Best Practices Guide:

OPTIMIZING YOUR CONSTRUCTION BUSINESS FOR PROFITABLE GROWTH

VIEWPOINT
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Construction companies are meeting the challenge of ever-intensifying competition by refining their business operations with standardized operating practices and "visible" information that is shared among multiple departments.

"Before, only owners who wanted to grow a very large company would worry about transitioning from the informal business they started to formalized, standardized business processes," explains Jay Haladay, CEO of Viewpoint Construction Software, a leading provider of construction management software solutions, expert services, and best practices. "But in the current environment, you also have to make that transition just to stay competitive and improve your profitability."

> *Ultimately, if you can attain purpose-driven buy-in and drive repeatable processes towards widespread fluency, your 10% overhead becomes 7%, and 5% profit becomes 8%. You start maximizing profit and shrinking overhead.*
>
> *Dillon Godley*
> *Senior Contracts Officer*
> *E.R. Lewis Construction Company*

Standardization + Visibility = Higher Quality And Profits

Contractors who have made the transition Haladay describes advise that something almost magical happens when standardized, repeatable processes meet visible, actionable information. As the firm's execution accuracy, efficiency, and productivity rise – thus increasing profits – quality and timeliness of the finished product also increases. All of this translates into greater pricing flexibility, i.e., room to offer a good price that still generates a handsome profit.

Here's how it works:

1 Visibility of project information flowing back to estimators improves the accuracy of estimates

2 Better estimates help win bids, leading to a more reliable new-business pipeline

3 Exposing the detailed knowledge behind accurate estimates empowers project managers to run projects smoothly, efficiently, and more profitably

4 Better-managed projects mean work flows in the right order, and rework is reduced (improving finished product quality and contributing to higher profits)

5 Actively documenting project operations, and "flowing" that information into accounting, enables more efficient cash management, payroll operations, and lien release management

6 Empowering all of the above with standardized processes makes it possible to repeat them and get the same result, improving overall operational efficiency and, just as important

Standardized Processes Boost Profit

By making your firm more efficient, these six steps clearly lead to higher profits. And the repeatability of standardized processes makes you confident that you can do it again, for any project.

Only standardized business processes give companies the ability to correctly ascertain the cause of faults or missed expectations. Without standard processes, you can't know whether a disparity between your estimate and actual cost is the result of a project problem or employees taking different approaches.

Once processes have been standardized, though, results become measureable in ways that let you draw conclusions that can lead to profitability improvements over time. "It's how you go from being an informal business with inconsistent business practices to consistently repeatable practices that enable you to continuously improve," explains Haladay.

Of note, profitability improvement, not sales growth, was what motivated The Norwood Company, headquartered just outside Philadelphia, to make the transition to standardized, repeatable processes. They found it even helped ease their hiring situation, because well-documented standardized processes enabled new hires to get trained faster and hit the ground running.

In addition, getting these steps right also leads to higher quality finished work, plus on-time or even early completion. That means more satisfied customers. And more satisfied customers boost future sales by generating follow-up jobs, as well as positive word-of-mouth.

Create Information Visibility

Contractors who use Viewpoint's software report that information visibility is a necessary companion to standardized processes. Information visibility means exposing the expert knowledge hidden in the minds of estimators, project managers and accountants so that others in the company can see that information in a way that makes it useful and actionable for them. It leads to better quality for the customer and improved profitability for the construction firm.

For example, information visibility and effective communication lets project managers see the nuanced thinking behind an estimate, improving the chances that project costs can be actively managed to match that estimate. It works in the other direction, too: Norwood discovered that detailed project management and job costing information helped estimators see where the "scope gap" was. Seeing exactly where the reality of the project failed to match their estimates improved the accuracy of future estimates.

Perhaps most importantly, feeding accurate estimate and project information into accounting systems empowers everyone involved in a project to actively manage it for profitability. And enables finance teams and owners to manage — in other words, maximize — the firm's cash. For example, at Evans Chaffee Construction Group (based in Avon, Colorado) information visibility allows project managers to access accounting data and rapidly calculate their own "cost-to-complete" estimates at any point in a job.

" We went from one or two companies bidding against us on a job, to eight to ten companies. So if you didn't quickly become the low cost producer, you were out of business. "

Jim Macejkovic
Executive VP / CIO
Building Service Inc.

" The biggest thing from my standpoint is that when a customer or a subcontractor calls, they can get an answer from anyone they talk to. You don't have to forward them on to another person or department that may or may not be there because you don't have access to the information. "

Chris Evans, CEO
Evans Chaffee
Construction Group

Best Practice Advice

With standardized business practices and information visibility as the overarching context, here are seven points of more detailed, practical advice.

1 **Document everything – right away!**
   More and more construction customers are demanding proof before they pay, so it's important to adequately document that snow or rain delay, get sign off on that change order, etc. Even routine work must be documented so that timed invoices can be generated. The closer to "real time" that you document these things, the faster that milestones achieved can turn into invoices sent – thus shortening your "time to cash."

2 **Commit to constant improvement.**
   Repeatability and continual refinement of standardized processes provide a foundation for business scalability and generate increased profitability. Even companies not interested in growing large can benefit from the increased profit. But it doesn't "just happen." Technology tools allow you to enhance efficiency and profit, but your active commitment to continuous improvement, including direct senior management support, is necessary to make it happen.

   After the "Great Recession" hit, Building Services Incorporated, in Milwaukee, Wisconsin, looked to technology to build automated, electronic processes, and reexamined its business processes. They identified 175 steps from the time of first customer contact to final payment and, over time, cut that down by more than 50% to fewer than 85 steps. Perhaps most importantly, they cut an entire month from their cash flow cycle, reducing payment time from 95 to 65 days.

3 **Eliminate spreadsheets!!**
   No amount of exclamation points would emphasize this key point enough for the firms who have made the move and "get" its value. You may have evolved intricate, elaborate spreadsheets that get the job done, and on which you depend. But spreadsheets are the enemy of information visibility. They depend on the secret knowledge in the minds of their creators. One undetected error can destroy an analysis. And with spreadsheets, you just can't make the information flow from estimating to project management to accounting/payroll, or to owners, in ways that make it instantly useful to the people at each of those steps.

4 **Proactively manage change orders.**
   Every job has change order potential – and change order work typically returns higher margins. Some firms even bid jobs low, initially, with the expectation that change orders will help them turn a profit. But change orders can quickly become a nightmare if not documented adequately, and rapidly. Equally important is matching costs to each change order, so you can an determine profitability.

   At Norwood, for example, project managers were delighted to find that their new system automatically generated detailed cost information once they created their change order.

> **"** *What really keeps me up at night is wondering how I will meet our sales goal of $4 million dollars this, and every, month, in a stagnant economy with way too many competitors!* **"**
>
> *Jim Macejkovic*
> *Executive VP / CIO*
> *Building Service Inc.*

5 Exploit the value of seamless information sharing.
Information visibility can be used in any number of ways to create value. Implemented properly, nobody has to rekey in information multiple times. It enhances estimating and project management processes, as has been thoroughly discussed. But it also empowers finance and accounting processes. For example, it can dramatically reduce the time needed to perform functions like certified payroll reports and AIA billing. Perhaps most importantly, it provides owners with the visibility they need to effectively control every important aspect of firm operations.

6 Don't "share alike."
While the value of visible, shared information is irrefutable, that does not mean "share and share alike." Some information is proprietary. Carefully configure systems so that everyone who needs to know, knows – but also secure the information so that only the appropriate parties see it.

7 Find your firm's sweet spot.
Once detailed project information is properly documented, shared with accounting, and made visible, you can analyze it to determine which types of jobs are most profitable for your firm. Then focus sales efforts on those "right" wins.
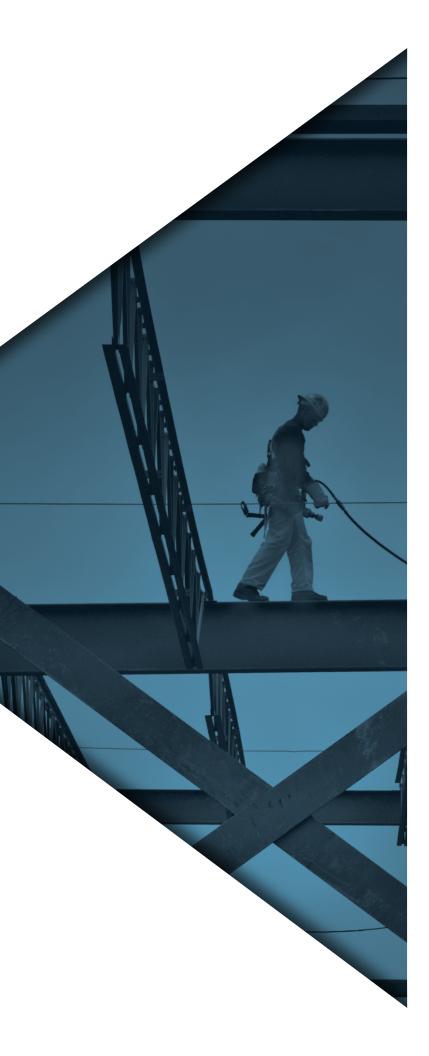
Best Practices Guide Series

This article is part of Viewpoint's *Best Practices Guide* series, the aim of which is to provide straightforward, actionable, and detailed advice on the business and technology topics that are most important to construction firms. The advice is synthesized from conversations with leaders of construction firms of all sizes and in all industry segments.

ABOUT VIEWPOINT

Viewpoint, a leader in meeting the collaborative and information needs of the AEC industry offers construction-specific solutions for a variety of professionals including small, medium, large and enterprise contractors. Viewpoint solutions include takeoff and estimating, project management, accounting solutions, enterprise resource planning, project and BIM collaboration, mobile field-to-office and enterprise content management. Viewpoint customers include more than 30 percent of the ENR 400 and have the most technology partnerships with the top 50 mechanical and electrical contractors in the United States. Viewpoint serves as the technology partner of choice to the construction industry and delivers the right solutions on the right platform, including cloud, SaaS and on premise solutions and provides customers improved accountability, efficiency and productivity throughout the U.S., Canada, the United Kingdom, Europe, the Middle East and Australia.

> " *It used to take us up to three weeks before the customer was sent a bill, which resulted in a cash flow cycle of 95 days from job close to payment. Now we have a 65-day average turnaround time in cash flow – a full month's improvement!* "
>
> *Jim Macejkovic*
> *Executive VP/CIO*
> *Building Services Inc.*

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