

Ten Profit Enhancement Strategies to Boost the Bottom Line

Salvatore Schibell | Monday, November 14, 2022



Contractors made money over the past several years. Demand for construction was high, interest rates were low and consumers had money to invest. Even so, profit margins were squeezed because of contract delays, supply chain interruptions, labor and material shortages in addition to other influences. Here are ten profit enhancement strategies to boost the bottom line.

1. PLANNING

Look at every aspect of the company, from fleet to insurance. Identify where too much money is being spent and which debt to attack first. Analyze the entire cost ecosystem, from labor to office supplies. It's important to understand what's making money and where the money is being lost.

2. IMPROVING PRODUCTIVITY

A construction company can dramatically increase its profits with improved productivity. Jobsite efficiency and productivity are critical to minimizing costs, keeping a project on track and avoiding expensive delays. Productivity can be compromised by scheduling mishaps, supply chain issues and rework. Construction project management software can improve profitability by managing these problems.

3. BENCHMARKING

Another key to boosting profitability is benchmarking. This involves tracking all business practices and comparing them to industry standards. Common metrics to benchmark include job costs, wage rates, change orders, technology expenses, capital ratios and profit margins

4. SCHEDULING

Carefully schedule projects and ensure workers are trained and adequately equipped for the job. Be aware of the key factors contributing to high output, including employee morale. Even minor inefficiencies can drive up the cost of a project. For example, the cost of rework alone is estimated to be \$4.2 billion annually in the United States.

5. TRACKING TIME

One of the most critical components of construction profitability is a streamlined system for tracking time. Paper data entry is time-consuming and prone to errors. An efficient process will help capture more accurate data. Furthermore, better time tracking improves job costs and minimizes overhead.

6. EXPANDING SERVICES

A construction company's profits can increase by expanding its services. Look into offering new services such as renovations. Generally, most construction business owners should aim for a 25% return on equity. That means they should plan to turn a profit of \$125,000 based on a \$500,000 investment.

7. MOTIVATING WORKERS

Incentives such as performance rewards can help motivate employees and increase the overall profitability of a construction company. Some companies use the money to come in under budget to give bonuses to employees. This incentivizes them to finish work and projects on time. Bonuses are not given to employees who fail to meet quality standards.

8. USING CLOUD TECHNOLOGY

Cloud-based construction management software can help streamline project collaboration. For example, it can track access to building information and reduce misunderstandings about design updates. Cloud technology can also make communication easier. Answers to change orders and requests for information can be shared instantly. Construction project management software can improve profitability by reducing problems caused by scheduling mishaps, supply-chain issues and rework.

9. REDUCING WASTE

There are many ways to reduce construction waste. Contractors can examine job records, trends and forecasts to identify why one job is not as profitable as another. The use of specific products should be analyzed to determine if other products would be better to use. For example,

lumber and manufactured wood products account for 35% of all construction waste. But they are also recyclable and can be taken as a tax write-off, so they might be better to use.

10. REDUCING COSTS

Construction companies can increase their profit margin by finding ways to cut costs. Evaluate construction processes and identify areas where changes can be made without compromising quality.

Contractors can improve profitability by setting realistic goals, developing a long-term business strategy, analyzing costs and expanding into new markets. Contractors that look only to reduce costs can lose out on opportunities to grow the business. Therefore, launching several initiatives to achieve the desired results is better than simply cutting costs.



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