of receipt to be executed by homeowner or purchaser, retain proof of receipt and provide a copy to the homeowner or purchaser.

The statement must include the following disclosures:
1. The customer has the right, at their reasonable expense, to require the general contractor to obtain lien waivers from any subcontractors providing services or materials.
2. The customer has the right to receive proof that the general contractor has general liability insurance, including completed operations and workers' compensation insurance for employees.
3. The customer must be informed of the opportunity to purchase an extended policy of title insurance covering unfiled or unrecorded liens.
4. The customer has the right to require, at their expense, a surety bond in an amount up to the value of the construction project.

Disclosure Upon Completion
A general contractor must provide an additional disclosure statement, within a reasonable time, before receipt of final payment from the customer for construction, alteration, or repair of any property, or before closing on a purchase and sale agreement with a prospective purchaser.

The following requirements apply:
1. The general contractor must sign the disclosure statement.
2. The disclosure statement must list the business names, addresses, and telephone numbers of all subcontractors, materialmen, and rental equipment providers who have a direct contractual relationship with the general contractor and who supplied materials or performed work on the residential property at a value in excess of $500.
3. Subcontractors, materialmen, and rental equipment providers listed in the disclosure statement are authorized to disclose balances owed to the homeowner or purchaser and their agents.
4. The general contractor is not liable for any errors, inaccuracies, or omissions of any information delivered pursuant to Idaho Code § 45-525(3) if the error, inaccuracy, or omission was not within the general contractor's personal knowledge.

Pursuant to Idaho Law, failure to provide the required disclosures constitutes an unlawful and deceptive act or practice in trade or commerce under the Idaho Consumer Protection Act. The Contractors Board may discipline a registered contractor for a violation of the Idaho Consumer Protection Act.

Please consult your personal attorney with any questions about the required disclosures.
FEASIBILITY OF A RESIDENTIAL CONSTRUCTION COMPANY IN CDA, ID.

### Appendix 4 Staffing Budgeting worksheet

<table>
<thead>
<tr>
<th>For year</th>
<th>Per person annual</th>
<th>Monthly</th>
<th>Year to date</th>
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<tr>
<td>Management x 3 (CEO, 2x)</td>
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<tr>
<td>Salary/wages</td>
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<tr>
<td>Benefits</td>
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<td>Operations/Production x 9 (8 framers, 1 heavy equipment operator)</td>
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Notes: Annual mean wages sourced from [http://lmi.idaho.gov/oes](http://lmi.idaho.gov/oes)
## Feasibility of a Residential Construction Company in CDA, ID.

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## Appendix 4 - Income Statement

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<th>Year 4</th>
<th>Year 5</th>
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<td><strong>Expenses</strong></td>
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**Note 1:** $4,820.00 monthly rental for 4x4 forklift. One Forklift for all jobs. Source: http://www.istarrentals.com/equipment.asp?action=category&category=36&key=150%2D0100

$100.00 for miter saw to be used to prep lumber for job. Will be used 14 weeks out of a year. Total is $1400. Source: http://www.istarrentals.com/equipment.asp?action=category&category=36&key=150%2D0100

**Note 2:** 3 magnetic signs at $550 equals $1650. 20 magnetic signs for VC construction worker vehicles at $485.8. Signs should last two years. Sign price source: http://www.elliott-design.net/sign_costs.htm

**Note 3:** average cost for a small business accountant service is approximately $300-$400 (source http://smallbusiness.costhelper.com/accountants.html)

**Note 4:** Worker compensation insurance approximately $1.25 per every $100 the employee makes. Source: https://www.allbusiness.com/how-much-does-workers-compensation-insurance-cost-824-1.html

**Note 5:** Business Owner's Policy $639 plus Umbrella insurance $2020. Total is $2659

**Note 6:** Lumber totals $639960 + Trusses total $291782

**Note 7:** Year two WC Construction will hire local carpenters to replace southern California carpenters. This will take one month hand over of new workers. This will increase WC expenses by adding one month of an extra nine carpenters working in the company until the old carpenters return back to the parent company.
### Appendix 4 - Cash Flow Projections

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<th>3rd Quarter</th>
<th>4th Quarter</th>
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<td>35941.82</td>
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Reference


http://www.starrentals.com/equipment.asp?action=category&category=60&key=275%2D0125


https://www.trulia.com/real_estate/Coeur_D_Alene-Idaho/

https://www.trulia.com/real_estate/Spokane-Washington/

https://www.census.gov/construction/bps/txt/t3yu201612.txt &


Dear Jean-Pierre,

Your Research Review Application has been reviewed and approved. You may start your data collection. This approval will not expire as long as your topic and methodology remain unchanged. If your topic or methodology changes, please submit a new Research Review Application and supporting documents to your instructor by e-mail.

Please contact your instructor if you have any questions. Also, be sure to check with your instructor concerning the due dates for your project.

Good luck with your project. This is the only notification you will receive. Please keep a copy for your records.

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