

Projecting a rosier future

The proactive Director's guide to understanding costs and making more profit out of new and existing projects

Through this guide, you will find out more about:

- what circumstances cause lack of profitability
- how you can reveal the projects that pay off and those that actually eat into your profit margin
- what overall benefits can you expect to see through project accounting
- how long it will take to realise these

Controlling costs is critical to maximising profitability but how many organisations can confidently say they do this well? The inspiration and purpose behind this guide is to explain why and how businesses can understand their costs.

Many might ask why bother if you are busy and turnover is high. In the short-term this may be true but in today's volatile market isn't it better to plan for the long haul?

If you can identify what current types of work are making the most profit, then this can help you to attract similar types of business in the future. Recognising this fact is the first step towards enlightenment and increased revenue.

I hope you find the guide thought-provoking. In the meantime, if you have any direct questions you would like to ask please contact us on **08456 447788** or email me at info@bluqube.co.uk

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Section 1

Does anyone really understand their costs?

Many companies have become complacent during the 'halcyon days' of the last decade when consumer spending and confidence has been at an all time high. However, now we are entering a leaner period there is greater need to tighten belts and take a closer look at costs. These don't just relate to supplier expenditure but also the measurement of costs in terms of employees' time and whether this is accurately reflected in what the customer is ultimately charged.

In this section we will take a look at the following topics:

- Why do costs matter?
- Costs of production – how these have changed in the last 50 years
- Introducing project accounting – what type of operations should do it?
- High turnover or high profit?
- Not managing your costs - common warning signs to look out for

Why do costs matter?

It may seem alarmingly simple but if you make false or inaccurate assumptions on how much 'cost' will be incurred on a job or project, if your costs overrun, then you will either make a loss or a smaller profit than you could have done. Not rocket science, but this is an area that business owners or managers sometimes either overlook or ignore.

At best, costs are acknowledged but then new business estimates or quotations are based on 'hunches' rather than relying on real and detailed information. Are organisations just lazy and can't be bothered to measure the costs? Is it that they are deluding themselves into thinking that if they are busy then why worry about costs? Or perhaps what really happens is that they intend to measure costs but then never quite have the time to do it properly because it takes up too much valuable time! If time is an issue, then why not consider implementing a system that can start to accumulate information automatically as the day-to-day business carries on as normal.

Costs of production have become complicated

When capitalism was in its infancy, the majority of the population was involved in farming. In an agricultural based economy it was very simple to gauge the exact costs of production, so it was clear whether selling your goods for x , would result in a profit of y . Of course since then costs of production have become more complex, particularly as we have moved closer and closer towards a service-based economy. As a result, it has become more difficult to quantify the value of people's time, track supplier costs or manage the allocation of expenses to different jobs.

Introducing project accounting – what type of operations should do it?

This is where the concept of project accounting can help address the problem of cost management in relation to individual projects or jobs. Whereas the main accounting system might be able to track costs on a monthly or yearly basis, project accounting gives more real-time information that can be viewed and acted upon at any point rather than waiting until the end of a pre-defined accounting time period.

Those organisations that might benefit from implementing project accounting would be those that are involved in multiple projects that need to be billed or accounted for at various times throughout a conventional financial accounting cycle. The greater the number of personnel or expenses (employee or third party suppliers) associated with a given project, the greater need for a tool such as project accounting.

In particular, organisations that charge customers on a fixed price project basis, can also benefit from improved visibility of costs. Project accounting can, on a job by job basis, highlight areas of the project where time is running over, allowing management to better allocate resources and to fine tune costs and prices for the next job.

Not managing your costs?

If you are failing to monitor costs effectively then you might be experiencing the following early warning signs.

Common early warning signs to look out for:

- Quotations are a matter of guesswork
- Quotations take days to create
- Wasted time re-keying costs from one system to another
- Forgotten time not entered against a job
- Expenses and/or timesheets not collected on time
- Projects run on, but the original quote stands
- Spiralling expenses that aren't re-charged
- Invoices are disputed because original estimates are exceeded
- Over-servicing / underpayment (i.e. spending too much time on a job and not being able to charge this back to the customer)

- Billing of projects is delayed therefore cash flow is squeezed
- Turnover does not correlate with profitability
- Costs come in after the project has been billed so can't be charged

High turnover or high profit?

Many senior managers often make the mistake of focusing on turnover rather than profit, forgetting the fact that no matter how busy they are and how many sales of goods or services are made, if you're not charging the right amount then you could even be making a loss. How often do you hear sales directors saying 'we must focus on new business opportunities' when perhaps some of the resources could be better spent on increasing the profitability from existing customers. Make sure you are focusing on the right benchmark.



Section 2

How can you measure costs accurately?

- What costs are often overlooked and why?
- What do you need to measure and how often?
- How can you measure it?
- Benefits of a browser-based system

What costs are often overlooked and why?

When you are running multiple projects simultaneously it can be very difficult to track the costs. Not only do you have to account for time spent, you also need to factor in expenses, overtime, often from a myriad of sources, physical locations and different IT systems. Without a means of automating the tracking of costs, it is often left to project managers having to remember to prompt employees for expenses or timesheets.

What do you need to measure and how often?

The types of costs you need a method of measuring on a regular basis are:

- Time spent
- Expenses
- Supplier costs
- Miscellaneous costs

It may not be realistic to expect employees to register everything in real-time, but sending out electronic reminders either via email or SMS alerts, can help costs to be recorded in good time before the billing run.

How can you measure it?

Using a dedicated project accounting tool that can be integrated directly with your core accounting solution can help you automate what is often a tedious, time-consuming and erroneous process. What staff need

is a self-service platform that allows them to enter details themselves which can then be updated in the core accounting system automatically. This not only saves time in re-typing data but also avoids mistakes when inputting data.

Benefits of a browser-based system

The advantage of a browser-based project accounting tool is that it introduces a greater level of convenience for the user because it can be accessed regardless of location. This is particularly valuable for mobile or remote staff that can enter expenses or timesheets on-line at any time of the day. A browser-based system also allows the project manager to monitor costs more closely and see at a glance if expenditure or time is exceeding certain limits. Offline entry of data is also possible which can then be updated when the user next logs on to the system.

Section 3

What happens when you DO understand your costs? – the business benefits

- Increased visibility of costs leads to increased profitability
- Quicker building of quotations
- Faster and more accurate billing
- Better use of human resources
- Concentrate on pitching for business that has proven profitability

Increased visibility of costs leads to increased profitability

Imagine what a difference it would make to your business if you knew exactly how much time is required to deliver a particular service, the average expenses incurred and any ancillary costs. You could then see at a glance what level of profit you were making on an individual project. This could not only help you gauge the return from any given project but also help guide you on where to focus your sales efforts in the future.

Quicker building of quotations

Think of how much simpler it would be to put together a quote if you already have a proven template or 'catalogue' from which to work. How much time is wasted in putting together lengthy proposals or estimates, when the whole process could be automated by drawing on ready-made blueprints.

Faster and more accurate billing

Billing is also likely to be more accurate, as costs are not forgotten or entered incorrectly. Also there will be fewer delays in collating all the information necessary to start the billing process. No need for project managers to chase employees for expenses. Using email or SMS alerts, project accounting systems can

send automatic reminders to relevant staff, so that the necessary information is available, whether at the end of a project or perhaps at particular milestones that need to be invoiced.

The majority of good project accounting tools also offer extensive reporting, so managers can instantly see when a job is ready for billing.

Make better use of human resources

There are also cost benefits associated with the use of human resources. For example, analysing costs dependent on individual time spent on a project can determine whether it makes economic sense to have *employee A* who is paid at a particular rate work on a project when another employee might be able to do it faster and/or cheaper.

Concentrate on pitching for business that has proven profitability

Having a clearer picture of what projects make you money and which don't also helps you plan for more effective new business development. It gives you the information you need, so you can compete for the type of business opportunities that have proven profitability, rather than chasing jobs that on the surface may look lucrative but several months down the line may turn into a financial noose around your neck. It's not natural for a salesperson to turn down business, but in some cases it could be the wisest option.

Section 4

Age of enlightenment – how do you get there?

If you want to become enlightened about your costs and how they impact your bottom line, then assessing how you can better measure your cost base is the first step. So how do you decide what systems or tools can help?

If you are experiencing rapid growth and you are considering replacing your current accounting solution, then now is the perfect time to consider a solution that incorporates project accounting. Alternatively if you are undergoing a merger or acquisition, upgrading your technology would be a sensible option.

But changing your technology at other times isn't as arduous as you might think. It is relatively straightforward to gradually migrate your business from one system to another. For example, if you have an existing system you can phase it out over time. New projects can be entered into the new system until eventually all jobs are transferred over.

Here's a list of the basic steps for you to take:

- Evaluate whether you could benefit from project accounting (see Section 1: Introducing project accounting)
- Review what solutions are available
- Look at systems that give you all the information you need, wherever you are and will encourage staff to enter details themselves
- Ask for a demo and get other non-finance users to give their feedback
- Choose a supplier that gives you all the functionality you need and the confidence that they will support you all the way (going direct to the vendor for example, rather than through a third party which is likely to increase response times, add confusion and limit what you can achieve)
- Put together timescales for implementing a solution to achieve negligible downtime
- Train employees on how to use the system (with browser-based solutions this should be minimal)
- Use reporting by project to monitor costs in real-time and at the end of a project learn how you can make better use of resources in the future
- Develop templates for quotations (based on past history) to ensure maximum profitability
- And finally sit back and watch your profits grow

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