

Let's talk about Construction

Welcome to the introduction of our Construction Series! Over the next few months we'll be discussing contractors and various construction related integrated applications, found on the Solutions Marketplace, that enable contractors to continue using QuickBooks instead of moving to a costly high-end construction specific software.

Who are contractors? Contractors are construction-related businesses including:

- General Contractors
- Subcontractors
- Various "trades or specialty" contractors including Plumbers, Electricians, Landscapers, Painters, Concrete, Excavation, Trucking, etc.
- Project Management
- Custom Home builders
- Spec Home Builders
- Land & Lot Developers
- Remodelers
- Property Rehabilitation
- They can even be your local "handyman"

According to the US census, contractors comprise 12.4% of all US businesses.

- 90% have less than 20 employees
- 44% make < \$500k per year in revenue
- 67% make < \$1MM per year in revenue

As you can see from the list above, the construction industry, like eTailors, is a very unique industry filled with a variety of bookkeeping needs and challenges; to say that the all of the different types of contractors listed above have the *exact* same business needs is incorrect, as they range from simple to extremely complex. Let's take a look at some of their basic needs:

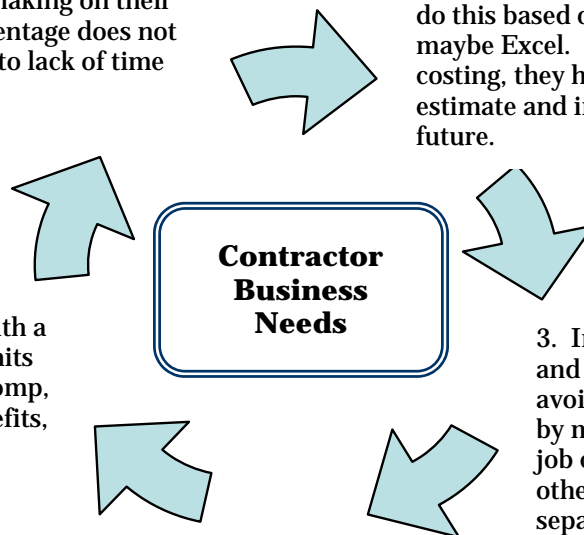
1. Contractors want and need insight into how much money they are making on their jobs. However, a large percentage does not actually use job costing due to lack of time or understanding.

2. Estimating is the key to profitability & success for many contractors, yet they often do this based on gut feeling, pen & paper, or maybe Excel. Since they often do not use job costing, they have no means to validate the estimate and improve the process in the future.

5. Contractors often deal with a variety of regulations: permits and inspections, worker's comp, certified payroll, union benefits, AIA billing.

3. Interested in saving time and reducing errors by avoiding double entry created by managing estimates, bills, job cost spreadsheets, and other financial records separately.

4. Contractors want solutions that are specific to their industry (ex. Estimating features, HVAC, Plumbing, Electrical, Concrete, etc.)



How contractors view business management covers a wide range of emotions; from a “necessary evil” to those who want and need their information “NOW” (or yesterday) in order to be able to make better day-to-day operating and financial decisions.

For the most part, contractors are NOT “business people” - they are highly skilled craftspeople who prefer to work in the field doing what they do best....building things. They hate being stuck in an office in front of a computer faced with a pile of paperwork; and while they may recognize that their current accounting method isn't optimal, if it's working *well enough* (in their opinion) they simply leave it alone.

Although this group of contractors may not be actively looking to solve their financial pain, they can and do strongly identify with pain points – such as losing money on a job – which makes them open to solutions, as long as they are fairly simple to implement.

Contractors, who feel that business management is a necessary evil, tend to keep accounting, project management, inventory, estimating and job costing details in their head, on paper, in spreadsheets or even sometimes with an accountant. They are simply too busy with other things - like making sure that their employees show up on the job site, that materials arrive on time, and that they get the job completed in their allotted timeframe. That is, until their business grows to a point where keeping these details in their “head” becomes too much and they find that they not only want, but need, information NOW in order to be able to make better day-to-day operating and financial decisions. For the construction industry, this critical “need-it-now” information turns into a need for instant access to detailed estimating, purchasing, job costing, and cash flow information.

Initially, many contractors will purchase QuickBooks because they hear it's drop dead simple to use or another contractor suggests they purchase it to help them keep track of their accounting needs – so off they go to the local office supply store and come home with their QuickBooks software, they get the program installed and crack open the manual.....only to discover that while they can read a set of blueprints the QuickBooks manual is like reading Greek! As contractors they tend to think in terms of cost codes and QuickBooks speaks of items – quite a difference. Some manage to get it up and running...sort of...and still keep doing things manually because they just can't figure out how to do it in QuickBooks or they find that QuickBooks simply cannot do what they need it to by itself, and they are still left with keeping stuff in their heads or in spreadsheets.

As a ProAdvisor working with a client in the construction industry, one of your first tasks is to find out what type of construction activities they are involved in as well as any special reporting requirements they might have.

- They can perform work on Residential, Commercial, or Government funded projects
- Their jobs may be Fixed Price, Fee only, Time & Materials (also know as Cost Plus), or Purchase Agreement – Sale at Closing
- They may be a Union Shop
- They may need to submit Certified Payroll Reports
- They may need to submit billing using the standard AIA (American Institute of Architects) format
- They may need to track work to be completed by a single subcontractor or several
- They may need to track the expiration dates of their subcontractors Worker's Comp and General Liability insurances
- Their jobs may last a few weeks, a few months or even a few years

We all now that QuickBooks®, properly set up, will give you the ability to provide valuable job costing and management reports for your clients, so it is important that you take the time to find out exactly **what each client would like to see**, what special requirements they must track and report, and above all.....what information **they** would find to be most useful on a day-to-day basis. The answers you receive will determine how you will then proceed to:

- Set up the accounts they will need on their Chart of Accounts
- Set up the various items they will need in their Item List and how they are linked to accounts
- Set up special items they will need in their Payroll Item List and how they are linked to accounts
- How Estimates and Invoices will be structured and used
- How Purchase Orders will be structured and used

You will undoubtedly find that your clients in-house management reporting needs do not perfectly line up with financial-statement or tax return reporting requirements – but you will find it worthwhile to help them retrieve the information that they desperately need – even if it means a bit more work from you on a periodic or year-end basis.

Thinking that every contractor you come in contact with will need to track the **exact** same things in the exact same manner is a common mistake that I see a lot of Advisors and CPA's make. This mistake usually leads to a QuickBooks® file that “under performs”, tracking of a lot of things in complicated Excel spreadsheets, and frustration for the contractor.

Now don't get me wrong, I have nothing against complicated Excel spreadsheets; I've created and used them myself for many years because I had no other choice. But let's face it, we all know that the more times the same data has to be entered in different programs, the higher the risk of costly transposition errors - with some of these transposition errors causing the contractor to not be paid or payment being delayed.

Beginning next month and over the next few months we'll look at some 3rd party applications that enable contractors to stop having to keep “stuff” in their heads or in spreadsheets. Programs that will increase the power of QuickBooks and will help put them well on the road to that “need-it-now” world that they find themselves in as their business grows and changes.

Some of these applications will work off existing data that has been entered in QuickBooks® while others do the bulk of the work within the application and then write the information back to QuickBooks. In either case these applications enhance the overall performance and ability of QuickBooks®, while working in conjunction with their daily processes, and eliminating the need to keep so much information in their head and various other programs.

Until then.....

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