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Growing out of business, Part II



Submitted by
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Avoid the big mistake

Every contractor knows the danger of a bad project. One runaway job can wipe out the profit from 10 that have been well-run. If that runaway job is the largest one that you've ever tackled, it can sink your company.

How do you avoid the big mistake? If you stick with what you know and what you are good at and you make sure that you have the capability to execute it, the odds of a devastating mistake will be greatly lessened. Nonetheless, weather, labor shortages, material prices or regulatory delays can send any project spiraling out of control.

The key to maintaining control of a job that's headed south is reaction time. If you have a system for checking on critical factors and reviewing them, you stand a far better chance of identifying problems before they get out of control.

Many contractors began as their own field supervisor. They are accustomed to seeing every job, every day. A large part of their early success came from their personal ability to anticipate, identify and solve problems.

As any business owner knows, your employees may not have your problem-solving capabilities. Knowing where the potential pitfalls lie requires a system that will highlight the areas of danger.

Systems need not be complicated, sophisticated or computerized. The two most basic safety systems are a regularly scheduled meeting to discuss the project and checklists to track the critical activities.

A meeting (usually scheduled weekly) between key field and management personnel goes a long way toward early problem identification. Project meetings should have a set start and finish time, and an agenda that is consistent from meeting to meeting. What has happened since the last meeting? What problems are we experiencing on the job? What outstanding issues exist between departments? What do we expect to happen between now and the next meeting?

Checklists are useful for processes that need to be followed flawlessly, or

that require coordination between departments. A good example of a situation that would benefit from the use of a checklist would be generating a change order. Keep in mind that any checklist should address accountability, that is, include the names or titles of the persons responsible for each item.

A few simple systems for tracking a job are the "ounce of prevention" that can avoid pounds or even tons of problems.

Measure what you manage.

Most contractors aren't trained in business. Despite the complexities of bidding and estimating, many profess to be intimidated by "the numbers."

Managing by the numbers doesn't have to mean delving into balance sheets and income statements. The key is to understand what your numbers are, what they're supposed to be, and why there is a difference (if there is one).

One business owner we know has a "flash report." Each day the bookkeeper tells her how many new orders were taken the day before, how many were invoiced, the backlog, cash collected, payables due and the bank balance. It isn't everything, but it's been enough for her to run her business successfully for the last 15 years.

Any information you can collect regularly and accurately will help you manage better. Check labor hours and material purchases against estimates, overhead costs, or collections against billings. If you look at the same numbers day after day or week after week, you'll develop an instinct for what is right and know when things are drifting off course.

Your financial statements are still important. If you aren't getting an Income Statement by the 15th of each month (through the end of the prior month), then you're in danger of missing something critical. Those with accounting processes that are two, three or four months behind (or who "catch up" at tax-return time) aren't running a risk. They are facing the certainty that an ugly surprise will spring on them sooner or later.

Growing your business can be fun. It should be rewarding. Recognizing what is desirable work, planning how to handle it, and tracking the results will help ensure that it is both.

Growing Out of Business, Part I, published in the July issue of Construction News, was about knowing what you do well and having the right-sized company.

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