Growing Profits For Your Construction Business

Changing The Direction, Fixing Wrong, and Increasing Revenue

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Introduction

Though construction stayed to be a business that always involved struggles with revenue, the industry managed to build substantial growth. Thanks to the growing need for infrastructure and urbanization that enabled the construction industry to be one of the fastest-growing industries on the global stage.

Checking on the facts and figures, the expected increase in the volume of construction is likely to grow by 85 percent by 2030, making the industry reach $15.5 trillion which accounts for almost 60 percent growth at the global stage. Surprisingly, this rapid growth of the industry does not offer a great survival rate for small businesses. Counting on the numbers, only 75 percent of construction firms manage to survive their first year while only 65 percent manages to take it to the second year and only 35 percent of the contractors or firms take it to the fifth year.

Now, here comes the most important question. If construction is growing at such a great pace and there is continuously increasing demand for construction, why do construction firms fail? Though it seems to be the high upfront investment causing such failure, subcontractors even say that any bad job could result in financial collapse when the average pre-tax net profit is measured to be around 2.2 percent to 3.5 percent.

However, it is extremely important for construction companies to find ways to cut through low-profit margins while developing equity and improving cash flow management. Since this transition process needs to be smooth and hassle-free, it is vital to understand what needs to be tracked and what should be altered. Also, contractors can keep a watch on factors that are affecting profit margin so that you not only get an increment on revenue but on sustainable growth as well.

Planning Early For The Profits

If you are heading towards a goal of developing profits, then you should know that it's not you alone who is planning to foster such objectives. The right approach to planning profits should begin with learning the fact that what exactly is profitable to you. It should be a dedicated figure like 10 percent or 20 percent, that too should be defined as gross or net profit value.

Also, early planning of the profit needs you to identify your profit goals from previous years and have a watch on your achievements. If you managed to achieve those year-over-year goals, it is necessary that you must understand what worked for you. Based on that information, you can set the benchmarks for the upcoming year.

This process even needs you to stick to some construction technology like construction management software that can help you measure past performance and figure out future goals. Moreover, the project data from a trusted source can even be used to plan profit mark-up as working on a centralized system that keeps your team in sync allows the entire team to head towards a common direction much easily.

The standard process to profit-building for your construction company should begin with the calculation of equity and all the overhead. Furthermore, you should have a clear account of liabilities that might deviate you from the bottom line.

Once you are done defining timed goals, you can simply check on monthly and quarterly performance to bid for available opportunities. These opportunities should be feasible based on the present equity and should keep your business protected against the financial burden by adding to profit markup and decreasing any unexpected overhead.

In case, you are not able to achieve the desired performance based on your monthly or quarterly plans, make sure you find some alternative plans to bring things back on track before the year ends. In short, building a better profit stature begins with defining net and gross profit goals that are achieved through consistent measurement of progress.

Measure Your Worth

When done planning profits, the next step you need to take is to measure your business for its worth. This refers to calculating the equity, total assets, and then working on the liabilities.

After that, you need to measure the Return on Equity or ROE which is defined as the profit generated through the investment made by a company. This data can be compared to the industry average and can be used to know about the total progress made by a firm in comparison to its competitors. If you find your Return of Equity to lie between 15 to 25 percent, it signals a healthy business. and if you need to measure the ROE for your business, you could simply apply this formula:

ROE = Annual Net Profit / Equity

Know Your Budget

When you are planning to meet your profit goals, the first thing that must be done should be to measure your expenses and overhead. These expenses should include all the resources, supplies, payroll, added benefits for employees, etc. When done calculating your budget and the total costs that you need to invest in the projects or business growth, you can have a better approach to measuring progress for the entire year.

In case, you are overspending on your business than the money you make, you can simply work on your budget to make some amendments. Also, you can even keep a check on the total annual Return on Overhead as it allows you to identify how you are performing with the investments in comparison to what has been benchmarked.

However, it is vital that you keep a measure of your overheads whenever a fiscal year begins to know the projected investment for the upcoming 12 months. Usually, the experts suggest aiming for a pre-tax net profit return of around 20 to 40 percent on the total overhead.

Return on Overhead = Annual Net Profit / Overhead

Plan Your Sales

When you have a complete idea of the overheads and the profit value that you need to target, the next thing that you need to do is make a sales target or define the sales volume that you need to achieve. You can calculate the sales volume using the formula:

Total Sales Volume = Gross Profit Goal $ / Gross Profit %

These metrics should be calculated every month to ensure your sales volume could help you cover overhead and meet your desired ROI.

Markup vs. Margin

If you are a construction contractor who is in need to drive sales and revenue goals, it is vital for you to understand Markup and Margin. One can plan to use these terms interchangeably to save a lot of finances. Markup is the percentage of money that defines the investment made to cover overhead and profit while Margin is the difference between direct costs and sales price divided by sales price.

Markup % = Markup $ / Cost

Margin % = Markup $ / Sales

Consider an example, where a job costs you around $5000 and the sales price for the same is $7000, then the markup for the same comes out to be $2000 or 40 percent. However, the margin for the same comes out to be 28.6 percent.

Measure Actual Job Costs

Before you jump on to the bidding process, make sure you are well aware of the costs that a project could involve. Since it is not just about calculating material price and total job hours, make sure you have a well-defined list of cost metrics such as burden rates, fringe costs, insurance, training, vacation, overtime, profit sharing, and more.

Having access to these numbers and statistics will help you understand the estimates and bids with more precision. Also, you must have a clear idea of equipment costs involves including the purchase price, maintenance, insurance, interest, and gas. This will help you learn what amount should be charged on an hourly basis when you are using equipment on the job.

Adopting Technology

Tracking all these numbers and metrics could be overwhelming to any business, even when it is established. However, the task could be made much easier when done using an adaptive solution like ProjectPro. Also, using construction accounting and project management software that offers integrated capabilities allows tracking of accurate and real-time data for all the administrative work. This gives you space to invest time and effort in more productive tasks.

Moreover, a user, either it is the contractor, project manager, project owner, or site supervisor, can easily explore the dashboards to access necessary reports and insights on expenses, cash flow, accounting data, liabilities, and debts. This data can be used to design the path to progress while reflecting on the past projects as well as the goals achieved on the present job.

All in all, investing in the right construction management software that is built on a reliable platform, can be a great deal when you need to make adjustments or plan improvements.

Conclusion

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About ProjectPro

ProjectPro is a cloud-based **Construction Accounting Software** Solution integrated with Microsoft Dynamics 365 Business Central. It is designed to help construction companies manage tasks and requirements related to Project Accounting, Resource Management, and Project Management.

Streamlining business processes for construction firms, real estate developers, and contractors, ProjectPro can be used to work on integrating data, transaction processing, and robust reporting. Moreover, features like Cloud and Power BI help construction companies for improved Business Decision Making.

Some of the other features include Project Management, AIA Contract Billing with Retention, Advanced Job Labor, Change Order Tracking, and Material Planning. Moreover, ProjectPro includes Subcontract Management, RFQs, TimeSheets, and keeps users updated with real-time Notifications and Alerts. It also comes with a dedicated mobile technician app that can help with field service operations.

At ProjectPro, we help construction companies with customized software solutions to make their construction business sustain and grow in this digitally growing world. We help you turn your vision into a value with promising services and a pleasant customer experience.

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