



“...growth is welcome only when it reflects a company’s profits and not its overhead.”

## NO. 6: WARNING: UNMANAGEABLE GROWTH CAN LEAD TO EXCESS STAFFING

**Editor’s Note:** *Following is the sixth article in our ten-part series called, “Accounting Software Checkup: Ten Ailments That Can Hinder a Healthy Bottom Line,” by our regular columnist, Fred Ode. Each “ailment” will be discussed in detail to help you determine if your seemingly healthy business has an underlying problem.*

**T**he goal for many business owners, aside from making money, is to grow. But growth is welcome only when it reflects a company’s profits and not its overhead.

For contractors, growth often comes with a price. As field activity increases, so does back office tasks such as payroll, billing, financial reporting and so on. Contractors who are unprepared for such growth—especially those with inefficient or generic accounting systems—must react by hiring more office staff just to keep up. The problem with this decision? It erodes the company’s profits and turns growth into a disadvantage.

Contractor growing pains, as described in previous articles of this series, are often what lead owners to re-examine their accounting software

systems. Unfortunately, many contractors are unaware that they can actually grow in job volume without adding to overhead with construction-specific accounting software. Healthy growth starts with having the right person in place to run the office and then selecting the best-fit job cost accounting system for the office staff to utilize.

### Use Specialized People and Technology to Keep Overhead Low

Many growing construction companies operating with four or five office workers and a generic accounting software system are actually accomplishing less than similar companies with just one accounting professional using a good job cost accounting system. Why? Because knowledge plus efficiency

### 10 Ailments That Can Hinder a Healthy Bottom Line

1. The Symptoms of Spreadsheet Addiction
2. Tired of Redundant Work and Double Entries?
3. Has Inconsistent Job Cost Reporting Left You Feeling Irritable?
4. Get Relief from Weak Financial Reporting
5. Are Untimely and Inaccurate Billings Causing Financial Distress?
- 6. Warning: Unmanageable Growth Can Lead to Excess Staffing**
7. Learn to Use Your CPA in a Well-Balanced Way!
8. Is Pressure Building Between Accounting and Field Staff?
9. Stop End-User Rejection Before It Grows
10. Technophobia: The Hidden Disease

equals greater productivity.

Hiring an office manager with expertise in job cost accounting, as well as a CPA advisor who specializes in construction, will generally provide more bang for your buck when it comes to keeping overhead costs down. These individuals understand the ins and outs of construction bookkeeping, job costing, financial reporting requirements and other critical factors that are needed to keep the business going and growing. What's more, these are the people who understand the effect that a construction-specific accounting system can have on a company's long-term financial health, as well as which features and functionality are most important.

### **Reduce Redundant Bookkeeping Chores**

Depending on how busy a contractor is, how many employees are on the payroll and other factors, a good accounting system can often cut data entry time by 50 percent or more when compared to generic accounting software. One-time entry is the reason.

With an integrated job cost accounting system, users can enter data just once, and it automatically flows to other accounting modules. Therefore, instead of having one person enter timecards into payroll and another person enter these same labor costs into software outside the system for job cost reporting, an integrated system would instantly update all modules with each timecard entry. Not only is the process immensely quicker, but it's also more accurate.

### **Eliminate Job Inefficiencies**

Another common result of haphazard growth is poor and inefficient use of staff resources. When back office workloads increase beyond a contractor's capabilities, one of two things is likely to happen:

- 1) Inexperienced personnel will struggle to complete detailed

assignments (such as over/under billing reports, AIAs, time and material billings or production reports).

- 2) Highly-skilled staff members will waste time on mundane chores just to get things done.

Generic accounting systems force users to be inefficient because they don't provide access to usable information. When the owner or manager asks for specific job information or reporting, often the only way to get it is to grab invoices out of file cabinets, go through timecards and leaf through numerous spreadsheet reports. Creating a cash flow statement or an over/under billing report, for example, might take a staff member a full day (or even a week) without the right accounting system. By comparison, these reports, and hundreds of others, are available instantaneously with a good job cost accounting system.

Having the "right people in the right seat on the right bus," according to award-winning business author Jim Collins, is key to building productivity, job satisfaction and a great company. Imagine, for example, that your estimator doesn't have time to estimate because he's gathering job costing information. Or your controller has no time to prepare financial reports because she is stuck entering invoices all day. Or you hire three additional workers to keep the office from falling apart, but each wants to handle things in different ways. When contractors decide to throw people at escalating workloads—rather than take the time to analyze job assignments, processes and tools for increasing efficiency—productivity and profits are bound to suffer.

### **Trim Down Overhead Expenses**

Many growing contractors are under the belief that they cannot afford to upgrade from their generic accounting

software to a more expensive construction-specific accounting system. In reality, however, their current software is probably costing them much more to run because of added overhead expenses in the form of bloated office salaries. Equally important, making the switch from a generic, off-the-shelf accounting system to a construction-specific accounting system often allows companies to stay lean and grow at the same time.

Just as contractors should look at the return on investment for construction equipment, they need to consider the investment potential of accounting technology. A mid-size contractor, for example, might be able to save \$75,000 a year in straight office overhead by switching to a more efficient, integrated job costing system valued at, say, \$20,000. The initial investment, therefore, will pay for itself many times over in the first few years. The company now has the potential to grow significantly (without adding additional personnel), so construction-specific accounting software becomes even more valuable.

A good job cost accounting system, which provides instant access to job data for better decision-making, allows contractors to grow without constraint. Better yet, companies using this technology can easily avoid excessive staffing and overhead bloat to become leaner, healthier companies. ■

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