

The logo for Solutions360, featuring the word "SOLUTIONS" in a light blue sans-serif font, "360" in a bold black sans-serif font, and a stylized circular icon to the right of the "0" consisting of a white circle with a black swoosh.

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One Complete View of Your Business

# THE JOB COSTING SURVIVAL GUIDE »

# Why is job costing so important in 2020?

Over the last 20 years, Solutions360 has worked with hundreds of businesses to help apply technology that improves business process management and profitability.

One of the most complicated issues that Solutions360 has encountered in the professional services space is the practice of proper job costing methods.

Less than 10% of the companies that Solutions360 works with do an accurate job of job costing prior to our engagement. The primary reasons for this are:

- Estimates are based on gut feel, invalid assumptions or flawed models
- A lack of visibility into what actually occurred on past projects, preventing process changes that would contribute to increased efficiencies the next time
- Allocation of costs that are not fully or properly burdened
- No job costing process in place at all

In 2020, performing job costing using old, inaccurate methods injects significant RISK into your organization. In the past, you may have been able to get away with those inadequate practices. Today, it matters and here's why:

- Margins are continuing to shrink
- There are now better job costing tools available
- Competition is fierce and more aggressive making real time job costing around paramount to success
- Business is volatile

# Today's Typical Model for Job Costing

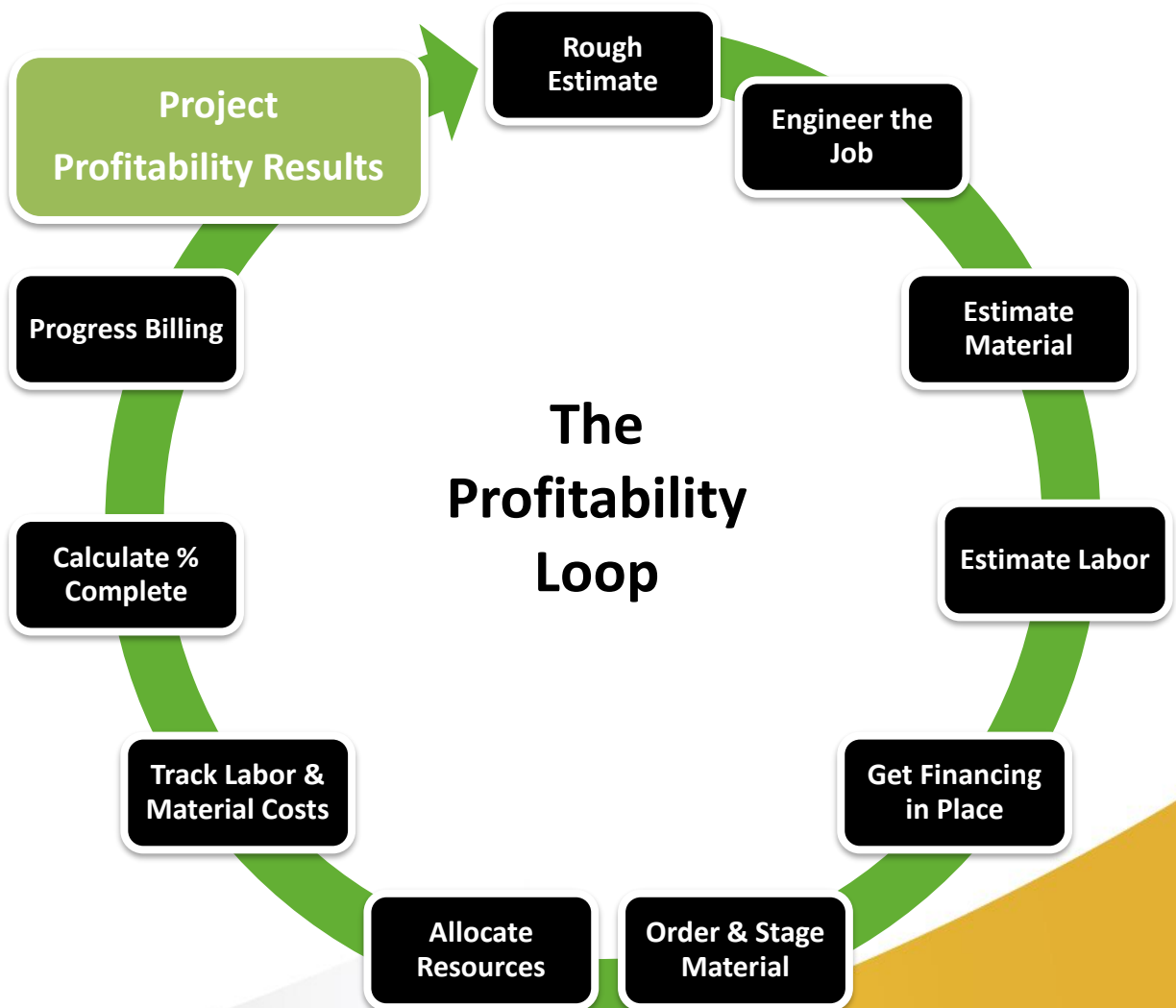
You are a \$20M technology company and growing. You just landed another huge project that could make or break your business. But you have started to get nervous about risk because:

Today's Risk	Job Costing Process	What is the Potential Impact to this Project?
In the past, we had large fluctuations in profit margin realized vs projected.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Rough Estimate</div> </div>	You are on the hook for a large cash outlay and you may be losing money from the first hour of work.
It is a complicated project with lots of specialized equipment and design work, so engineering needs to be very accurate about material and labor costs.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Engineer the Job</div> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Estimate Material</div> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Estimate Labor</div> </div>	<p>There are many unknowns that could lead to steep cost overruns that will impact profit.</p> <p>Do you have people with the right skills on your team?</p> <p>Will you need more sub-contractors than usual?</p> <p>Will other trades impact timelines?</p>
The deposit doesn't cover upfront costs. We will need to stretch our credit line with the bank, but our financial reporting has been a challenge in the past.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Get Financing in Place</div> </div>	In order to secure financing with favorable terms, you will need better and more accurate financial reporting practices.
The job will be bonded.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Order &amp; Stage Material</div> </div>	Bonding companies require even more detailed financial reporting.
Challenged in the past to organize appropriate resources by skills and schedule.  Resources have been systemically underutilized	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Allocates Resources</div> </div>	Unrealistic skill allocation and scheduling estimates at the onset of the project will negatively impact project profitability before the job even begins and lead to slippage
We typically experience long lag time getting labor hours and shipped material numbers to calculate job cost.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Track Labor &amp; Materials Costs</div> </div>	Labor is your most important resource. Optimization and tracking real-time is key to maintaining margins from the onset.
Payments are hinged on explicit deliverables throughout the project.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Calculate % Complete</div> </div>	Achieving the stringent compliance requirements may delay deliverables, hold up billing that will negatively affect cash flow.
Businesses live or die on cash flow. Project Managers are either guessing or taking too much time to calculate percentage cost complete of projects resulting in inaccurate or delays in billing.	<div style="text-align: center;"> <div style="background-color: black; color: white; padding: 5px; margin-bottom: 5px;">Progress Billing</div> </div>	Not accurately understanding your over/under billing can lead to a systemic erosion of cash flow over the life of a project and across projects.

# 10 best job costing practices to survive today

1. Look for improvement opportunities to maximize profit at every stage of the process.
2. Be prepared to vet out sales quoting issues as early as possible in the project.
3. Create estimates based on the reality of recent project facts, not based on the gut feel of previous project; and be acutely aware of cost omissions.
4. Create a repeatable, template-driven project Work Breakdown Structure (W.B.S.) with milestone and quality control based checklists.
5. Make sure required scheduling and skills align to the resources you have available for the work. Look at your resources weeks or months in advance.
6. Track real-time fully-burdened labor costs and loop back to the budget and projections. Review and adjust what makes up your burdened labor cost if necessary.
7. Understand your suppliers' lead times, consolidate purchasing and manage as close to "just in time" delivery as possible. Communicate required dates with purchasing and the project team while monitoring backorders.
8. Automate project billing to include net change orders. Fast on-time accurate invoices will cut down time in disputes and get you paid faster.
9. Ensure you have automatic revenue recognition and percentage complete to show an accurate picture at all times across projects.
10. Build a real-time dashboard of estimates versus actual so you know where you stand at any moment if the bank comes calling.

# To survive your Job Costing Process, you'll need to turn it into a Continuous Profitability Loop



# Do you have a Profitability Loop in Place?

Assess your job costing process for profitability. (✓)		Yes	No	?
<b>JOB ESTIMATION</b>				
When you estimate material cost, is it based upon “real” cost?				
Are you incorporating landed costs?				
Do you factor in costs for warehousing and handling?				
Do you have accurate visibility of in-stock materials?				
Are you adding your warranty overhead on as an estimated cost?				
Do your engineers review quoting for accuracy?				
Are labor rate estimates representing fully-burdened costs?				
Are hours estimates based on past projects' actual results?				
<b>ACCESS TO ACCURATE DATA</b>				
Do you have access to all of the known inputs you need to estimate a job accurately?				
Do your inputs come from a system that is centrally updated?				
Can you pull past data on freight costs, storage costs, and restocking costs for equipment?				
Are your percentage completion rates based upon actual material installed and labor expended?				
Is your work-in-progress and estimated time-to-complete based on accurate past data?				
<b>RESOURCE SCHEDULING</b>				
Are you tracking labor by category, i.e. project management, engineering, installers etc.?				
If you over-resource a project task, can you see the immediate impact on project profitability?				
If your project’s schedule is extended, can you see the immediate impact on % complete?				
Do your monthly billings automatically include the net of all change orders?				
Can you automatically incorporate over billing to your invoices?				
Can you see everyone’s utilization rates each day?				
Do you factor in skills, training and travel requirements when resourcing staff to a job?				
<b>TRANSACTIONS</b>				
Do you have visibility and control over purchase price variance?				
Do you conduct a thorough project review before estimating on a similar new project?				
Do you update actual vs estimated costs daily?				
Do you measure the time it takes to process project paperwork?				
Is work-in-progress calculated for you automatically as the project is being delivered?				
Are your project (progress or schedule of values) invoices system-generated?				
Do you get labor costs updated in your system daily?				

# Your job costing profitability analysis and solutions

> 20

If you answered “**Yes**” **more than 20 times** to our job costing process assessment, your organization is doing well in this area.

<= 20

If you answered “**Yes**” **20 times or fewer** to our job costing process assessment, your organization has areas that could be improved to achieve more accurate job costing resulting in profitability excellence. Review the areas in which your organization’s scores were not ideal. Pay special attention to your organization’s priority areas.

## Next Step...

If you require a detailed review of your job costing process because you want to:

- ✓ Improve your profit margin
- ✓ Track gross profit per hour in real-time
- ✓ Reduce your risk on big projects
- ✓ Increase predictability

**Call us** for a no-obligation job costing consultation. We have helped lots of companies just like yours achieve **growth and profitability**.

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