

FOCUS ON THE PROFIT CYCLE



By Michael LaCorte

Michael LaCorte is the Intuit Master Builder Northeast Regional Manager and a CPA with more than 25 years experience serving the business management needs of construction companies. Michael can be reached by calling 800-617-4586 or via e-mail at michael_lacorte@intuit.com.



“Savvy companies who understand the Profit Cycle ...are likelier to be more profitable in boom times and succeed during difficult periods.”

Utilizing the Profit Cycle to Grow Your Business

The slowing U.S. economy has impacted construction nationwide. Whether or not your company has been dramatically affected, it's almost certain that challenging times ahead will require your company to make some adjustments to stay healthy and profitable.

One way to keep your business competitive—and profitable—is to take advantage of the Profit Cycle. Savvy companies who understand the Profit Cycle and utilize its fundamentals are likelier to be more profitable in good times and succeed during difficult periods. Stated another way: working smarter, not necessarily harder, can make you money.

The Profit Cycle: A Definition

Many construction professionals believe a company's accounting program not only manages its money but, more often than not, can increase or decrease its profits.

The Profit Cycle takes a much larger view, incorporating all of an organization's activities and representing the flow of information for every construction project: from estimating to production, from production to accounting, from accounting to analysis, and finally to new standards for future estimating. This “complete project” view is the key to making the Profit Cycle work for your organization. Accounting alone won't help your business flourish; reliable estimates, efficient production, and dedicated analysis all play vital roles in building bottom-line profits. When the Profit Cycle is integrated within your organization, information learned and experience gathered at each stage can be fed back into the estimating and production processes, resulting in greater efficiencies and cost savings.

Understanding the Profit Cycle is easy; the challenge is utilizing its principles.

Putting the Profit Cycle to Work

Generic accounting programs, while inexpensive to purchase and simple to use, only supply a part of the management muscle needed to leverage the Profit Cycle. You could possibly cobble together multiple programs to address each cycle step, but this could lead to additional work, more mistakes from double entry, and incomplete information.

Integrated construction-specific business management solutions, on the other hand, provide single-entry data flow from estimating to production to accounting to analysis, enabling companies to better manage processes and gain greater control over the bottom line.

Here are specific ways an integrated construction management program can help you utilize the Profit Cycle:

Marketing: You can create professional and personalized documents such as proposals, estimates, budgets, CPM (Critical Path Management) schedules, and invoices. This higher level of professionalism will add value in the minds of your prospects and customers.

Sales: With a companion client information system, existing clients and new prospects can be managed through a sales process that includes lead tracking, call backs, appointments, and notes about conversations.

Scheduling: With scheduling integrated into estimating, cash flow requirements are easily determined before the project begins. You'll also be able to more quickly see when a project is ahead of schedule—or, equally important, behind.

Production: Improved estimating and scheduling results in more efficient dispatching and more productivity on the job, all of which can lead to higher employee morale and greater profits.

Risk Management: The centralized management of contract documents, billings, punch lists, daily field reports, plan changes, and other key documents can reduce your litigation exposure and improve client relations, potentially saving you a lot of money.

Conclusion

Utilizing the Profit Cycle is all about using information in timely, targeted ways, which can have a ripple effect throughout your organization. Incorporate the Profit Cycle into your company's daily practices to improve the bottom line through cost savings and the realization of additional revenue opportunities. Only when estimating, accounting, and project management are integrated and able to “speak” with one another—facilitating improvements, greater efficiencies, and cost savings at each stage—can a construction company reach its fullest growth and profit potential.

Need help with system integration and Profit Cycle implementation? Your tax or business management consultant should be able to provide you with the information you need to make sound business management decisions regarding integrated construction management software.