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Unlock Hidden Profit

BY USING JOB COST PROJECTIONS

BY JOHN CHANEY

How many times have you thought a job was on budget, only to find that the project's profit faded away as unexpected expenses rolled in? The end of a job is too late to regain lost profit. Regular—and accurate—job cost projections can help decrease the risk of profit fade and unlock hidden profit within a project.

The idea of calculating the cost to complete a job is not new. With a job 20 or 30 percent done, a cost-to-complete analysis helps determine the job status in relation to the budget. The problem is, many construction companies aren't doing job cost projections on a regular basis.

The reason? It takes too much time and effort for project managers to gather the necessary elements to perform the calculations.

Most companies have a star project manager who goes the extra mile to regularly assess the cost to complete projects. This job can be a whole lot easier with job costing software that performs job cost projections.

OUT WITH THE OLD

The traditional method of calculating job cost projections requires project managers to crunch numbers like accountants.

To perform a cost-to-complete analysis, a project manager runs a job cost report containing numbers out of date by a couple of weeks or more. The job costing system doesn't reflect the latest information.

Invoices can be caught in the web of a manual approval process that entails copying, filing, routing, faxing, approving and rerouting before getting coded to a job. Committed but unpurchased materials are not accounted for and labor hours are not up-to-date.

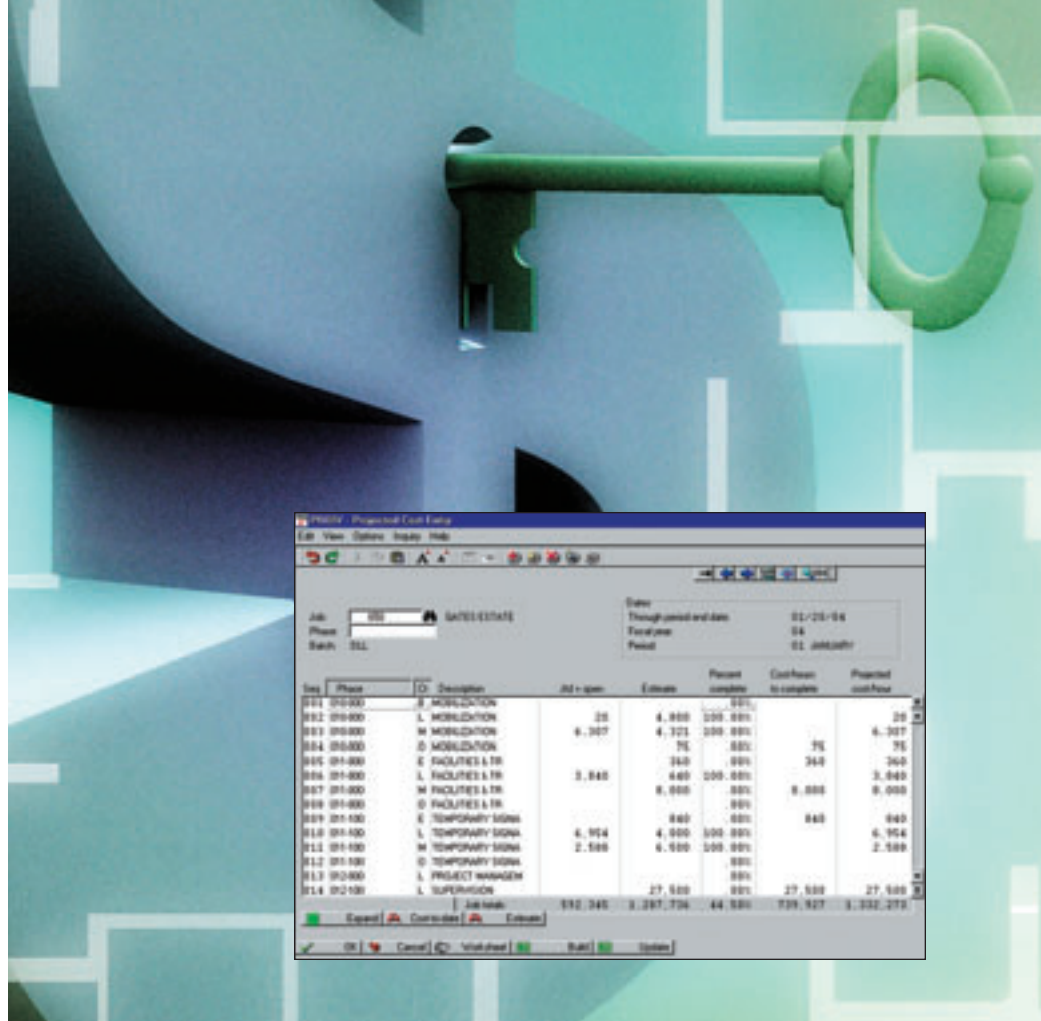
A fastidious project manager will try to compensate for these factors by keeping copies of purchase orders, invoices, payroll time cards, change orders and subcontracts. Using shoeboxes full of invoices, binders full of paperwork and several spreadsheets, the project manager will manually try to reconcile records with the outdated job cost information to calculate the job status.

This system is imprecise, incomplete and time-consuming. How can a contractor possibly forecast and control job profitability and future growth with such inaccurate data? An alternative solution for calculating accurate job cost projections might be the answer.

IN WITH THE NEW

An integrated, single-entry software system quickly and easily achieves up-to-the-minute job costs by addressing three important, often overlooked, principles when performing job cost projections: current data, accessible information and corrective action.

Gone are the spreadsheets, shoeboxes and binders. In their place are accurate and timely cost-to-complete projections that offer an early warning system against profit fade.



With an integrated, single-entry software system, labor hours entered into the payroll software also show up in job cost software. Purchase orders entered once show up in accounts payable and job cost. Subcontract management flows seamlessly to the job.

The new standard for performing accurate job cost projections captures all costs in the software at their point of entry.

Take invoices, for example. Some software systems make it easy to enter invoices as soon as they come in the door—even before being approved by the project manager. With this approach, invoices are immediately committed to the job and then routed electronically for approval, eliminating the copying, filing, routing, faxing, approving and rerouting process. In its place, a system captures expenses early so they are reflected in the job cost report.

In addition, purchase orders can be written for materials expenses and entered as committed costs to a job before an invoice arrives. Subcontracts can be set up to show committed costs before the work is completed. And, change orders can be entered to auto-

matically update the estimated budget costs and projected revenue.

The right software allows daily entry of labor hours from the jobsite or from a handheld computer, and synchronizes the data with the home office.

Now, when project managers are given job cost reports, the information is real-time rather than lag time. They know how much has been spent on the job so far (actual expenses) and they know how much more they are committed to spending (committed costs). By plugging in how far along they are on the job, they can quickly see whether they are under budget, on budget or over budget.

Gone are the spreadsheets, shoeboxes and binders. In their place are accurate and timely cost-to-complete projections that offer an early warning system against profit fade and the opportunity to unlock hidden profit as the job progresses.

With the traditional, stand-alone spreadsheet method of job cost projecting, the only person who knows the status of a job is the project manager. By using integrated job cost software to calculate projections, the status of all ongoing jobs provides a clear picture every

step of the way. Company owners and project managers can take a more active role in the profitability of the company.

AN EARLY WARNING SYSTEM

Now that project managers can perform regular cost-to-complete analyses, what does that mean? It means that job costing has become more than just an historical report. It also has become an early warning system.

When a job is 20 to 30 percent or more complete, the dollar impact can be seen immediately instead of waiting until the project is finished. If a job is over budget at 30 percent complete, time exists to take corrective action to get that job back on track.

For example, perhaps labor costs are the reason a job is over budget at this point in the project. Change crews or make sure that overtime isn't authorized. If the cost of materials is the culprit, for the remainder of purchases use less costly brands or negotiate better pricing with vendors.

In addition, a cost-to-complete analysis identifies unbilled change orders. This

provides the opportunity to collect revenue that, with the spreadsheet method, might be missed.

UNLOCKING HIDDEN PROFIT

Following job status from start to finish unlocks hidden profit by giving the opportunity to control profitability and take corrective action when needed. Yet, this early warning system isn't the only way to increase profitability.

Bonding Capacity. Accurate job costing can increase bonding capacity, which in turn can increase building capacity. The main thing bonding agents look at is the work-in-progress schedule. They want to know how the company manages jobs and predicts profitability and not just from an historical standpoint.

Cost-to-complete analyses conducted early on help make sure that jobs are profitable. Instead of speculating on financial well-being, the bonding agent can clearly see that the company controls its costs.

Labor Productivity. A system in place that captures up-to-the-minute job cost activity helps measure the productivity

of project managers and crews. This information can be used to duplicate best practices across the organization.

A consistent system to manage jobs benefits the entire project management team. No longer spending time being accountants, top project managers can run more jobs. Project managers now have the tools to more easily deliver their jobs on or under budget.

THE BOTTOM LINE

Job costing is more than just historical data. With an integrated, single-entry software solution, a job cost system serves as an early warning system against profit fade. Used wisely, it also can serve as a tool that allows project managers and financial managers to unlock hidden profit within jobs.

Chaney, CPA/MBA, is president of Dexter + Chaney, developer of Forefront Construction Management Software. For more information, call (800) 875-1400 or visit www.dexterchaney.com.