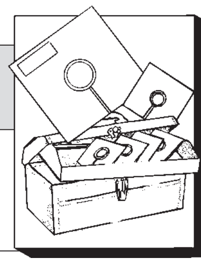
STATE-OF-THE-ART CONTRACTOR



Computer Clairvoyance

by Morris D. Carey, Jr.

In July of 1990, I told several close business associates that we were heading into a recession. They all thought I was nuts. Nonetheless, I spent the next several months studying and planning. And on October 1, 1990, I announced a cost-cutting plan that shocked everyone in our remodeling company. The plan included the termination of five new office employees hired to handle the growth we expected the following year, a 10% across-the-board wage cut for the 20 remaining employees, and four-day work weeks for some office employees. The plan also discontinued all office services, and shut off all mobile phones. Finally, it brought all our insurance coverage to state minimums, canceled medical coverage for employee dependents, canceled life insurance policies for everyone, put equipment repair on a "special approval" basis, and slashed office supply budgets.

I also called all of our subs and told them I was reducing my prices to become more competitive and that they would have to share in that reduction if they wanted to continue doing business with us. To preserve jobs, we stopped subcontracting electrical, plumbing, and some heating and insulation, and performed that work in-house. This was not meant to be profitable — in fact, we expected our risk to increase. But we wanted to acknowledge our employees' past loyalty.

The following month, in November 1990, the media announced that the country was in a recession. The next day the phone stopped ringing — no one wanted an estimate. In December, our sales dropped from over $250,000 per month to $50,000, and it stayed that way for five consecutive months before things started to get better.

Why am I telling you all this? It's simple: Our saving grace was the cutback, and our computer systems made it possible. By January of 1991 our monthly overhead had dropped from $79,000 to $27,000. If our accounting had been a manual process or if the information cycle had been a few months slower or less accurate, we might have become a forgotten statistic.

Now, a year and a half later, the 20 people in our remodeling company are thankful that they tightened their belts and stayed. They feel more secure about being a part of our company, and they understand that the steps we took were designed to preserve as many jobs as possible, not to take advantage of them for the sake of the corporation.

How Computers Helped

Here's what led up to that October cutback plan and how our computer programs helped us develop it.

Using computerized income statements, we determined in 1989 that our sales had been increasing annually for six years at a rate of 43%. At that pace, we figured our sales for the next year (1990) would be about 3.28 million. That's why we hired extra staff in late 1989. Much to my surprise, however, by the end of the first quarter of 1990, sales were not only below the projection, but they were actually slightly less than the previous year's sales. Computer-ized work-in-progress summaries, job costing, and accounting reports proved invaluable because I knew the numbers in my income statement were very accurate, whether I liked them or not.

The income statement summarizes and compares sales with construction costs and office expenses. But it's only as accurate as the information you feed it. If you only update your data quarterly, even preprogrammed general accounting software won't accurately reflect actual work in progress and the debt incurred against that work.

I handled this problem by creating a spreadsheet that tells me how many dollars of work are performed in a given month on a given job. We enter data by work category: the value of the job, the value of each category of work, and the percent of completion achieved. The computer converts this into a dollar value and then computes a total cost for the job for that month.

We then transfer this information to a summary spreadsheet, which totals the work performed for all jobs in that accounting period. We use the total derived from the second spreadsheet to adjust the income statement, which significantly improves its accuracy.

We also align costs of sales with actual work performed using the job-cost module in our accounting system. This is important because otherwise payables are not shown in the exact same percentage that the work was performed in. Finally, we compare the percentage of actual costs from the job-cost system with the percentage of completion from our original work-in-progress spreadsheets. We then raise or lower cost of sale in the general accounting system so that it aligns exactly with work performed. No stone is left unturned.

Predict the Future

This seemingly long, drawn-out process actually takes about eight hours per month. Without the accuracy this brings to our income statements, it's impossible to make intelligent business decisions. If you're unwilling to do the work to ensure that information is accurate, you won't be able to foresee the future, stable economy or not. Soon you'll be caught in a surprise downturn or, perhaps worse for the novice, unexpected growth. And that can mean failure.

I learned from hard personal experience that I had to completely understand my business and watch it like a hawk. Now I do a complete accounting of every job every single month. It's really quite easy once the computer has been set up; it's something I was never able to do effectively with pencil and paper. Even with computers, when things are really busy, it takes the accounting department almost a month to produce statements for the previous quarter. I can't imagine how far behind we would get doing things by hand.

What programs should you use? Use whatever feels comfortable. The worst computer program I ever reviewed was better than the best hand-accounting method I ever saw. My software reviews are intended to save you some shopping time and maybe a little money, too. But the final choice will always be yours. ■

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