Sage Construction and Real Estate

101 Practical Strategies to Help Make Your Construction Business More Profitable

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TABLE OF CONTENTS

WE'D LIKE TO THANK THE FOLLOWING CONTRIBUTORS TO THIS PUBLICATION:

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Customer Relations and Marketing

Significant improvements in estimating productivity can be achieved by adopting a vertical (construction-specific) estimating solution versus manual or generic spreadsheet methods such as Microsoft Excel®. Many statistics are touted in the industry, with some sources actually assessing up to a 50% increase in productivity.

1. A Picture's Worth 1,000 Words

Your prospective customers want to know one thing: will they be satisfied, or even thrilled, when the job is done? Persuade them with photographs. Here's how: Ask your happy clients and their families to pose in front of the completed project and, as they smile widely, snap away. After obtaining their written permission, you could place these photos in a presentation album, complete with friendly captions. Then, as you negotiate new contracts, show this album to prospects, making sure to speak fondly of your former customers. This simple act says you value customer satisfaction—and have delivered it repeatedly. Best of all, this strategy works for all kinds of clients, from homeowners to large commercial enterprises.

2. Make Your Office Sell

Your prospective customers want to know one thing: will they be satisfied, or even thrilled, when the job is done? Persuade them with photographs. Here's how: Ask your happy clients and their families to pose in front of the completed project and, as they smile widely, snap away. After obtaining their written permission, you could place these photos in a presentation album, complete with friendly captions. Then, as you negotiate new contracts, show this album to prospects, making sure to speak fondly of your former customers. This simple act says you value customer satisfaction—and have delivered it repeatedly. Best of all, this strategy works for all kinds of clients, from homeowners to large commercial enterprises.

3. Give a Portrait As a Gift and Enduring Reminder

When the project is complete and you've been fully paid, don't just walk away. Select one of the photographs you've taken for Strategy 1, have it enlarged, professionally framed, and inscribed. Then present it to your clients.

Profits in Action: Such a portrait can be cherished and displayed for years in the home or corporate lobby, where it will remind clients of your work and could generate repeat and referral business for you.

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4. Manage Your Customer's Expectations

If a customer relationship sours, it's almost always because the customer's expectation differed from what you delivered. So always try to "under sell, over deliver." Setting customer expectations just below what you know you can deliver is especially valuable when planning schedule milestones. For example, tell your clients that schedules will probably change due to bad weather, out of stock items, etc. Also, communicate constantly throughout the job, making sure customers know what to expect at every turn.

Profits in Action: Include a Critical Path Management (CPM) schedule from Sage 100 Contractor with every invoice to remind customers of the current schedule and anticipated completion date. The schedule also includes billings as well as upcoming decision points, further reminding customers of their contract obligations. You may want to keep one schedule for your staff and another one for your clients.

5. Promise 100 Percent, Deliver 110 Percent

Picking up where Strategy 4 leaves off, the surest way to satisfy customers is to supply a little extra on each project. The best extra to deliver is service. If done efficiently, the cost can be very low; in fact, it could make you money. Supply extra service on each project, and customers will think of you first whenever they need help and they will refer you to their friends and associates—the least expensive way to acquire new clients.

Profits in Action: Obtaining a new customer is generally much costlier than reselling your services to current ones, so do your best to retain your customers for future work.

6. Negotiate an Early Completion Bonus

After the customer has agreed to your contract amount, try to negotiate an early completion bonus. If you've followed Strategy 4, your contractual completion date should leave you room for finishing the project early—and many customers are happy to pay for the privilege. This bonus could be a percentage of the customer's carrying costs, for which an earlier start date translates directly into a quicker return on the customer's investment. Such customers may be willing to reward you with a portion of their savings.

Profits in Action: You can use this payment as an incentive for your crew and subcontractors, rewarding them if they complete the work sooner than scheduled. Completing the job ahead of schedule helps save expenses and frees you to take on other work.

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7. Make Sure Clients Appreciate the Quality of Your Work

Why do some family sedans sell for three times or more the price of other family sedans? Quality, you say? Almost: it's the perception of quality that really matters. Customers cannot value quality, or willingly pay for it, if they don't know it exists. Much of the quality you build into every project is hidden from your clients; your job is to reveal it. Show your customers around the job site and point out how you're delivering a quality project. Even simply meeting local building code requirements is an opportunity to inform clients about the important safety features built into their projects. Remember to sell quality, not price, throughout the job.

8. Impress Prospects with Professional Customer Documents

Be sure to show prospective clients examples of professional schedules, change orders, and billing documents and explain in detail how they will get bills and schedule updates throughout the job. Establishing a high level of professionalism could help you negotiate higher billing rates and to get paid sooner once the project is underway.

Profits in Action: Include sample Sage 100 Contractor Change Order, Invoice, Statement, and Critical Path Management (CPM) Schedule documents with your proposal.

9. Become a Community Leader

Spend some time every week on charitable work and join one or more community action clubs in your area. Use these opportunities to network with potential prospects.

Profits in Action: Being recognized as a community leader could have a direct impact on your success. You may attract better employees and more-profitable customers. At the same time, improving your community makes it more likely that local buildings will be erected and remodeled—which, not coincidentally, can help improve your business.

10. Enlist Your Current Customers to Find New Ones

The best way to get referral business is quite simple: Ask for it! When your job is complete and you've given your clients a portrait (see Strategy 3: Give a Portrait), ask them to spread the word among friends and associates. Hand out stacks of your business cards and brochures. Customer referrals are a wonderful source of new business—and repeat business from the same customer is even better. This strategy works well because people who hire contractors usually know other people who might hire contractors.

Profits in Action: Your happy customers will sell you to their friends if you give them the opportunity and the tools to do so.

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11. Stay in Touch

Related to Strategy 10, stay in touch with former customers to tap one of the biggest sources of referral business available to you. Try this: Pay a personal visit to the project three months, six months, and one year after the date of completion; use this opportunity to re-establish a friendly relationship and fix any problems that may have developed. If appropriate, send a personal card on special occasions

12. Create a Clear Vision Statement for Your Business

You can't be great at everything, so learning your strengths, communicating them clearly to the world, and staying focused is critical to your success. A well-defined vision statement will help you make day-to-day business decisions and give you credibility with prospects and customers. Review this statement annually, at least, to see if it still tells your story. Revise as necessary.

Example of a vision statement: A. Homes creates elegant homes of distinction and quality. Each home is an individual masterpiece that is custom designed to match the owners' lifestyle and dreams with tasteful elegance and practical functionality.

13. Learn to Manage Complaints

Dealing effectively with customer complaints—and no matter how exceptional your business, there will be complaints—removes one of the most important roadblocks to a profitable business. You can train yourself and your employees to manage an unhappy customer; it is not as difficult as it might seem. Try following these steps:

- First ask for a minute to write down the complaint, noting you want to avoid this situation in the future. This should take the heat off you and force your customers to think about what they are saying.

- Repeat the complaint, so customers are assured of being heard and there's no room for misunderstanding.

- Ask for more details—as well as other problems. Flush out every gripe you can.

- Thank the customers and show empathy for their plight.

- Ask them what they think you should do to resolve the situation.

- Commit to a next step and follow through on it.

Profits in Action: Customers who point out valid problems can actually help you improve your business. More good news: when you successfully manage unhappy clients, they are often transformed into excellent references.

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14. Use Custom Binders to Make Every Proposal Special

After you've finished an accurate takeoff of the project, conclude your marketing effort by creating a custom binder. Be sure to include the customer's name and type of project on the cover. Include photos of similar, successfully completed projects with letters of recommendation from happy customers. Make your presentation clearly say, "I offer professional services that are well worth the price."

15. Find a Market Niche and Fill It

Research your local area to determine which construction specialties are in demand but have only a few practitioners. Choose the market niche of greatest interest to you, then examine those businesses to learn how you can improve on them in some important way.

Profits in Action: Specialists command higher rates and, with less competition, can more easily leverage an excellent reputation.

16. Stay Up to Date to Stay Ahead

Learn as much as you can about your portion of the industry. Talk to your suppliers and visit the manufacturers of the products you install. Keep abreast of changes in your market, tools, and products. Find out which new products can improve your production efficiency. Read trade journals and attend industry group meetings.

Profits in Action: If you constantly look for ways to be more productive, you could start seeing more profit in every job.

17. Guarantee Your Work

Guaranteeing your work helps assure your prospective clients of your commitment to quality. This in turn could encourage prospects to choose to work with you, and it promotes a respectful relationship. To limit your exposure, however, guarantee your workmanship only, not materials. Because guarantees have significant legal implications, please consult with an attorney before making this offer.

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Managing Your Workforce

18. Reward Performance, Not Effort

Before you can reward performance, you have to measure it. One way is to ask your employees to agree to complete all work in fewer hours than you've estimated and reward them with a bonus if they do (see Strategy 6: Negotiate an Early Completion Bonus). Giving managers an annual bonus based on company profit can also be a great motivator. It rewards exactly the behavior you want to foster: profit for the company.

Profits in Action: Sage 100 Contractor enables you to budget hours as well as dollars for every task. Review this data with your employees at the outset and then at regular intervals so they know how they are performing.

19. Take Steps to Prevent On-Site Accidents

Few things can stop your business faster and colder than a serious accident. Make accident prevention a top priority if you want to continue being profitable—or just stay in business. Assign one employee on every job to be the safety engineer. Hold regular safety meetings and ensure your safety training is up to date.

20. Keep Your Job Sites Clean

A messy job site not only increases risk of injury and impedes workflow, it could also discourage prospects and upset customers—especially when you are performing remodel work.

Profits in Action: A clean job site could be a simple way to get more interested prospects, happier customers, fewer accidents, and higher productivity.

21. Let Go of Unprofitable Employees When Necessary

When employees are unable to meet minimum productivity standards after repeated coaching, the best thing you can do is replace them. Carelessness, accidents, and shoddy workmanship will adversely affect company morale and profitability.

Profits in Action: Sage 100 Contractor can help you monitor employee productivity by analyzing budgeted to actual job hours, and you can use its Daily Field Reports to track incidents, meetings, absence reasons, required training, and more. As a business manager, one of your primary functions is to constantly improve your team through training, coaching, and, as required, hiring and firing.

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22. Use Temporary or Contract Labor for Quick Fixes

If a project is running behind schedule and liquidated damages may potentially kick in, you may find it is faster, easier, and cheaper to finish the job using temporary staff. Many "labor pool" companies provide short-term workers. But remember: each job site requires an experienced supervisor to ensure productivity.

23. Teach Your Employees to Be More Productive

Spend a little time every week coaching each of your employees. Most employees want to work efficiently, but many simply do not know how or believe they are constrained by conditions they cannot control. One of the best ways to help employees achieve higher productivity is simply to ask them how they think they could work smarter or more effectively. Then add your own observations and, together, develop simple tactics they can use every day to improve job site productivity.

Profits in Action: Even small productivity improvements can have huge effects when maintained over time. And when employees produce the same or greater results in less time, you could pay less in base wages, payroll taxes, workers' compensation, and other benefits.

24. Learn From Your Employees How to Be Productive

When poor management or planning interferes with productivity, it's important your employees have a way to easily communicate the breakdowns to you. One method is to add an area on daily timecards for reporting production slowdowns, such as "Production was slowed today because _____." This could help you spot opportunities to improve production through better communication and planning.

25. Hire Professional Office Staff

With progress billings, pre-lien notices, lien waivers, union reporting, payroll taxes, certified payroll, change orders, and more to manage, an effective office staff and accounting system is a must, not a luxury. If you've gone from being a hired hand to running your own business, you may feel you ought to be involved in every office detail. Fight that urge.

Profits in Action: One of the fastest ways to go broke, particularly in commercial construction, is to become overwhelmed by your office procedures.

26. Invest in Training for Field and Office Staff

Train your staff to handle new products, materials, technologies, and techniques; this helps reduce waste, limit accidents, and increase productivity over time.

Profits in Action: Without proper employee training, all the new products (and materials, etc.) in the world won't help your business become more profitable.

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Estimating and Scheduling the Job

27. Post the Project Schedule

Keep project schedules up to date and post them in plain sight so everyone involved in the project knows when they are expected to complete their work.

28. Note Items Missing From Plans

When putting together your job bid, be sure to compile a detailed list of plan items that are either unclear or should be included but are missing. Include this list with your bid. Otherwise, your customers may assume you're responsible for work you either didn't understand or didn't intend to accept. This could lead to you taking on extra work, which comes out of your profit, or upsetting your client. Neither is a happy outcome.

29. Create a Schedule Before Estimating the Cost

Generate a rough schedule before you start estimating the work. The schedule will serve two ways: as the basis for estimating your cost of general conditions and as a reality check for your labor estimate.

30. Allow One Half-Day Per Week for Miscellaneous

Build a half-day per week into your project schedule. The time will likely be consumed collecting timecards, picking up materials, and other minor project delays.

31. Bill Expensive, High-Profit Work Early in the Project

When submitting an itemized bid that you're billing on a percentage-complete basis (**see Strategy 87: Use Progress Billing**), allocate a greater percentage of the overhead—and profit—to tasks early in the job. This could help improve your cash flow and help you stay ahead of costs as the project progresses. Caveat: be careful not to frontload items that might be taken out of the contract. In fact, it's smart to lower overhead allocation on items you feel the owner may strike from the contract. This leaves you with higher profit margins on the remaining items.

Profits in Action: Use the Sage 100 Contractor Progress Billing to Update Percentage from Cost option when creating your billing. You'll be able to bill the entire amount, including profit and overhead, once your costs match your budget for the item.

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32. Use Production Rates When Estimating Labor

When estimating labor for a project, use production rates (hours) instead of dollar-based unit pricing. This enables you to estimate consistently when wage rates change and gives you the ability to compare hours estimated to hours worked. The easiest way to do this is to use an assembly-based estimating system that utilizes production rates adjusted for the project's degree of difficulty.

Profits in Action: Sage 100 Contractor will calculate the cost of labor from hourly production rates for each of the different types of labor required for project completion. This enhances the accuracy of your cost estimates and helps you to better allocate manpower.

33. Standardize Project Schedules

Create a standard Critical Path Management (CPM) schedule for the work you typically perform, including all of the tasks and relationships required to do the work. Then use this schedule as the starting point when you bid a new job. Simply update the task durations to match the new job's requirements and adjust the variable dependencies.

Profits in Action: Standardized project schedules provide a basic task system for every schedule and help reduce the time required to bid a new job.

34. Create a Pre-Bid "Score Sheet"

Prior to estimating a job, create a check list of criteria you'll use to evaluate the project's attractiveness: quality of site conditions, job duration, difficulty of work, inspector reputation, client disposition, strength of other bidders, special equipment needs, and more. Involve everyone responsible for estimating and production in rating each item on a one-to-five scale. The results should help you evaluate whether, and how, to bid the project.

Profits in Action: Sage 100 Contractor can generate a form that merges job and client data, saving you time when creating a form for each new project.

35. Read Your Contracts Carefully

Before going through all the trouble of bidding a job, be sure to read the contract you will have to sign. Look for onerous conditions that will make it difficult for you to be profitable or collect your money. This is especially true for subcontractors, who typically have little or no control over the contract wording. Better yet, consider creating your own contract template and try using it whenever possible.

Profits in Action: It's less costly to walk away before bidding the job than after you've invested a lot of time and effort in the estimating process.

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36. When Bidding a Job, Look for Pitfalls

Create a risk-management plan for tasks that could cause a significant cost overrun or make collecting payment difficult. If you are not familiar with the work required for part of a project, it's generally a good idea to either subcontract the work, provide additional supervision and monitoring, add a cost overrun allowance, or remove the work from your contract scope.

Profits in Action: Use Sage 100 Contractor job cost reports to identify cost overruns on previous jobs. Then decide how to manage this risk before bidding a new project.

37. Solicit Subcontract Bids First

Before signing a prime contract, make sure you have solid bids from (at least) your major subcontractors and suppliers. Pay special attention to unique or unconventional work or materials; think things through and have firm prices in hand before submitting your bid. Otherwise, your estimate may not reflect actual costs.

Profits in Action: Continue to "buy out" a job—look for better bids and estimates on subcontracts and materials—until you have committed to pricing.

38. Include a "Not in Contract" Addendum

Generate a detailed list of items not in your contract to ensure your customers cannot later argue they never agreed to such exclusions. Be especially scrupulous about noting excluded items that would normally be included in the scope of this work: Without such a list in your contract, a court might easily construe these items were included.

39. Obtain a Release of Liability Form

Before going through all the trouble of bidding a job, be sure to read the contract you will have to sign. Look for onerous conditions that will make it difficult for you to be profitable or collect your money. This is especially true for subcontractors, who typically have little or no control over the contract wording. Better yet, consider creating your own contract template and try using it whenever possible.

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Project Management

40. Document All Change Orders

Not getting paid for changes can make a good job go bad quickly. Establish with your customer the necessary procedures to be paid for a change order—don't accept verbal commitments—and then follow those procedures to the letter. Ensure that forms are available on the job site so customers can authorize spur-of-the-moment changes that haven't gone through proper channels.

Profits in Action: With Sage 100 Contractor, you can quickly and easily create a professional change order and track all changes. This helps you manage change orders through to approval.

41. Plan Your Purchasing

Question: How much does a box of T100 staples cost? Answer: About $3.00 at the hardware store. But if a carpenter is sent to the store while work grinds to a halt, the total cost of the staples (including the carpenter's labor and benefits costs, transportation expenses, job site down time, etc.) will be considerably higher. Not having the right materials when and where you need them is one of the biggest causes of lost productivity. Improve your purchase planning and you could add big dollars to your bottom line.

Profits in Action: Use the Sage 100 Contractor assembly-based Estimating option to create purchase orders that include the materials amounts required for each unit of work. Then use your purchasing reports to monitor your purchasing efficiency. Every trip you save means extra profit for your business.

42. Use a Taxi Instead of an Employee and a Truck

Create a risk-management plan for tasks that could cause a significant cost overrun or make collecting payment difficult. If you are not familiar with the work required for part of a project, it's generally a good idea to either subcontract the work, provide additional supervision and monitoring, add a cost overrun allowance, or remove the work from your contract scope.

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43. Charge a Change Order Fee

Don't use the same overhead and markup rates for change work as for work covered in the main contract if change work requires additional supervision, delays the entire project, reduces productivity, or might require materials that may be unavailable. Every change order eats up profit, and the cost of overhead and general conditions for the lost time should be borne by the customer, not you.

Profits in Action: Use the markups on the Sage 100 Contractor Change Order option to calculate the billing price for change work. Be sure to build in the additional costs for general conditions and supervision required by the change work.

44. Charge More for Change Work

Similar to Strategy 43, charge a change order fee (from $50 to $250) to cover your time, re-ordering, re-scheduling, materials return, etc. Change order fees make the customer think twice about making changes. You can always waive the fee if the change order is small or at your suggestion.

Profits in Action: You can profit from change orders, but you have to charge enough to cover your costs and additional overhead.

45. Hold Retention on Subcontractors

When negotiating subcontracts, add a contract provision withholding 5 to 10 percent of payment until the project is complete. This gives you leverage to get items fixed and work completed near the end of a project. Use this extra cash flow to receive your early pay discounts (see Strategy 67: Take Advantage of Early Pay Discounts) and to pay subcontractors as they complete each phase of their work. Your subcontractors will be happy to be paid in a timely fashion and you'll have better control of their timely performance.

Profits in Action: Sage 100 Contractor can help you manage retention on each subcontract invoice, making it easy to keep track of retained amounts and pay retention when the subcontractor has completed all work.

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46. Use Schedules to Complete Your Projects Faster

One of the best ways to complete projects more quickly is to build a detailed schedule before starting the project and then keep it current every day. This will help you allocate manpower, keep subcontractors on schedule, and anticipate material ordering. Every saved day could mean lower overhead costs, less labor, happier customers, and less risk. Plus you can take on more work and potentially make more profit using the same crew.

Profits in Action: Use 100 Contractor Builder Critical Path Management (CPM) tools to quickly and easily update your schedules. By adjusting task leads and lags, you can create a more-efficient workflow and get your project done faster. You can also send Project Notices to your subcontractors to keep them informed about schedule changes.

47. Quickly Notify Subcontractors of Schedule Changes

Ever have subcontractors show up too soon or not at all—because you failed to notify them of schedule changes? The sad truth is, you're both losing money. A simple solution is to provide subcontractors with a report that lists the status of all your jobs and the subcontractor's relevant tasks and due dates. Given adequate notice and the promise of rapid payment, most subcontractors will be happy to show up when expected and complete the work in a timely fashion.

48. Use a Purchase Order System

Many contractors do not use a formal purchase order system because it looks like too much work. Actually, the opposite is true: purchase orders can save you a great deal of time by streamlining purchasing and the processing of payable invoices. Without purchase orders, you have no easy way to verify invoice pricing, anticipate cash flow, detect employee theft, or get reports on committed costs. Purchase orders also force you to think through the process of obtaining materials, which should result in more-efficient production.

Profits in Action: The Sage 100 Contractor purchase order system is fully integrated with Estimating, Inventory, Accounts Payable, Service Receivables, and Job Cost Reporting, helping you save time and effort in processing accounts payable.

49. Compare Invoices to Purchase Orders

To ensure you're being properly billed for the materials you've ordered, compare the prices on the invoices you receive to your purchase orders. This is exactly the kind of task you can turn over to your software system.

Profits in Action: With Sage 100 Contractor, you simply enter the purchase order number and the invoice will fill out automatically with the correct pricing and job cost information.

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50. Automate Your Subcontract Forms

Create a subcontract form that includes your standard contract language and use your computer system to mail merge the subcontract information into your form. Creating complex subcontracts for every project doesn't have to be daunting.

Profits in Action: The Form Design option in Sage 100 Contractor can build a standard subcontract that can be merged with detailed information for each new project.

51. Standardize Subcontractor Forms

Give your subcontractors a standard billing form, which should include the subcontract number, the job name, and any other information that will be helpful in processing the subcontract invoice, such as the cost codes for the work. Give them a separate form for billing change work; this will keep the billing for the original contract separate from change work billings, making it easier to audit the original subcontract.

Profits in Action: By standardizing all subcontractor billings, you'll cut down on paperwork and minimize mistakes.

52. Take Photographs of Projects In Progress

Getting sued years after finishing a project is one of the most exasperating things that can happen to you—especially when the problem actually resulted from alterations made after you left the project. Unfortunately, it is all too common. Taking photographs of work as it progresses is one way to help prevent this type of lawsuit. Attorney fees and court settlements come out of your profit, so take steps to avoid legal actions.

53. Stop Taking On Unprofitable Jobs

Question: Would you be better off taking an unprofitable job or going fishing? Answer: Try fishing; you stand a better chance of enjoying yourself and it's a lot cheaper. Too often contractors accept unprofitable work because they don't have job-cost information that accurately compares budgeted costs to actual costs for every task.

Profits in Action: If your average profit margin is 5 percent, you'll need $20,000 of work to make up for a $1,000 loss—and you won't recover the lost profit until you make another $20,000. Use the Sage 100 Contractor Bonding Report to see which kinds of jobs have made you the most profit and then focus on getting more of them.

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54. Stop Doing Unprofitable Work

This tip is similar to Strategy 53, but here the focus is on learning which parts of projects are not profitable or have inordinate risk. If, for example, your crews are not efficient at foundation work, it might be wise to subcontract these tasks. Or perhaps you're making money on the foundation work, but subcontracting it would allow you take on other work that would be even more profitable. The most reliable way to make these decisions is with accurate cost/estimate comparisons that you review after each project.

Profits in Action: Use Sage 100 Contractor to compare costs across projects.

55. Take Photographs of Accident Scenes

Document injury and accident scenes as soon as possible. A photographic record establishes the location of materials, equipment, and other relevant items, which may help you in a lawsuit or claim for damages.

56. Document to Help Reduce Litigation Risk

Court cases are often settled on the basis of who said what to whom. Keep a database of project correspondence and documents to protect yourself in case of litigation. If it's true that in court the side with the best paper wins, an organized set of project documents might just save you a bundle.

Profits in Action: Sage 100 Contractor has a complete project document control system that includes RFIs, RFPs, Correspondence, Daily Field Reports, Plan Records, Punch Lists, and a Project Hot List for staying on top of important communications.

57. Attach Current Plans to Your Contract

Before signing the contract, submit a current set of plans and specifications and make sure you reference these plans by revision number and date. It's critical all parties to a contract base their obligations on the same set of drawings, especially after multiple plan revisions. Taking this step helps you establish the exact basis of your bid and helps to ensure your clients cannot later dispute what was included in, or excluded from, the contractually mandated work.

Profits in Action: Use Sage 100 Contractor Plan Records to track all plan versions and revisions.

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58. Distribute the Most Current Plans

Set up a procedure to help ensure your field personnel, subcontractors, and suppliers are always working off the most current set of plans. Also, indicate all previous changes either on the current plans or on a transmittal form. It's a good idea to assign this task to the project manager, so there is clear ownership. Before starting a project, generate a list of subcontractors and suppliers who will need to receive plan updates. Otherwise, it may be your fault if obsolete plans result in costs or delays—and there goes your profit.

Profits in Action: Sage 100 Contractor can track subcontractors with plans, indicating plan revisions and more.

59. Keep Copies of All Plans and Revisions

Save all your documents and plans after completing each project. Legally, you need to keep documents for a specified period (check the state or states laws in which you do business) or as long as you warrant your work. Create, maintain, and archive lists showing the location of the documents. Keep the documents in a safe and dry location with good access.

60. Keep Track of Subcontractor Insurance Certificates

Track whether your subcontractors are keeping their insurance certificates up to date and hold payments for those who do not. This may shield you from large losses if a subcontractor is involved in an accident. Also, you'll easily be able to present all necessary certificates if audited, saving you time and trouble when trying to locate subcontractor certificates for past work.

Profits in Action: Use Sage 100 Contractor to track insurance certification and hazardous materials compliance for all subcontractors. The software will alert you whenever you prepare checks for subcontractors.

61. Constantly Improve Your Processes

Even if you've done a good job creating efficient procedures for your company there's always room for improvement and, as conditions change, you'll always need to adapt. So make time to regularly evaluate (at least twice a year) your company's primary processes such as estimating, purchasing, and billing. Then make adjustments you feel will improve efficiency.

Profits in Action: Regular process reviews will bring focus back to the core processes that drive your company and help to make you more profitable.

Managing Payroll

62. Collect Timecards Every Day

When employees track their time by the week, they can easily underestimate time missed and overestimate time worked; that is simply human nature. In fact, by processing payroll daily instead of weekly, your business could save an average of one hour per week for every field employee. That can really add up. You could save more than one full week of pay for every field employee each year (assuming 50 weeks of work). Saving that kind of money certainly justifies the extra effort of collecting timecards each day. Using daily timecards also enables you to better monitor production, spread out your office workload, and spot inconsistencies in reporting sooner rather than later.

Profits in Action: Use the Daily Payroll option in Sage 100 Contractor to enter payroll for the previous day. At the end of the pay period, simply process the daily records into timecards and print your checks.

63. Segregate Time Worked to Save On Worker's Comp

Many states allow construction companies to utilize a workers' compensation rate specific to the task being performed. Segregating a worker's time into the most appropriate risk group can save you a lot of money.

It works like this. Say one of your employees spends four hours forming sidewalks and four hours framing the sub-floor on a house. On that employee's timecard, reflect the two different tasks so your business can receive the lower workers' compensation rate for sidewalk forming.

Assuming that the workers' compensation rate for carpentry work is 25 percent, the sidewalk workers' compensation rate is 9 percent, and the employee's pay rate is $20 per hour (for both types of work) for an eight-hour day, the math works as follows:

- Without segregating the employee's time, here's what you would pay for workers' compensation:
- 8 x $20 x .25 = $40.00
- What you pay now: (4 x $20 x .25) + (4 x $20 x .09) = $27.20
- You save: $12.80 on every $160.00 in wages.

Profits in Action: This savings represents 100 percent pure profit and Sage 100 Contractor can do all of the work for you.

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64. Try to Reduce False Workers' Compensation Claims

Few things strike more fear into a contractor's heart than a large workers' compensation claim. Sadly, false claims cost many contractors many thousands of dollars. While it may be impossible to stop an employee from filing a false claim, many contractors believe an effective deterrent is to add a signature line and the following statements to employees' daily timecards:

- I was/was not injur ed today.

- Describe injury in detail_____

- I did/did not witness an injury today

- Describe injury in detail_____

Profits in Action: Use the Sage 100 Contractor Timecard Report to print a project-specific timecard that includes all cost codes for the project. Ask employees to complete one and drop it in a lockbox on the job site before leaving for the day.

65. Leverage Qualified Benefits on Prevailing Wage Projects

As a non-union contractor who performs prevailing wage work, you must pay the required benefits in cash. However, if you have a qualified health care or vacation benefit program, you can offset the cash requirement with the value of your qualified plan. This requires establishing the hourly value of your qualified benefit plan prior to calculating the payroll, then deducting this value from the required cash benefit.

Profits in Action: Use Sage 100 Contractor to make automatic qualified benefit calculations when payroll is processed. Simply enter the value of your qualified benefits as the offset to the prevailing wage rates; all reporting and tax calculations will then be generated.

66. Save Workers' Compensation on Prevailing Wage Benefits

When you pay prevailing wage benefits in cash, the vacation portion is not normally subject to workers' compensation. By excluding these vacation amounts from the workers' compensation calculation, you may be able to save a sizable amount of money.

Profits in Action: Sage 100 Contractor can make this calculation for you. Simply set the cash vacation benefits to exclude workers' compensation on the payroll calculation screen. Your workers' compensation reports and your job costs can reflect the correct amounts.

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Vendors and Key Resources

67. Take Advantage of Early Pay Discounts

Math quiz: How much interest could you earn in a year if you received, say, a 2 percent early pay discount on materials every time you paid a bill 10 days from the date of invoice instead of 30? The answer is 36 percent annualized income!

Here's how this works. You are essentially loaning the vendor your money for 20 days; in return, you receive a 2 percent "bonus." If you could continuously earn 2 percent "bonuses" every 20 days, your annualized income would improve by 36 percent (2 percent x 360/20). To generate the cash flow you need to take advantage of early pay discounts, see Strategies 84 (Bill Early, Bill Often) and 87 (Use Progress Billing). Where else can you earn 36 percent interest per year?

Profits in Action: Sage 100 Contractor will calculate early pay discounts when you enter an invoice and set the date for the discount—with no extra work on your part.

68. Negotiate Higher Early Pay Discounts

At the end of every year, visit your biggest suppliers and subcontractors and negotiate a higher discount rate for early pay. Offer to pay in five days instead of ten if this will get you higher discount rates. Another quiz: If the 2 percent early pay discount example in Strategy 67 earns you 36 percent annualized income, how much will a 3, 4, or 5 percent discount earn? The answers are 54 percent, 72 percent, and a whopping 90 percent respectively. There may be no better way in the world to make this kind of return on your money.

69. Get Vendors To Do More of Your Work

By utilizing Strategies 6 (Negotiate an Early Completion Bonus) and 85 (Pay Early, Pay Often), you'll have vendors wanting more of your business. Leverage their enthusiasm to lower your labor costs. Here are just a few examples: Ask your material suppliers to manage job inventory for you. Ask them to warehouse and deliver materials to specific job sites to lower your labor costs. Then pay them on time to keep them happy or pay early and collect your early pay discounts.

Profits in Action: Use Sage 100 Contractor to generate Purchase Orders by Task to automate scheduled material deliveries for a job. Every dollar you save getting suppliers to work for you is 100 percent profit.

70. Replace Unprofitable Subcontractors and Suppliers

When suppliers or subcontractors delay your jobs, cause callbacks, create litigation risks, and generally make your life miserable, it's time to look for replacements. Recruiting more productive vendors is as important as recruiting better employees. At least once a year, meet with your vendors to let them know how they are performing for you, as well as to get feedback about how you can help them be more efficient. By effectively managing these relationships and creating teamwork, your jobs could become more efficient and profitable.

Profits in Action: With Sage 100 Contractor, you can use Original to Actual Schedule Reports to help determine which subcontractors are performing well and which are not.

71. Use Tax Accountants Familiar With Your Industry

The Internal Revenue Service has numerous tax codes written specifically for the construction industry. An experienced accountant with construction expertise can steer you toward tax savings and tax deferral methods while helping you avoid the traps. For example, IRS codes cover different methods for recognizing income. Many contractors now qualify to use the cash method of accounting, which, relative to the accrual method, presents numerous tax-deferral advantages.

Profits in Action: A general rule of thumb: one income reporting method is appropriate for financial statements, while another method should be used to report income for tax purposes. If you don't have two methods, talk to your tax advisor and find out why.

72. Improve Your Ability to Obtain Surety Credit

For many contractors, surety credit is the lifeblood of the organization. Such credit can be difficult to obtain, so it pays to become familiar with the factors affecting your ability to get it. Meet with your bonding agent and specifically ask what assets increase your company's bonding capacity and what liabilities count against you. Improving your company's financial strength may help you obtain a lower bonding rate. A good relationship with your surety agent can save you money, so be sure to supply current, accurate, user-friendly financial information. Finally, remember that all surety bonds are not created equal; shop around for the best prices.

Profits in Action: Sage 100 Contractorcan generate a Bonding Report for any time period. You can run a report for current projects, or all projects, to demonstrate your first-time bonding ability or ongoing bonding capacity. The Sage 100 Contractor Bonding Report can help you quickly produce critical information such as estimated profit, percent of budget complete, profit to date, over/under billings, and cost to complete by project.

Managing Equipment and Inventory

73. Consider Renting Instead of Buying

Always perform a lifecycle cost analysis when contemplating an equipment purchase. You may be better off renting; many contractors are making payments on equipment that's sitting idle in the warehouse. To accurately determine your return on investment, you must weigh the rental rate against the ownership and operational costs (cost per hour or day) and how much you will use the equipment. Go with whichever is most cost effective.

Profits in Action: The Equipment Cost Recovery screen in Sage 100 Contractorr can make this calculation for both owned and rented equipment.

74. Allocate Your Small Tool Costs to Projects

You can allocate small tool costs to projects by adding an additional calculation to project labor. Simply divide the total hours of project labor into the small tool costs (purchase and repair) for the same time frame. The result will give you an hourly amount to charge to projects when payroll is done. The same rate can be used when you are estimating a project. While your actual costs may be higher or lower on individual projects, your estimations should, on average, be much more accurate.

Profits in Action: Sage 100 Contractor can add calculated small tool costs to projects every time payroll is calculated, enabling you to include these costs in your billings.

75. Allocate Your Equipment Costs to Projects

When you allocate equipment costs to projects using a reliable cost recovery rate for each piece of equipment, your billings will be more accurate and your accounting will reflect the true cost of performing the work. Use these same rates when estimating the work. In this way, you can improve your estimating by comparing the actual costs to your original budget for every cost item.

Profits in Action: Sage 100 Contractor can assign the costs of equipment operation to each project and it provides a revenue entry for the equipment when equipment is used. This can help you identify profitable and nonprofitable pieces of equipment.

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76. Upgrade Your Equipment

Review all your equipment for productivity improvements at least once a year. Replace equipment that breaks down and delays projects. If new equipment could improve employee productivity, consider making the investment. To determine whether the cost of new equipment exceeds the productivity gains it will produce for your business, compare the equipment's cost recovery rate with the payroll savings from improved productivity.

Profits in Action: Use Sage 100 Contractor equipment reports to identify equipment in need of repair, under heavy use, or causing project delays and lost profit.

77. Upgrade Your Software

If you are using outdated construction management software, you may be wasting time and missing opportunities to make your operations more efficient. A fully integrated construction management software system, such as Sage 100 Contractor, could reduce data entry work, provide more accurate and timely reporting, and enable you to take advantage of many of the strategies presented here.

78. Bill Your Equipment on Time and Materials Contracts

When you perform time and materials work, don't overlook the costs of equipment or assume you'll recover the costs in the overhead markup. It is better to bill equipment separately, and using an hourly or daily rate enables you to bill in excess of what you have to pay out. You can charge overhead and profit on equipment listed as a separate line item on the invoice, which is not the case if you include equipment in your overhead rate. Customers generally accept this practice because your cost rate is normally lower than the equipment rental yard rate, which is their only basis for comparison.

79. Finance Equipment Purchases to Improve Cash Flow

If cash flow is an issue for you, finance your equipment purchases and use the cash to capture early pay discounts, pay your subcontractors on time, and otherwise grow your business.

80. Buy For the Job, Not for Inventory

Unless you are a service contractor or you repeatedly perform the same type of work, stocking an inventory of construction materials is usually not cost effective. The reasons for this are as follows: inventory requires expensive building space; construction inventory depreciates rapidly; inventory is easily stolen or damaged by employees; you must bear the cost of delivery to the job site; and damaged inventory is a total loss.

Profits in Action: Your supplier has already added the materials inventory and delivery cost to the price you pay, so avoid paying inventory costs twice.

81. Use Virtual Inventory

If you need access to inventory for service work, ask your supplier to stock and manage a portion of their warehouse for you in exchange for your commitment to buy your materials from the supplier exclusively. You'll gain the advantage of a readily accessible inventory without the cost of managing it. Another option is to ask your supplier to maintain the inventory in your warehouse. This removes a lot of inventory headaches and risks and lets you focus on your core business.

Profits in Action: Inventory that loses value—and inventory will only rarely, if ever, gain value while sitting in your warehouse—reduces your profit.

82. Manage Your Vehicles as if They Were Employees

To help you spot when employees inappropriately use company vehicles for personal use, estimate travel mileage (to and from job sites and for material pickups) and keep track of starting and ending mileage for company vehicles on a weekly basis. You could save money on vehicle wear and tear as well as fuel and maintenance expenses.

83. Paint and Label All Equipment

The cost of replacing lost or stolen equipment, from the small to the large, can really mount up. Paint all pieces of equipment in, say, an easy-to-spot fluorescent color, and engrave them with your company name and phone number; a lot more of your equipment should find its way home. You can also make employees directly responsible for their own equipment.

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Accounting and Financial Matters

84. Bill Early, Bill Often

Bill as soon as possible, and often, to help set your customers' payment expectations and demonstrate your professionalism. More frequent billing results in smaller invoices, which makes it easier for your customers to write checks. You'll also find out sooner if your customers are having financial problems or are dissatisfied with your work. And your cash flow should improve, which could in turn help you take advantage of early pay vendor discounts (see Strategy 67: Take Advantage of Early Pay Discounts).

Profits in Action: Sage 100 Contractor makes billing fast and easy by importing your actual job costs and change orders automatically. Works equally well for AIA, Percent Complete, Unitary, or Time & Materials billings.

85. Pay Early, Pay Often

Pay your bills weekly to take advantage of early pay discounts, to please your vendors with prompt payment, and to maximize your cash flow. Because you're also billing early and often (see Strategy 84), you could have increased cash flow to pay vendors on time, which, not coincidentally, could also get you the best service possible from materials suppliers and subcontractors.

Profits in Action: The only cost to you is printing checks more often, which can be completely automated with Sage 100 Contractor. The savings you get should far outweigh the cost of printing and mailing extra checks.

86. Use a Standardized Cost Code System

Instead of creating a separate list of cost codes for each job, use a standard set for all jobs. Then print the cost codes involving labor on the back of timecards. This should help employees fill out their timecards, create consistent field reporting, and provide a consistent basis for comparing production efficiency and budget against actual numbers across all jobs.

87. Use Progress (AIA) Billing to Improve Cash Flow

When negotiating your contract, ask to use percentage of completion (progress or AIA) billing instead of fixed draws based on completed project stages. Progress billing enables you to send invoices on a regular calendar basis that more closely matches your need for cash. As your cash flow improves, you'll be better able to take advantage of early pay discounts and other incentives. And if the project is held up, you can still bill and get paid for the work completed to date.

Profits in Action: Customize the Sage 100 Contractor Progress Billing forms with your company logo and the information you want to show your customer. The software can then update from job costs and change orders, helping to make your billing fast and accurate.

88. Remind Your Customers to Pay

Your cash flow depends on getting paid in a timely manner, so don't be shy about asking for the money that's due to you. Many contractors worry they'll damage customer relations by asking too assertively to get paid. But a friendly reminder can be a help to both parties. An end-of-month statement summarizing outstanding amounts is a good way to gently remind your customers of their obligation.

Profits in Action: Sage 100 Contractor can do most of the work for you by producing a statement, formatted for a window envelope, that you can send along with a friendly letter addressed to the customer. Add your logo to these documents for a professional look.

89. Collect the Money That Is Owed to You

In addition to reminding your customers to pay, you need to develop regular (weekly) procedures for monitoring and collecting your accounts receivable. Begin investigating as soon as invoices become past due. Many customers, rather than telling you about a problem they're having with your work, simply don't pay—and the older an invoice gets, the harder it is to collect. Be certain to document all conversations with customers and project managers regarding past due invoices.

Profits in Action: Sage 100 Contractor enables you to keep notes of your conversations in the job record and then run A/R Aged Call Sheets with Job Notes to assist your collection process.

90. Thwart Embezzlers

Many construction companies lose large amounts of money to embezzlement—and most losses are not recovered or reimbursed by insurance. To limit an embezzler's odds of success, try the following: send bank statements to the owner's or officer's home address; review these statements and scan checks for suspicious entries; assign someone other than the bookkeeper to handle deposits; don't authorize the bookkeeper as a signer on any cash accounts; review job cost records regularly for suspicious costs; and review payroll records for non-existent employees.

Profits in Action: SA bulletproof audit trail is a critical part of any embezzlement detection and prevention plan. Sage 100 Contractor maintains every transaction in its original form so you can get a comprehensive audit of any account. You can also use its security options to prevent unauthorized employees from printing checks.

91. Put Your Excess Cash to Work

Have excess cash at the end of the day? Many banks offer a "sweep account," which pays you in exchange for using your funds for a few hours. Talk to your banker and see what's available.

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92. Fabricate Work Offsite for Prevailing Wage Jobs

Non-union employers running prevailing wage jobs are not normally required to pay prevailing wages for offsite fabrication work. This could save your business a large amount of money.

Profits in Action: On your Sage 100 Contractor Timecard entry, set the Certified Payroll column to "No" to indicate offsite work. In this way, your job costs will reflect the cost of the work but the Certified Payroll Report will exclude this time and the employee will be paid the lower rate.

93. Use Separate Overhead and Profit Rates

Instead of using a 20 percent rate for overhead and profit, use 10 percent for overhead and 10 percent for profit. This nets you an additional 1 percent because you're actually charging profit on overhead. Here's how the math works on a $100,000 job:

- Using 20 percent overhead and profit: $100,000 x .20 = $20,000

- Using 10 percent overhead and 10 percent profit: $100,000 x.10 (overhead) = $10,000; $110,000 x .10 (profit) = $11,000; $10,000 + $11,000 = $21,000

94. Bill Employees at an Hourly Rate

Bill your employees at an hourly rate, instead of cost plus, for the ability to recover costs for small tools and payroll administration beyond the actual cost of the employees to you. If you can include additional overhead in your hourly rates, you'll be earning overhead—as well as profit on overhead.

Profits in Action: Use the wage rate tables in the Sage 100 Contractor Time & Materials billing option to set up hourly rates for employees. Be sure to include the full cost of labor, including the highest workers' compensation rates that might be charged. Then when you utilize a lower rate, the difference will be additional profit.

95. Negotiate Retention

If you've signed a contract with retention, negotiate to be released from non-performance items such as permits and fees. Once these costs are incurred, there is little risk that you might not complete the work and no retention on non-performance contract items is common.

Profits in Action: Dropping retention on non-performance items can help your cash flow, which could enable you to take advantage of early pay discounts and other incentives.

96. Keep Your Overhead Low

Be diligent about keeping your overhead as low as possible without sacrificing good business management. Your ability to scale overhead in response to changing business conditions can mean the difference between profitability and loss.

97. Shop for Better Workers' Compensation Rates

If your company has maintained a low accident rate, use it as leverage to negotiate discounts with the private carriers and public agencies that supply workers' compensation insurance.

Profits in Action: Sage 100 Contractor Workers' Compensation reports can show which risk groups you are using and what types of work your employees are doing. Every dollar you save on workers' compensation is 100 percent profit, so try to negotiate better rates.

98. Enter Payable Invoices Immediately

Record all accounts payable invoices as you receive them. Your computerized reports will always be up to date and included in customer billings. You'll also be able to print a list of invoices for approval by the project manager. If an invoice is overfilled, simply enter a credit against it; in this way, your records will match your vendor accounts, making reconciliation easier.

Profits in Action: Set the Sage 100 Contractor Vendor Invoice status default to "Review" for those vendors whose invoices require project manager approval. This reduces your risk of paying before approval and gives you an easy way to print an item approval list for the project manager. Use the Hot List feature for invoices that need immediate attention.

99. Understand Your Financial Statements

Every construction business owner must have a basic understanding of financial reports. Spotting trends in your finances, predicting future cash needs, obtaining loans and bonds, and understanding how overhead relates to your direct expenses are all critical to your profitability.

100. Pay Payroll Taxes When Due, Not Early or Late

Many contractors pay payroll tax penalties because they don't know when their tax payments are due. On the flip side, tax payments can be large, so help your cash flow by not paying early. If you are assessed a penalty, ask the Internal Revenue Service (IRS) for a penalty abatement. For previously clean records (generally, no penalties over the prior three years), the IRS often waives the penalty.

101. Plan Cash Requirements

Before you begin a project, compare your schedule with your estimate and see how much cash you will need every week. Be sure your billing or loan draw schedule allows you to pay bills on time.

Profits in Action: Sage 100 Contractor integrates the schedule with estimating, making it a simple matter to get a cash requirements report.

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15195 NW Greenbrier Pkwy
Beaverton, OR 97006-5701
800-628-6583

www.SageCRE.com

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