



5 ACTIONS

YOU SHOULD BE DOING
FOR YOUR CONSTRUCTION BUSINESS

Jon R Lowrance



01 Invest more into your accounting

You started your business because you were in love with construction and not accounting. I'll bet most entrepreneurs see accounting as an unavoidable necessity, but it's really just the tip of their financial iceberg. The reality is that owners will spend any extra dollar on production efforts rather than investing into their accounting department. Construction companies need to adapt and modernize their accounting practices for the sake of success. The average net profit from subcontractors in America is 3.5%. As a result, if you want your business to be profitable it's important not just how much money goes into its construction but also what comes out! I always knew that as my construction company matured, so too should its accounting practices so I went on a journey to improve just that and it didn't take long before I realized that there was less cash than what we thought. Luckily, raising prices before the numbers started catching up with us helped keep our profits high! This is an example of how you can make changes for success by increasing revenue in key areas when needed. Below are eight common stages of accounting for construction companies. The challenge is to find out what stage you are currently in and take the next step forward. Trust me you will be glad you did.

Accounting Department Stages

- 01 | Lone Wolf**
Shoe box with stack of receipts.
- 02 | Start Up**
Purchase accounting software and hire bookkeeper
- 03 | Take Off**
Job costing tied to the estimating Software
- 04 | Specialized**
Switch to construction specific accounting firm
- 05 | Growth**
Cost Spread Indirect Expenses (Outsourced)
- 06 | Expansion**
Percentage of Completion Method (Outsourced)
- 07 | Mature**
Hire a full time internal CPA or Controller
- 08 | Top of Class**
Project specific reporting completed weekly

Call to Action

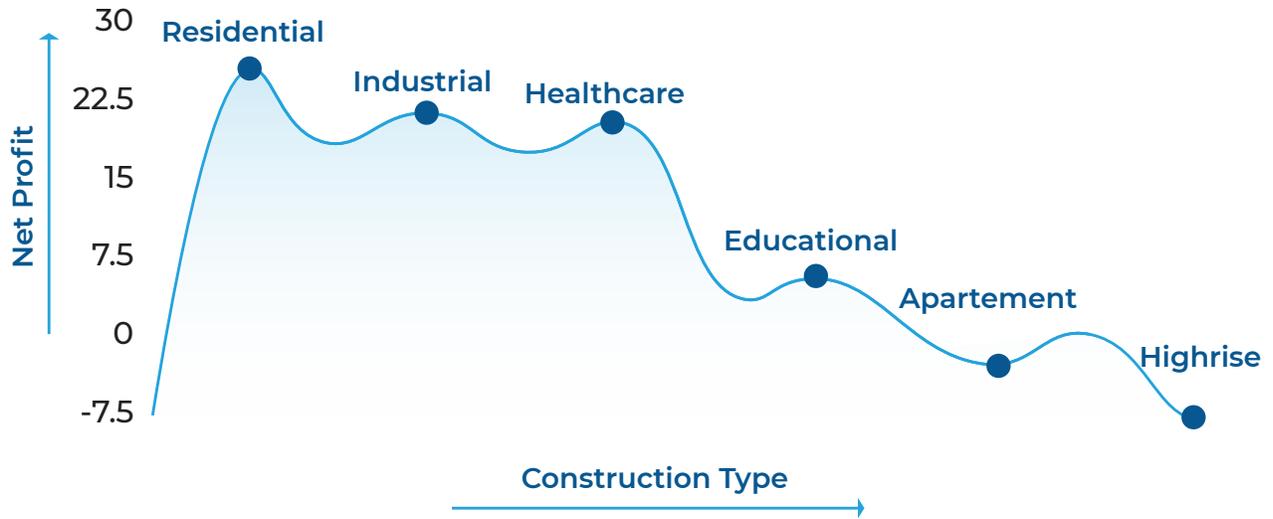
Talk to your tax accountant and ask how you can implement the next stage.





02 Eliminate the unprofitable

Sounds too simple doesn't it? However, I understand the struggle. I have battled with saying yes to additional scope when I should have said "no, we don't do that." I have struggled chasing a job I really wanted when instead I should have chased profit. I have also struggled with letting a specific contractor buy my bid down when I should have just walked away. The ugly truth is that over 71% of contractors go broke because they have said yes over and over again to jobs that don't make enough money to stay in business. A simple way to help you make these important decisions is to regularly look at waterfall graphs. Have your bookkeeper or accountant spend the next day and take all of your jobs over the last three years and put them into major categories like...Location, Customer, Project Managers, Type of Construction, Size of Job, Specific Scopes, etc. Then, look at the net profit by category and sort from highest to lowest. It's called a waterfall graph because the profit will obviously shrink or take you right over the edge. I like to look at about 5 to 7 different graphs to get the full picture. The question you should seriously consider is if you have unprofitable areas of your business why would you keep it that way? Just eliminate the waste or change the pricing on that category. Below is an example of a waterfall graph by construction type.



If this data represented a real company, I would suggest having a serious and immediate discussion about how my company handles apartment and high-rise bid invitations.

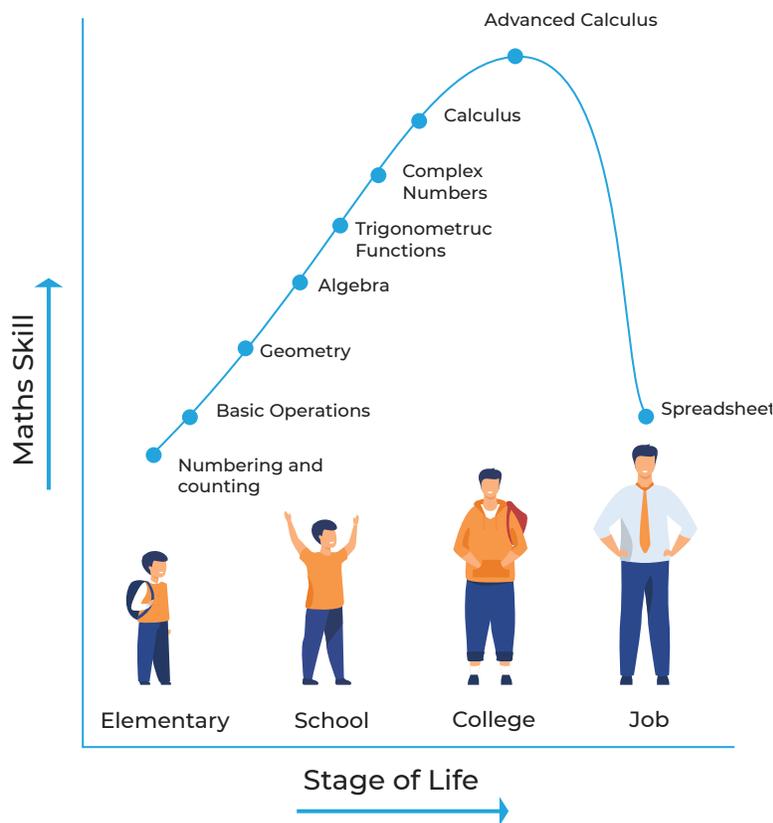
Call to Action

Ask your bookkeeper to create 5 waterfall graphs for you by tomorrow.



03

Ditch The Estimating Spreadsheets.



I once saw the following joke on the internet about spreadsheets. And I didn't know if I should laugh or vomit. I can't tell you how many construction companies I have seen that still use spreadsheets to create project estimates. Spreadsheets are awesome and useful for so many things but they should not be used to create complex estimates for companies that have revenue above \$2 Million. Spreadsheets are easy to customize and edit, which is also their Achilles heel. Spreadsheets are prone to human error. More importantly, it's difficult to create all the data that's

necessary to sync with your accounting system. I want to repeat this last point because its critical. Your estimates should be created in a way that you can align the job cost expenses with your accounting budget. I'm not saying it's impossible for spreadsheet to do this but with so many industry specific and affordable software programs, why insist on the poor man's Excel Sheet when you want to be a successful contractor?

Call to Action

Google estimating software for (your industry) and ask for a demonstration.



04 Listen to your customer

You should be obsessed with your customers' viewpoint and experience. It is one of the best strategies you could possibly have and getting feedback is so easy. A recent consumer study revealed that on average only 1% of your customers will feel that all of their expectations were met. The bad news is your company is not perfect and makes a lot of mistakes. The good news is, so does everyone else. If you are serious about improving the customer experience, make a phone call to your customer or take them to lunch. This should be someone that has boots on the ground that has truly experienced the good and bad of your company. This typically is not a high level executive but rather a homeowner, PM, superintendent, foreman, or pre-construction manager. Get them talking about themselves and everything they struggle with. Ask about your competitors. Ask how your company is performing for them. You are going to hear stuff that surprises you and things that continue to be a problem. You are going to get new ideas and suggestions. The best part is, you will also be simultaneously creating a stronger connection to your customer, increasing the chances that they become a repeat customer. Repeat customers are the lifeblood of all companies and you should be talking to them often.

Call to Action

Schedule Lunch with one of your customers this week.



05 Send me your Construction Project Process

You read that right. I want you to email me (jon@onefreedom.com) your construction process. If you can't send me a tangible document, then you don't have a process at all. Owners throw the word "process" around all the time but it means nothing unless it's in a sharable format for employees. Some examples are : Checklist, Standard Operating Procedure (SOP), Flow Charts, Templates, Software Application, etc. Once you have a documented process it must be taught, implemented, audited regularly and constantly improved. Your processes are living documents that in the beginning will feel like your master but ultimately will become your servant. Almost all companies have at least 1 documented process but a recent study showed that only 2% of companies had a process for every area of their business. Do you have a process for Hiring, Training, Estimating, Projects, Payroll, Marketing, the list goes on and on.

Call to Action

Email jon@onefreedom.com
you construction project process.





So this is how coaching works. If you have a process, send it to me and I will give you some free feedback and some ways you could possibly improve it. I love construction and if you have taken the time to read my article, the least I could do is spend 5-10 minutes reviewing your process.

If you don't have a process, consider this a challenge and get to work right away. My suggestion is to start with a checklist and put 10 critical steps in order to complete your construction project. Then think about the 5 most common errors or callbacks that your company makes and make sure they are addressed in this checklist. That's the start of a process and it will only grow from there.

Coaching for Improvement

Jon R Lowrance.

