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The Key to Your Costing, Past, Present, and Future

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If estimating is the key to making money in construction, then job costing is the key to staying in business. It seems too easy, right? After all, job costing is basically keeping track of your costs to complete a project. How could something that obvious keep you in business? Job costing affects every aspect of construction, from estimating to project management to accounting. In fact, you can look at job costing as the past, present, and future of your company.

While it may seem simple, not everyone in the construction world is properly employing costing. "I'm amazed at how few companies have solid job-cost programs," explains Fred Ode, owner of Foundation Software, Cleveland, Ohio. "There's a cost to it. The companies that have stood the test of time have strong job costing—not just software, but procedures. They know where they are making and losing money, and why." The why is truly essential—it's not enough to know that you are making or losing money, you need to know the reasons so you don't repeat your mistakes, you can correct any problems, and you can continue to do profitable business.

Link to the Past

Imagine job costing as knowledge management—if you do it right, you'll have an entire database of information from which to learn. For example, do you know which jobs are the most profitable and why? Most people might answer the jobs that were the easiest—completed on time, no problems with the clients, no arguments, no last-minute changes or hassles. That answer might seem to make sense, but is it actually true?

Gary Fortier is a CPA and partner with Large and Gilbert, P.C., Macon, Ga. As a consultant to construction firms, Fortier helps companies close their books each month and analyze their jobs on a monthly basis, such as creating and reading percent-complete reports. He asked one client which jobs he was making money on, and the client answered the schools. "He thought they were doing great because the school jobs were easy. Actually, they weren't making any money on them," says Fortier. The jobs that the client thought were aggravating were the jobs he was actually making money on, he says. "The reports told him what jobs not to go after in the future because he wasn't

making money on them. Without good job records you might not know that."

Strong job costing is also important when it comes to getting bonded. "We meet with bonding agents and bonding companies," says Fortier, "and they tell us that they won't bond companies without strong accounting packages and job costing."

For example, if indirect costs—say repairs and maintenance of equipment—haven't been properly allocated to jobs or spread across all the jobs worked on that year, your gross margin will be affected. That leads the bonding agents to ask what happened to the jobs and the margins. "You don't want to create questions. You need a strong financial statement to get bonds," Fortier says. "There's been a tightening on the bonds due to claim losses. Big contractors have gone out of business, and there have been a lot of payouts. They don't want to bond people that they're not absolutely sure will complete a job," he says.

Ode agrees that banks and bonding agents need to know if you've over or under billed. They want to know how a company really performed—not future revenue, but actual revenue.

Historical data can also be a form of protection. "Let's say you get 4,000 invoices in a month," says Brad Matthews, vice president of sales and marketing for Dexter + Chaney, Seattle, Wash. "Each one of those could be the subject of or evidence in a lawsuit. Job costing is compiling evidence to protect yourself. It could be three to four years later. If you're scanning invoices, you can look up the invoice, and print it or fax it.

Or you can grab all the invoices and timecards from a job and put it on a CD-ROM. You don't lose paper copies, and you can do it in a matter of moments instead of days," Matthews explains.

Even if you're not scanning documents yet, job costing still allows you to pull up information quickly. "With job costing, I can find what subcontractors worked on what system quickly," says Brenda Braig, vice president and controller for general contractor Versicon, Houston, Texas. "I can print up job histories and get every single individual who worked on a job and break everything down. I can find the exact vendor we used. I can't see doing that without job costing." After outgrowing its Peachtree accounting software in 2000, Braig has been using StarBuilder from Geac, Markham, Ont. "I wouldn't be working at a place if they didn't use job costing software."

The Here and Now

In the construction industry, almost everything that is built is a prototype. "No matter how good you are," says Matthews, "each project is unique. It's absolutely vital that you track your progress. We are on this job right now. How does the amount of money we spend compare to the amount of money we planned to spend." Matthews explains that a job can suddenly take a terrible swing and unexpectedly lose money. Job costing can act as an early warning system. It helps owners and project managers solve problems and make adjustments rather than waiting until the 11th hour to realize that a project is now losing money.

"I don't see how not to have job costing," says Mark Willaford, vice president of support services for Southern Piping Co., Wilson, N. C., and user of software from Maxwell Systems, Norristown, Pa. "You can't read your business if you don't know what a job is costing you. It's ingrained in us to look at detail. Am I within my tolerances? If there are any questions, I can drill down to the smallest detail to see when and why," he says.

With job-costing reports, an owner has a complete financial picture of the company's health and knows exactly where they are. Knowing the actual cash-flow of your company is critical, and without that knowledge owners are simply guessing. This guessing could lead to wrong decisions. "How much is really yours, and how much do you need to pay out?" asks Fortier. "If you don't know where the job is, where your financials are, you could make a major decision—like buying a piece of equipment—that could kill the company." You don't want to spend money you only think you have. And you don't want to wait until the end of the project only to see your profits fade.

Work will always get done on a site; the job will get finished. But will you get paid for everything? "How would you know what was paid and what wasn't if you didn't have job costing? One company I know doesn't even use computers," says Braig. "You get left behind. They miss things on billings. They don't job cost, and they have a lot more problems keeping up with stuff." The project managers for Versicon use StarProject. Everything they do—change orders, subcontracts, invoices—feed over to StarBuilder, so Braig doesn't miss any costs.

Braig explains that one project manager uses StarProject to the fullest extent. He uses every portion he possibly can because that's the way he's supposed to do it. She never has problems with his invoices or change orders. And he always does a performance report to show where the project is at and where the project is going to end up. For Braig, the project management and accounting go hand in hand because without one, you're not going to be able to do the other.

The economy has also affected the way owners and project managers look at job costing. According to Mitch Ellis, controller for Ellis Heating Co., Paris, Tenn., and user of Dexter + Chaney's Forefront accounting software, "2001 to 2002 were pretty

tough years. If you didn't know exactly what your costs were down to the detail, you could lose money. In a period where you had all the work you wanted, you could raise prices and still get work. Now margins are a lot tighter than they were."

Job-costing software gives project owners and project managers the ability to keep in front of costs and to track costs and compare actual budgets to estimated budgets. With this information you can tell if something is going wrong and fix it before it's too late. Software alone can't fix problems; you need solid job-costing procedures. The software backs up what a project manager sees in the field and gives the owner and the office staff the ability to help the project manager make decisions and solve potential problems. Job costing isn't just about the software.

According to Ode, job costing is really the processes and procedures a company has established. Companies have to make a commitment to using the technology to benefit their company. "It takes time. Education is key. We need to make them understand the level they can get to. It's our goal for the next few years: teaching our users how to take advantage of what the software can do for them," says Ode.

Anna Becker, product specialist for Geac, has seen a growing interest in job costing.

While it may seem that tracking costs shouldn't be difficult, some companies struggle to find the real costs of a job. "It's easy to capture payroll and materials," says Becker, "but difficult to factor in burden or overhead—workers compensation, health insurance, union dues. The software factors in everything involved in completing a job so you can really see how that job is doing."

Becker says she sees more competition among contractors, which means they're more willing to look at technology to find an answer. "After going through a year or two of flat returns, now owners are becoming more competitive. They have an increased interest in technology and full integration. In tough times you do whatever you can to salvage revenues. Knowing exactly where and how you are making money gives you that competitive edge."

Toward the Future

Finally, historical job-cost data helps you better prepare for the future. Jim Sprinkle, construction manager for Weston Homes, Charlottesville, Va., and user of Geac accounting and ProEst estimating software, uses his job-costing data to make adjustments to information in his database and change his views on estimating, where he's been consistently high or low. "I change my thought process so we can be more competitive and still make money," says Sprinkle. "I don't do ballpark estimating. I build it in my mind. I use historical data to adjust my estimates, but also for ordering materials. [The software] has allowed us to trim down margins and tighten down on estimates."

The better you can control costs and have profitable jobs, the better you can estimate and win more jobs. You can learn a lot from your data if you have it. Historical data matters even more when you do the same type of work on a regular basis. Braig explains that Versicon builds several Cingular Wireless stores. Six years ago Versicon constructed Cingular's main corporate offices in Houston. Then Cingular started to ask the company to do little things, and now it does all its stores in Texas. "That's where the historical data come in handy," says Braig. "From job-costing reports I can find the carpeting, paint, vendors, everything the same. It's a real timesaver."

The future means more than similar jobs; it also means growth. Essentially, every business owner wants to grow the company and make profits. However, Sprinkle says, "the bigger you get, the more you have to find work to feed the beast. People with better reputations get work. We've had steady work, and part of it has been our estimating and accounting systems. The software has helped us. We're operating on a fairly thin margin. Our software and personnel have helped us move to a place where we can operate on tight margin and still make money."

Ed Crum, chief financial officer for Griffin Pavement Striping, Columbus, Ohio, uses accounting and job-costing software from Foundation Software, Brunswick, Ohio. "When I came on board three-and-a-half years ago, my goal was to automate certain processes. We needed to allocate our expenditures to jobs. A big one was payroll, and another was third-party subcontractors." The company was growing when Crum came on board, and it had outgrown its old ways of doing things. "To continue to grow, they needed to have more timely information. We've grown 30-40% since I've been here. It would have taken a lot longer without the software. Job costing is key. You need to look at what you've done to see what you can do," says Crum.

Ellis also keeps his staff in mind when he thinks about growing his company. "You always want to grow, but you don't want to do it too fast. We like to keep our staff. The majority of the guys stay here, and we need to maintain jobs at a certain level. If you grow too fast and aren't at a level where you can maintain it, you have to send people home. I don't want to do that." His accounting software with job costing has allowed him to improve the cashflow process and speed up the time it takes to report costs so his managers aren't just winging it. He can also compare the real costs to the estimated costs and determine if they were high or low in hours or materials so they can be more accurate in the future.

When choosing Dexter + Chaney, Ellis thought about his needs and what he needed from the software to allow the company to grow at the right pace. "If you're positioned for growth you want software that will grow with you and actually stay in front of you. There's more the software can do, and Dexter + Chaney continue to develop it and

improve it so we can benefit and facilitate our growth," says Crum. He advises new buyers should consider what platform the software is on and who else uses it. Ask yourself how secure is it? How many customers do they have? If you find those things out, you can ease your mind.

The construction industry is changing and more and more companies are accepting that technology can help. "The industry is getting smarter. Traditionally they don't think of technology as a tool; they don't want to touch it," says Pam Kenwood, product manager for Maxwell Systems. She explains competition is getting more difficult, so contractors need to track their costs even more. They have to know their costs and margins so they can make sure they really are going to get that profitability. They also know they may have to take a slimmer margin just to stay in business.

Technology isn't inherent to construction. Project managers are used to dealing with work orders and scheduling and completing a project. And they haven't always done it through software. "I'm convinced that will change," says Bob Honeycutt, president of Timbre Software, Berthoud, Colo. "There's a generic shift towards the acceptance of technology. It was the same thing with cellphones. They didn't see the need. We'll reach that same state with field devices [and software]. The goal of the software is to keep them focused on the prime business—they're contractors. I want to try to keep them on their job." The technology will help do just that. Not only that, it will help them stay competitive and stay in business.