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5 WAYS TO IMPROVE PROFITABILITY

eTEK White Paper

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Abstract

This brief report is provided to assist CEO's and financial officers in understanding some of the more advanced features available in eTEK software. This update includes a link to eTEK's Profitability Estimator ... a quick, easy to use tool for estimating current and projected profitability of projects/jobs.

A reasonably mature level of experience & understanding about managing general contracting (or sub-contracting businesses), including professional consulting services, is assumed.

Brief explanatory video links are provided to illustrate how eTEK software is designed to help improve profitability.

Al Blair
President & CEO

1. Get Control Over Spending

The first thing most CPA's/consultants will do is the most obvious: match your spending up against your revenues. We all intuitively know the wisdom of doing that, and it surely is one of the most practical ways to make sure your organization has effective control over spending. But let's drill down a bit deeper ...

Who in your organization is doing the buying? When do you know what those future expense commitments are for? Do your job cost reports take into account material and labor expenses *on a real-time basis* – that is to say – at the time you decide to make the purchase (long before you actually get the vendor/contractor AP invoices)?

How are you getting a handle on labor costs "*that are coming at you in the near future*"? Do your actual vs. estimated job cost analysis reports accurately reflect labor cost variances on a timely basis? For example, are you able to apply labor costs to jobs *before* you actually run a payroll?

We strongly encourage the use of a good purchase order program for a number of reasons, including the benefits of getting a handle on committed costs *before* you receive a vendor's/sub's invoice. We further encourage the use of actual vs. estimated cost variance analysis that takes into account the labor costs as they occur – as time is reported - rather than waiting for a payroll run. In short, the earlier you recognize all labor and material costs, the better. That can help minimize risks of cost over-run surprises.

[Click here](#) to see examples of how *eTEK* software provides the above capabilities.

2. Improve Estimates for New Projects

Improve new job estimates by using *completed* job cost variance reports that have tracked all actual costs vs. your original estimates on similar jobs.

Your analysis of what costs exceeded their original estimates can help improve estimates on new jobs. Nothing helps to improve estimates of new projects more than an accurate and complete report of all actual costs incurred for similar past projects.

One of the keys to tracking actual costs is to carefully break out the phases (and/or tasks) that make up a completed project or job.

How deep in the hierarchy do you track actual vs. estimated costs? Sometimes, it helps to track actual costs one level deeper than you estimated to help identify improvements needed in future estimates.

Once a project or job has been completed, we suggest a careful review of the final results? What were the "surprises" that hit during the project? How can they best be avoided next time?

[Click here](#) to see the advantages of using past job templates to set up/create new jobs – including use of your final actual vs. estimated costs variance analysis upon job completion.

3. Manage Subs & Change Orders

As most GC's know, subs are notoriously bad at staying on top of invoicing you; and/or alerting you to change orders they need approved to accomplish the work required. This often is traced back to managing changes in project scope with your customers.

Do you have the reports you need to manage your subs? Including changes to their contracts with you? How about your customers? Are you managing/tracking change orders with them in an effective manner? Connecting the dots, so to speak, between change orders with customers and your subs doing the work, requires access to both sides of the equation.

[Click here](#) for examples of capabilities & reports provided in our software that directly relate to this issue.

4. Estimate "Costs-to-Complete"

For larger and more complex projects, it is imperative that management be focused on not just actual vs. estimated costs to-date, but more importantly, what it's going to take to complete the job?

eTEK construction accounting software allows you to enter into your system what you estimate the costs will be from "this point on", in order to successfully complete a job.

Why is this important? Correct *%-complete* calculations are required to forecast profitability in a realistic manner; and your system should add

estimates-to-complete to total actual committed costs to-date (including approved PO's); otherwise the revenue earned and projected profitability will be incorrectly estimated (*eTEK's* Profit Estimator tool provides an easy way to illustrate use of estimates-to-complete).

We strongly encourage our customers to review their major projects or jobs in a manner that focuses on projecting or forecasting their ultimate gross profitability – an attitude/management perspective that is crucial to understanding and appreciating the key reporting features we have designed into your *eTEK* system. Key point: the earlier you identify need to obtain a change order with your customer, the better. For obvious reasons.

[Click here](#) to see examples.

5. Evaluate Performance Objectively

It will likely sound obvious, but ask yourself this question: "Beyond financial reports, cash balances and cash requirement forecasts, which internal day-to-day operating reports would my banker and/or bonding agency most likely want to see?"

Typically these are the reports being used to forecast or project the profitability of all your active projects/jobs in-process (based on properly calculated %-complete as discussed above); and, the report often called "over/under billing" that brings together all your committed costs and billing revenues by each project/job (and overall) for your entire business. In our software, this critical report is called "Billing/Receipts Analysis".

An objective and realistic analysis can lead to corrective actions and decisions that make sense.

[Click here](#) to review examples of key reports built into *eTEK* systems.



<<<< click to use *eTEK's* popular Profit Estimator