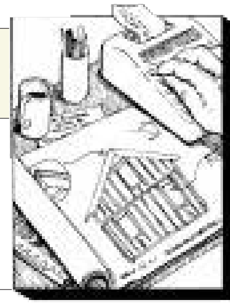
BUSINESS FORUM



The Dirty Dozen

by Robert Paz, CPA

Contractors who consistently control costs, "sweat the details," and "work smart" are the ones who stay in business and remain profitable. Those who don't control overhead and costs, who don't monitor productivity, and who build inefficient organizations are the first to tumble when times get tough. As you know, times are tough today, and they won't be getting any better in the near future.

With that in mind, I compiled a list of those business practices that lead to inefficiency, add to overhead, and decrease profits. The 12 items listed here, which I call "The Dirty Dozen," are the field-related portion of the complete list (which I call "The Dirty 30"). Contractors should review these 12 areas to identify weaknesses, uncover their causes, and formulate plans to correct specific problems. In some cases, a slight modification in behavior will correct the problem. For others, you can find entire chapters, even books, written on the topic. Improvement in these areas will require planning and time.

1 ***Performing work outside your geographic market or outside your area of expertise***. Lack of experience with local labor, subcontractors, and suppliers, and lack of expertise with another work discipline put you at a competitive disadvantage. If opportunities present themselves in other areas, consider joining forces with a compatible joint-venture partner.

2 ***Waiting time***. Proper planning and scheduling can reduce the 25% of direct labor cost time it is estimated that workers waste waiting for instructions, materials, tools, and equipment. Involve key employees in planning, encourage teamwork, and promote better communication. Keep track of idle time and the reasons behind it, then use the information to develop ways to limit waiting time in the future.

3 ***Redo work.*** One estimate concludes that 5% to 10% of direct labor is spent redoing work. The main reasons are poor communication or lack of communication from supervisors to workers, and workers not following instructions. You can minimize redo work by improving supervision over critical and complex work items and by requiring workers to repeat instructions.

4 ***Excess handling of material.*** Construction materials are often handled two, three, and even more times on the job site. Materials may also be stored in a place that requires workers to walk long distances to bring materials to the location where work is being performed. In addition, material that is stored near moving workers and equipment increases the risk of accidents. Attention to job site layout and the timely ordering of materials will lead to reduced handling, improved productivity, and fewer accidents.

5 ***Late starts, early quits, and unnecessary breaks.*** These can result in up to a 15% loss of direct labor productivity. Effective supervision and an understanding that management will not tolerate this behavior will lead to dramatic improvements. Keep track of time lost due to illness and personal reasons. Also consider some sort of award or incentive for good attendance.

6 ***Idle equipment.*** Like idle workers, idle equipment is costly. If your work is equipment intensive, keep track of the time each piece is being used and when it is idle. Also track direct labor hours wasted because of equipment breakdowns or because the necessary equipment was

not at the site at the right time. Periodically evaluate your equipment needs, and give careful consideration to leasing versus purchasing.

7 ***Theft and waste.*** A reliable system for receiving, distributing, and returning materials, tools, and equipment discourages theft and waste. Consider using a perpetual inventory system that requires employees to sign out small tools and equipment, and that makes them accountable for their return.

8 ***Punch-list work.*** Attack punch-list work with the same intensity that you attack any other phase of a project. Punch-list work should not be allowed to drag on. Consider assigning a supervisor to wrap up the job. Establish a budget and track the time and cost.

9 ***Poor communication and documentation.*** How often do change orders become claims, or claims not become approved change orders because of improper documentation? Are critical dates communicated? Are minutes of meetings written and disseminated? Are communications with subcontractors documented? Top management must periodically review project files to ensure that project managers are effectively communicating and properly documenting the progress and status of their jobs.

10 ***Sloppy reporting.*** Late and inaccurate transmittal of time cards and job costs cause delays and wasted time in accounting. This leads to delinquent job-cost reports and delayed invoicing, which lead to further complications. Establish strict timetables and rigorously adhere to them.

11 ***Overuse of cellular phones.*** I have seen telephone expenses explode in recent years with the expanded use of cellular phones. Beepers and other wireless communication methods may provide more cost-effective alternatives. If cellular phones are necessary, shop for discount air time and discourage personal and unnecessary usage.

12 ***Failure to evaluate projects after close out.*** When a project is complete, assemble key personnel to review job performance. Armed with the right information, you can evaluate actual performance against the estimate and the schedule. Communication among the project manager, estimators, home office, and key subcontractors will ferret out the problem areas and highlight the bright spots. The knowledge gained from closed projects can be applied to future projects.

Use this checklist to evaluate strengths and weaknesses in your organization. Then formulate specific action plans to remedy the weaknesses.

For example, say you identify late starts, early quits, and unnecessary breaks as a weakness. You calculate that on average you lose almost one hour per day per employee, or a little more than 10% of direct labor hours. Obviously, something must be done to stop this financial drain on your company.

First, identify the key individuals who will develop and implement an action plan to reduce this item to an agreed-upon level. The words "agreed upon" are important, because they imply a buy-in by participants that is essential to the success of the process. Once the action plan is implemented, monitor and communicate the results. You may want to reward those who develop and implement the plan successfully.

The most important point to remember is that any change in behavior, without the commitment and reinforcement of management, is difficult. Management must recognize that change is a process. Setting goals, communicating, and monitoring are critical to that process. ■

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