

Project Tracking Part 3

Construction companies and sub-trade contractors require a balance in administration procedures that allows management to obtain the detailed reports they require to make informed business decisions and the staff, who need to maintain efficiency in their methods and systems, particularly in entering and tracking trade supplier purchase orders and invoices.

The way the estimate is set out will make a significant contribution to such efficiency and accuracy of reporting during construction. A major benefit when ordering materials is to use the quantities allowed in the tender, comparisons can be made between what was allowed for and what was in fact required. Also, the clerical staff are able to determine the accuracy of a suppliers invoice faster. Advanced software programs are able to produce trade supplier's orders with or without prices, allowing the comparison to be made when the invoice arrives.

It is important to have a system that indicates cost of materials prior to ordering, this will contribute toward calculating the gross profit and overall progress of the project. Based on the invoice value being lower than the estimated cost, the gross profit for the project will improve. Whatever methods and procedures are used for checking invoices, don't allow valuable staff time to be taken up looking for irrelevant amounts of money.

Another benefit in setting out the estimate correctly and using the material list for ordering is, having the ability to shop around for better prices. After all, that is exactly what the builder does to the sub-trade contractors, so it is reasonable that trade contractors do the same when purchasing materials. Each product in the estimate will have a cost and provide an accurate value for the purchasing officer to match or purchase cheaper. Software programs provide a 'Request a Quote' function which ensures each trade supplier is clear on the products required and will produce their quote exactly as requested. The benefit being, it will be easy to select the lowest quote.

Should a trade supplier advertise special prices on a range of products, it is helpful to be in a position to view the project estimate and confirm that the special price offer is lower than the estimated cost.

In today's competitive market it is vital to track the profitability of each project, which provides historic information and can be applied to future tenders. It assists in winning more work and making more profit. The theory that a business is traveling well because there is more money in the bank this week, than there was last week, falls a long way short of good business practices. It may be there is an outstanding tax commitment, or the trade supplier invoices have not been paid, omitting this information will give a false impression that the company's cash flow is good, when in fact it is not.

Just as accountants track the profitability of a company or business, so trade contractors must track the profitability of each project. The formula is simple. 'The sum total of the cost of materials, labour and sub-contractors, minus the total of the progress claims to date'. The result will represent the gross profit for the project.

It is important to know the profitability of the project on a monthly basis during construction, this can be achieved by ensuring the progress claims are accurate. Progress claims are expressed as a percentage of the work completed for each section of the project. That is, if a section of the project was tendered at say \$50,000 and the progress claim was for 50% or \$25,000, the amount is compared with the expenses to date as outlined in the formula above.

For example, if materials were \$14,000 and labour \$6,000, the total expenses are \$20,000. Considering the claim to date is \$25,000, this section of the project will show a profit of \$5,000. Of course, should the expenses be calculated at \$30,000, then a loss of \$5,000 will apply.

The bottom line is, management can take affirmative action to turn a loss into a profit, if it is known early enough during construction. There is little that can be done after the project has concluded. Therefore, accurate, reliable and on time reports are essential to the profitability and growth of the business.

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