How to Boost Your Revenue

by Aligning Accounting and Project Management

Adding a Recurring Revenue Stream

Part 03

Introduction

For most construction companies, the accounting department is seen simply as a box the company has to check. These folks balance the books and make sure the bills get paid, but they're rarely leveraged to their full potential.

You see, the accounting department is in a unique position. CFOs and top staff, with the right mindset, are able to see further down the financial road than other team members. They know where the company is and where it's heading, keeping a keen eye out for unnecessary risk. They also have the ability and knowledge to quickly identify regulatory issues and assess potential projects' financial viability.

In short, the accounting department could be full of real leaders who can help bring a company forward.

But they can only usher in that growth if they're empowered by the board and other decision-makers. Until now, that's been a tough goal to reach. But in this e-book, we'll mention some key actions that accounting personnel can take to earn the right to be part of the tough decisions, as they're often the folks best suited for the job.

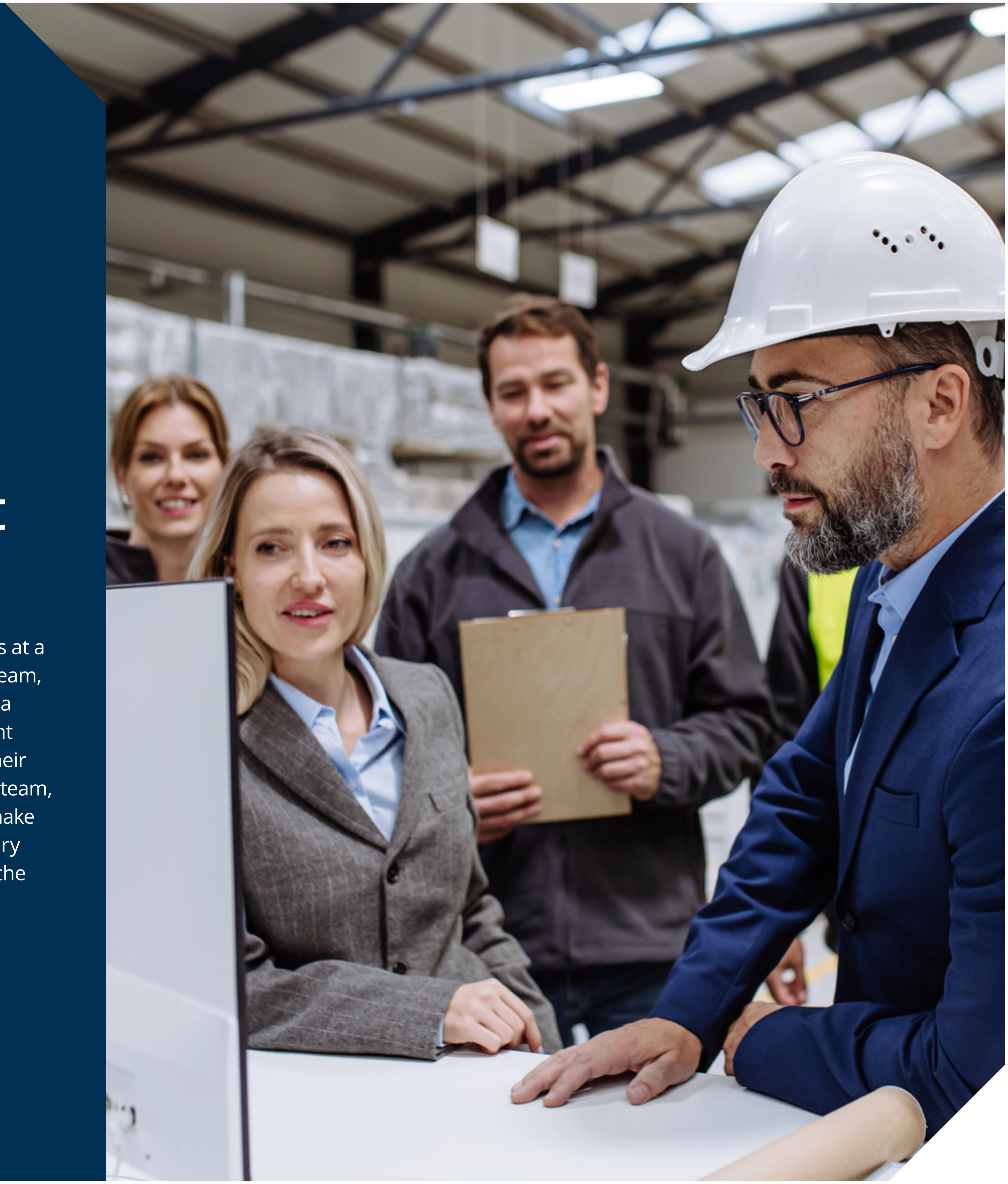
To help us explain these concepts, we tapped some of the top accounting experts in the country to ask for their advice. Whether you're a CEO, a board member, a CFO, or a new accountant, these tips will help you push your company to its fullest potential.

We've divided this guide into three sections – you are reading Part 3.

To find the other two, or to download the entire guide, check out our Turbo-Charged Accounting resource center.

Getting Aligned with Your Project Management Team

The project management team moves at a different speed than the accounting team, and it focuses on different aspects of a construction project. But with the right approach, accounting CFOs can get their departments in lockstep with the PM team, allowing these two vital divisions to make better decisions and avoid unnecessary risks. This chapter will cover some of the best tips for connecting them.



Getting Aligned with the Project Management Team

When a construction company uses its accounting department to its fullest potential, great things start to happen. Stakeholders make better decisions and risks are often identified and minimized sooner, with less effort. This means increased profits, shorter timelines, and a more well-rounded business.

But accounting teams can't accomplish this if they're left out of the picture. Rather than simply following behind the project management team, they need to work alongside them. We'll identify not only the importance of aligning the accounting and project management teams but also some steps companies can take to make it happen.

The Benefits of Accounting and Project Management Synergy

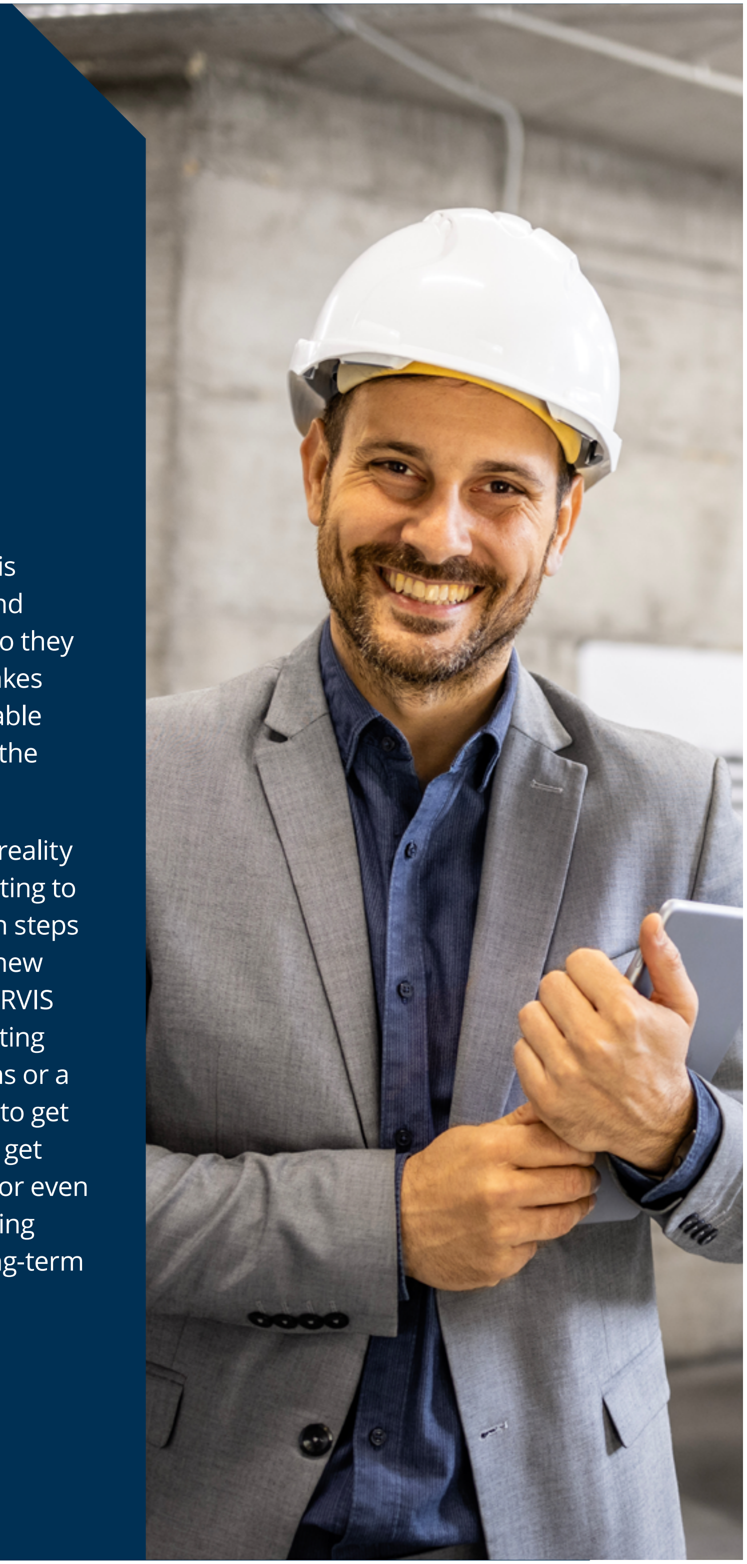
Project management teams and all their members have their strengths, but so do the folks in the accounting department. Bringing these teams together creates a situation where the whole is greater than the sum of its parts.

When accounting takes a leadership role in a construction or contracting firm, risk management efficacy skyrockets. Accounting teams are able to analyze financial data and identify discrepancies, delays, and cash flow issues far sooner than the average project management team can. While the project team is fantastic at mitigating tangible risks, the accounting team excels with risks on spreadsheets and reports.

Accounting folks are always very good at ensuring decisions comply with laws and regulations. These professionals use their extreme attention to detail and regulatory knowledge to avoid costly mistakes, prepare for routine audits, and ensure that any pending changes and updates in governmental policies and regulations won't steer the company off course.

And, when it comes to managing, predicting, and improving cash flow, accounting teams reign supreme. This entire division is devoted to debits and credits, timeframes, and reporting, so they have the best grasp on how long it takes to get paid, how much accounts payable payouts will be, and what to do with the company's cash flow reserves.

But these benefits can only become reality if the project team welcomes accounting to the table, and the accounting division steps up to fulfill the requirements of this new job description. Mike Trammell of FORVIS notes that this is part of the trick, stating companies need "a person or persons or a team, a department that thinks how to get outside of debits and credits, how to get outside of the accounting or finance or even the treasury function and start thinking about where are we going from a long-term goals and strategy standpoint."



6 Tips for Aligning with the Project Management Team

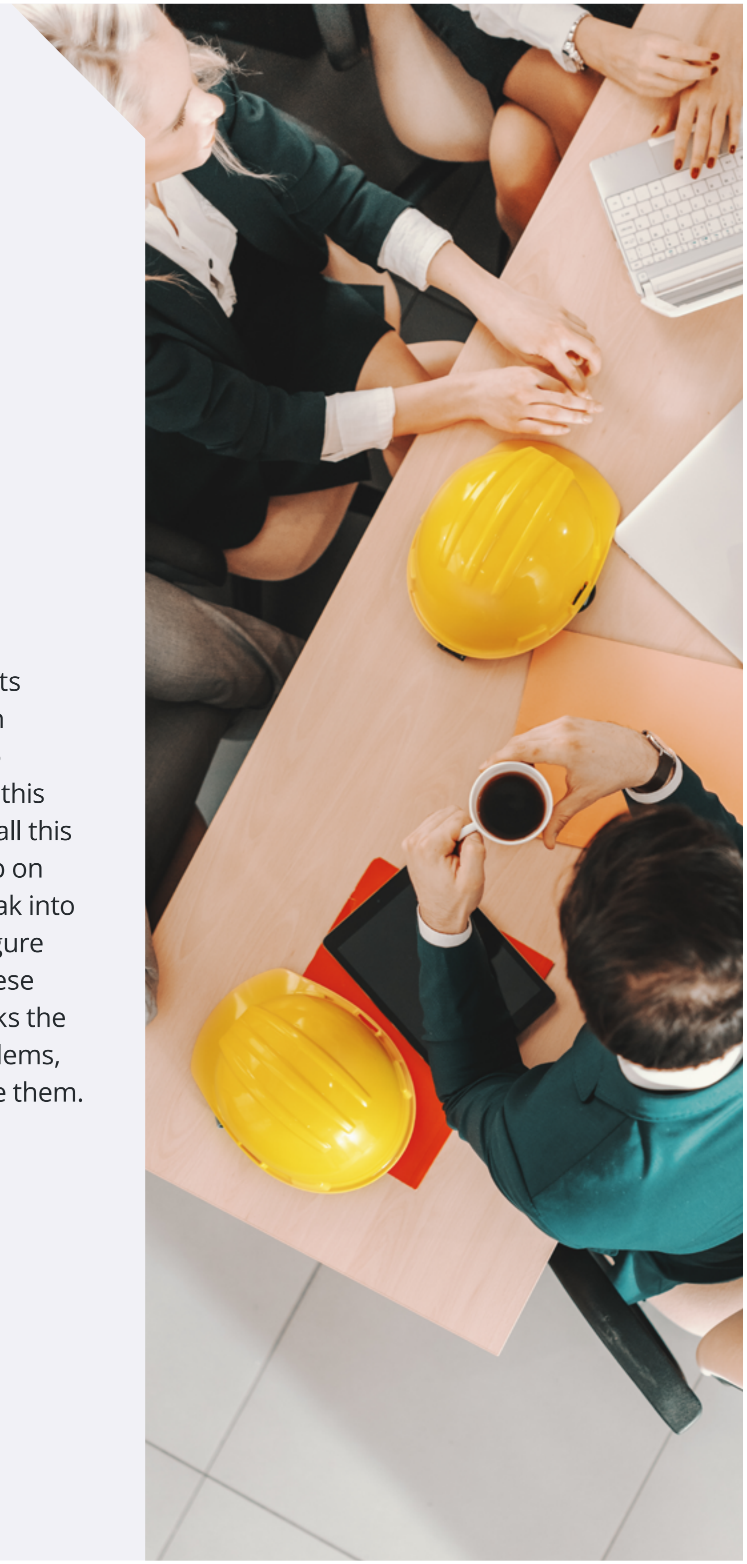
The benefits might be powerful, but the road to fostering the relationship between the accounting and project teams might not be well-marked. That doesn't mean it has to be tough traveling, though. The following tips will help bring the accounting department forward to sync with the project management team.

01 Hold Regular Meetings to Bolster Communication

It doesn't matter what other efforts you employ, when it comes to project management and accounting synchronization, communication is the number one priority. Businesses should schedule weekly or biweekly meetings where members of these teams sit down. At these meetings, these teams can discuss current contracts, bids, job costing, and any financial challenges facing the project.

But conversation should reach beyond the juncture of where project management and accounting meet. Both teams should discuss the current status of initiatives or internal projects their departments are working on. If nothing else, accounting and project management minds often work differently and the insights they can offer each other can be invaluable.

Kathryn Schneider of FORVIS suggests companies take these meetings even further, potentially turning them into retreats. She paints a picture of how this might look: "People are going to put all this stuff on little sticky notes, throw it up on the wall, and then we're going to break into teams and we're going to go try to figure stuff out. How can we fix some of these things?" she says. By giving these folks the creative space to identify these problems, they're able to work together to solve them.

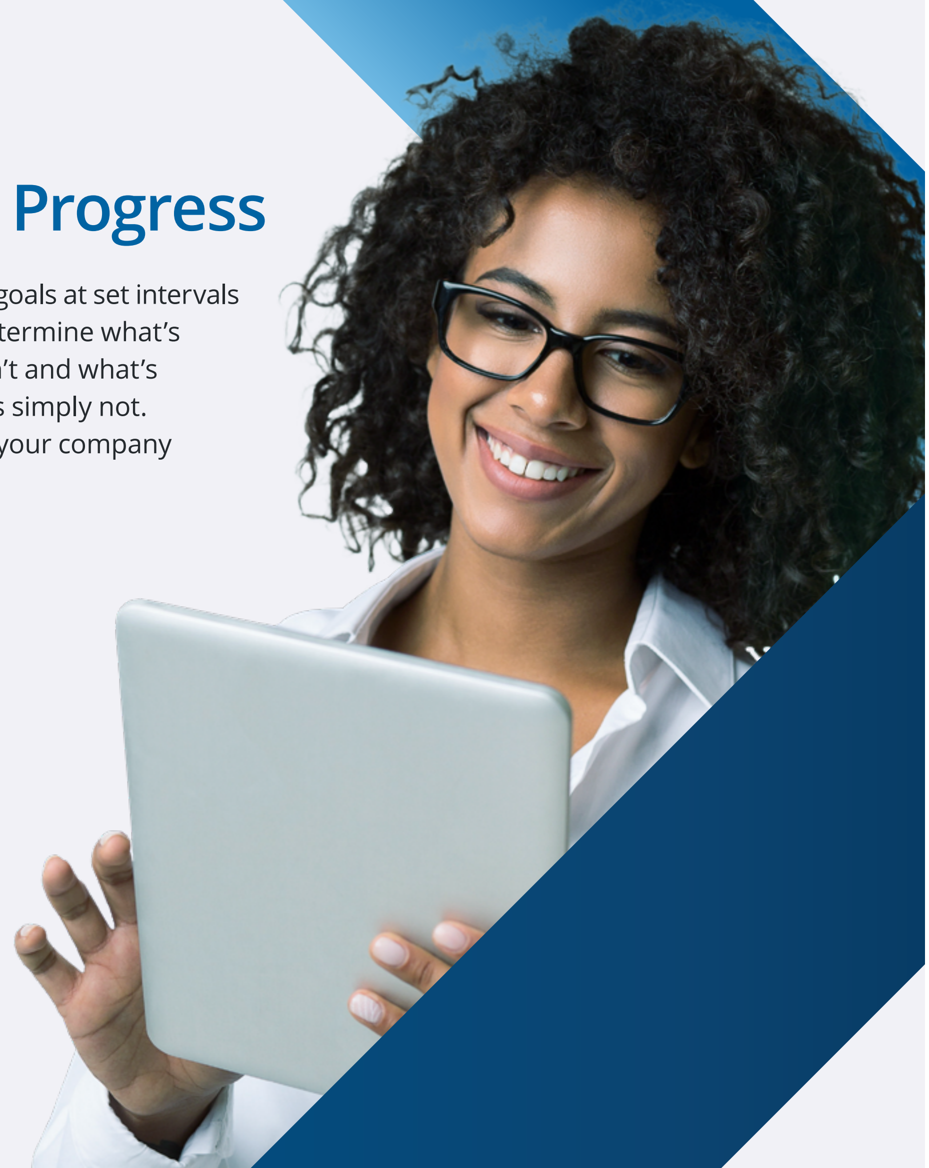


02 Set Goals to Create Trackable Progress

There is no silver bullet that will instantly connect the project folks and the accounting team. It takes time and deliberate action to merge these teams into one cohesive unit. Setting goals is one of the best ways to take that deliberate action, creating benchmarks by which the relationship can be measured.

The nature of the goals set will depend on the individual company, its processes, and the type of relationship it plans to build. However, some examples include achieving better report accuracy based on field data, accounting team members touring project sites to observe project progress relative to contract progress, a set amount of meetings each month including before issuing payment, and improving project costs and margins.

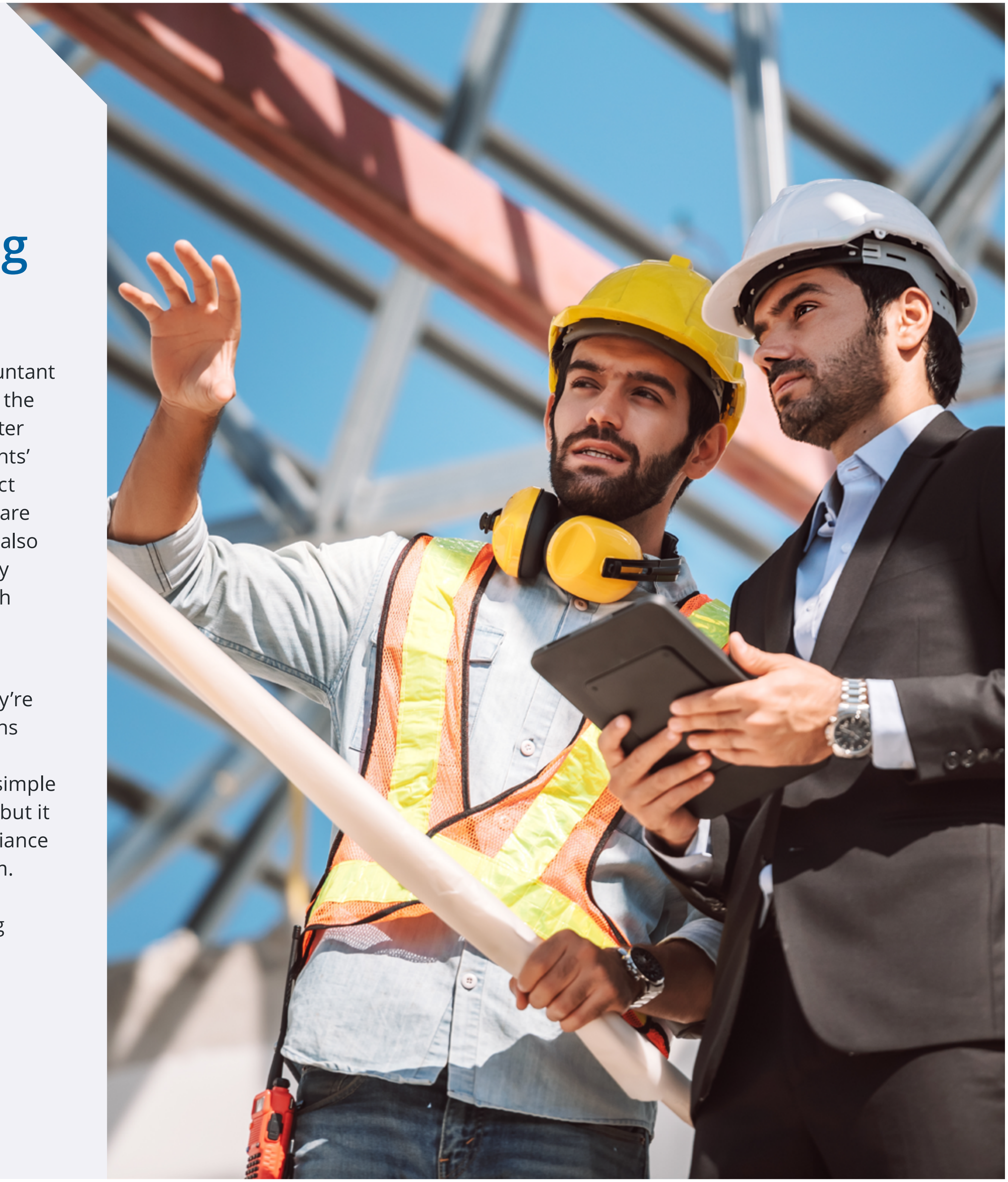
Check back on these goals at set intervals to track progress. Determine what's working and what isn't and what's necessary and what's simply not. Tailor the process to your company for the best results.



03 Provide Training Opportunities

While the goal is not to turn an accountant into a project manager or vice versa, the truth is that training can foster a better understanding of the two departments' responsibilities. Beginner-level project management or accounting courses are helpful options. Team members can also shadow each other through everyday tasks to better understand what each other does.

When members of these teams are exposed to each other's worlds, they're able to understand how the decisions they make impact each other. For instance, a budget shift might be a simple line item to the management team, but it could have ripple effects and compliance implications for the accounting team. Conversely, cost-cutting practices might look great on paper, but using the wrong materials or removing an important player on the team could send the project completely off track.

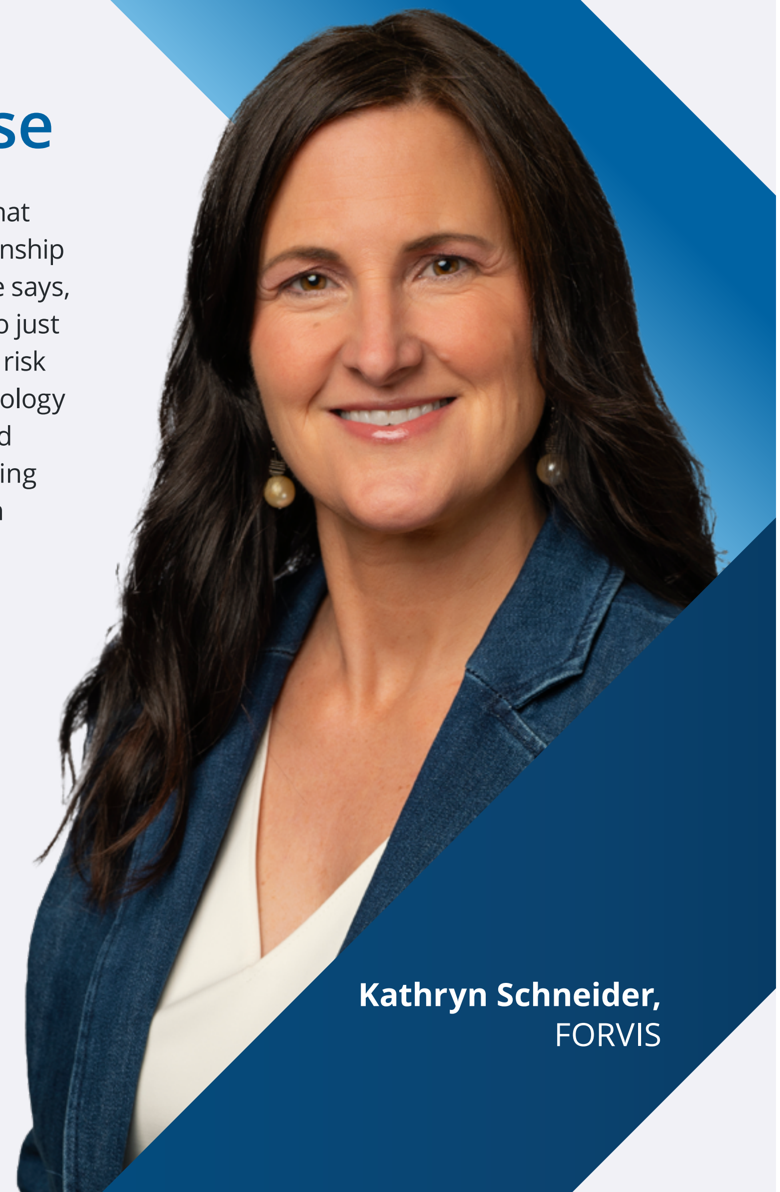


04 Implement Company-Wide Project Management Software Use

Project management software is another helpful tool for improving communication and bringing the accounting team into step with project management. These software programs allow users to see the project from a higher angle, providing more insight into things like project budget, progress, change orders, and other significant aspects of the project that affect more than just the project management team.

Project management software isn't a new theory, and it isn't a cure-all either. However, accounting divisions might not be using the PM software to its full potential, as these departments often have their own software programs they use. Finding management software that will implement with their accounting department's chosen programs is a helpful workaround, but also one program that simplifies the process can also allow companies to reduce their tech stack and simplify workflows.

Kathryn Schneider of FORVIS says that not only does this streamline relationship building, but it also reduces risk. She says, "Take advantage of cloud and APIs to just really minimize that burden and the risk of having a very disconnected technology stack." She says contractors should consider slowing their tech-collecting ways and "find a common platform that we can all make everyone happy on."



Kathryn Schneider,
FORVIS

Brent Kirkpatrick,
CROWE FINANCIAL

05 Compare Estimates to Actual Financials on a Weekly Basis

Frequent reconciliation is rarely a bad thing. Accounting divisions and project management teams should discuss and compare estimates to actual financial statuses at least once a week. This allows the team to identify inefficiencies or errors before they become too far-reaching, and also pinpoint activities the company is doing well.

Brent Kirkpatrick of Crowe Financial adds, “How are the contract estimates reflected in the financials? How are they updated on a frequent basis or a routine basis? I would say they should be reviewed on no less than a weekly to biweekly basis.”

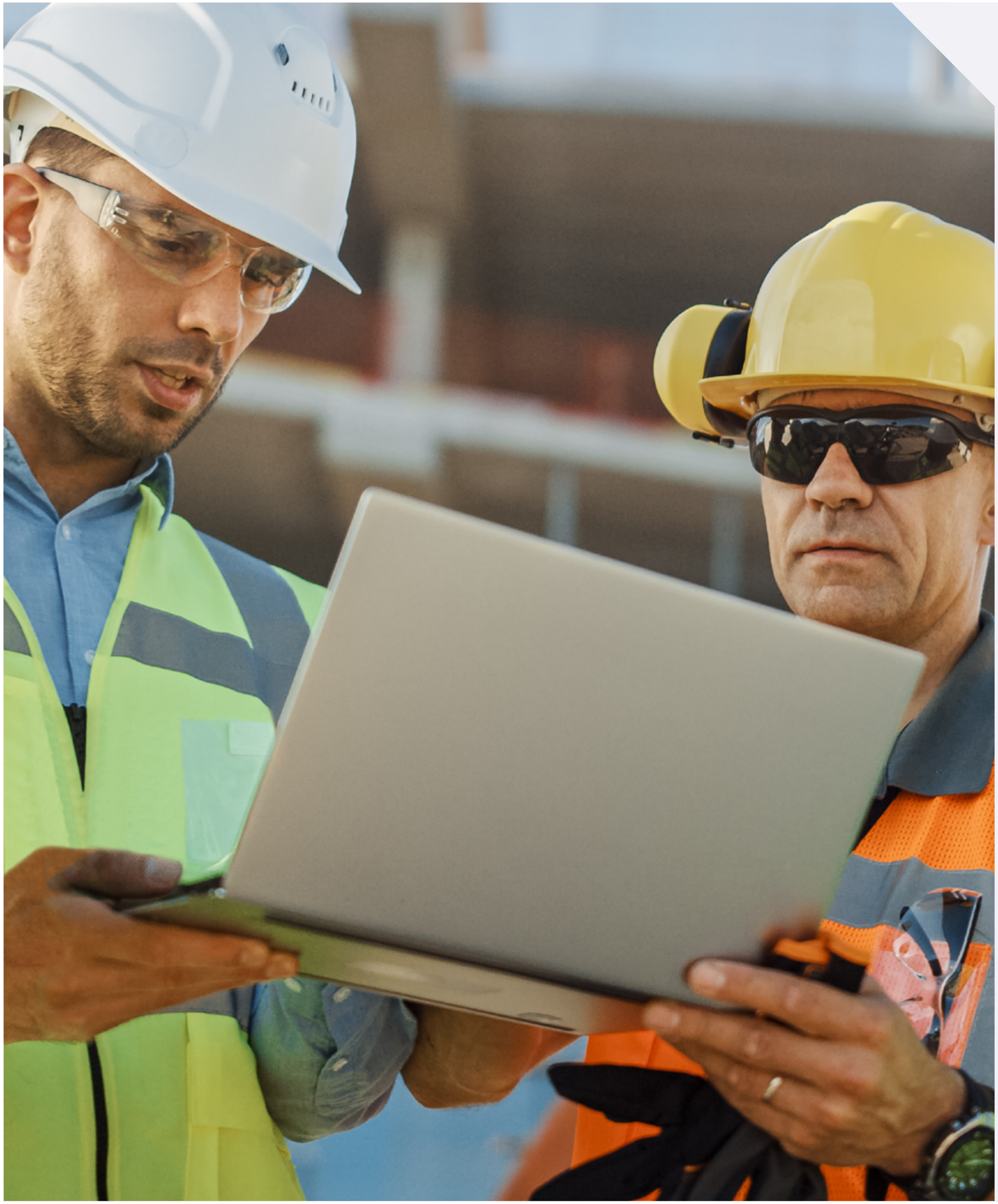
And, with the new SEC regulations, where companies can write off expected losses, accounting teams can review contracts to better manage cash flow and compliance. Kirk adds, “So that’s where the accountant would come in. They would have insight as to, ‘Hey, we bill company X, Y, Z a hundred thousand dollars every month and every single month they pay us $99,000 and we always write a thousand off.’” The company could write those losses off against investments or bonds—but only if accounting is brought into the fray.

This is truly where the beauty of the two departments’ strengths might lie. The engineering minds behind both of these divisions are able to find the devil in the details during these meetings and truly devise a better overall trajectory for the company moving forward.

06 Create Contract Review Workflows to Promote Clarity

In most companies, accounting doesn't play a significant role in contract proposal or review processes. However, the accounting division contains some of the most detail-oriented minds in the company, and having their eyes glance over a contract before it's submitted, approved, or accepted can go a long way toward improving profits and reducing risks.

But this is one area where things won't happen organically. Companies need to create contract review workflows that intentionally put these contracts in front of review teams that consist of accounting staffers to ensure everyone who needs to see those contracts actually does.

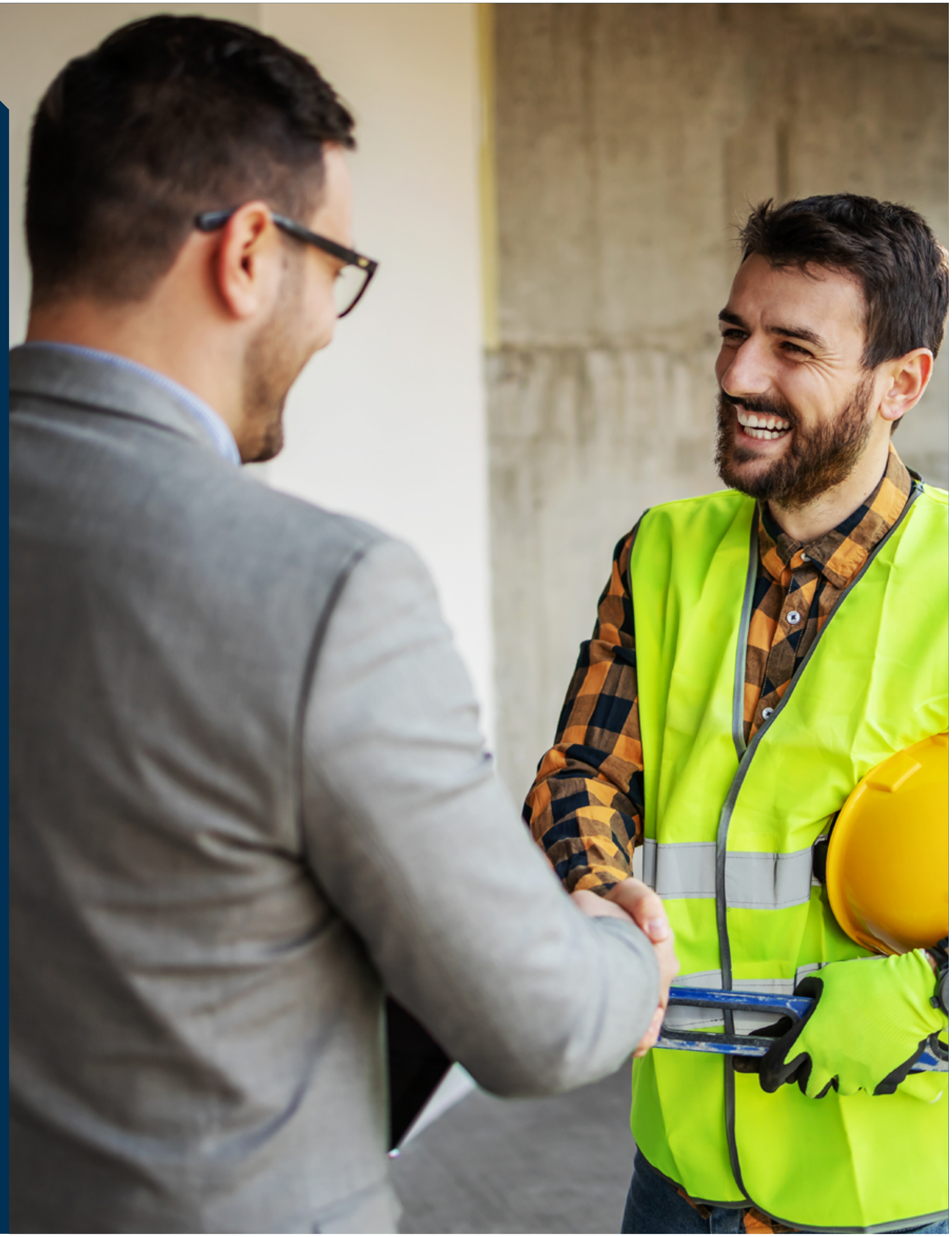


Bring Accounting Forward

There are several ways to bring the accounting division alongside the project management team. And, each company is different, so the methods used may vary. However, what's important is that construction companies do their best to bring these teams together to make better decisions, reduce risk, and keep companies growing into the future.

Adding a Recurring Business Model

The ups and downs of the construction industry are well known. But what if there was a way to avoid the seasonal slowdowns and steady the book so there is cash coming in every month throughout the year? There is, and it's called a recurring business model. In this section, we'll discuss why you need one and how you can add this steady source of cash flow to your business.



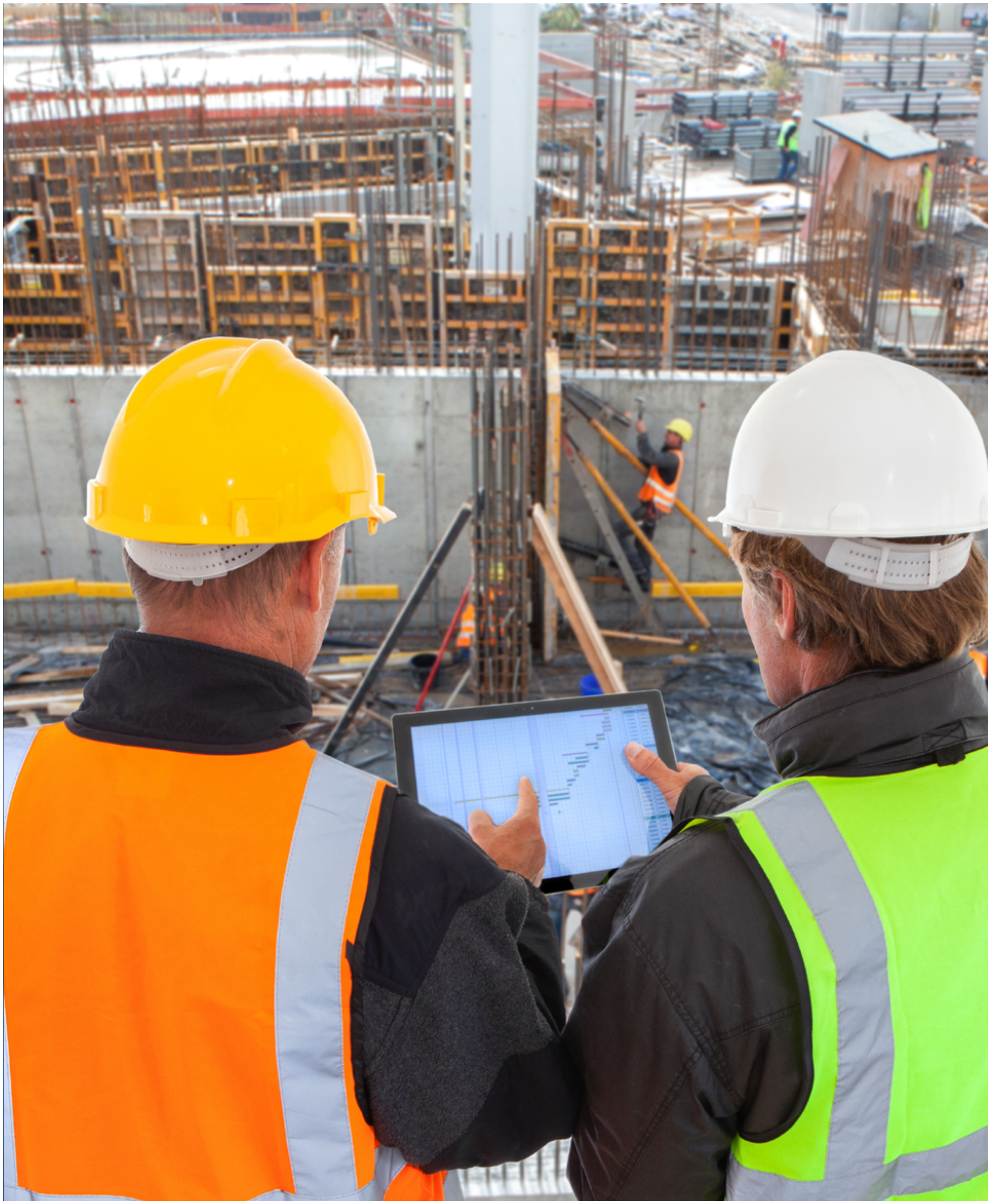
Why and How Construction Companies Should Add a Recurring Revenue Business Model

"I have too many streams of income," said no one ever. When we think of construction companies and contractors, we know that they're only as good as their next contract. And while things have been generally busy for the last few years, any contractor with more than a few years in the industry slow-downs can be brutal.

We're talking close-the-doors, shut-off-the-lights brutal.

Like most of construction's biggest challenges, this isn't really an industry-specific problem. Many other industries have to worry about booms and busts. But, some industries have learned to keep things balanced with subscription, service, and recurring revenue, and many experts think the construction industry should do the same.

Here's why and how construction companies should add a recurring revenue business model.



Why Recurring Revenue is Important

Most contractors are chasing the next big job. It likely hasn't occurred to them that there's a lot of value in having a stable base of smaller jobs in the form of a subscription service or repair division. Here are a few reasons why.

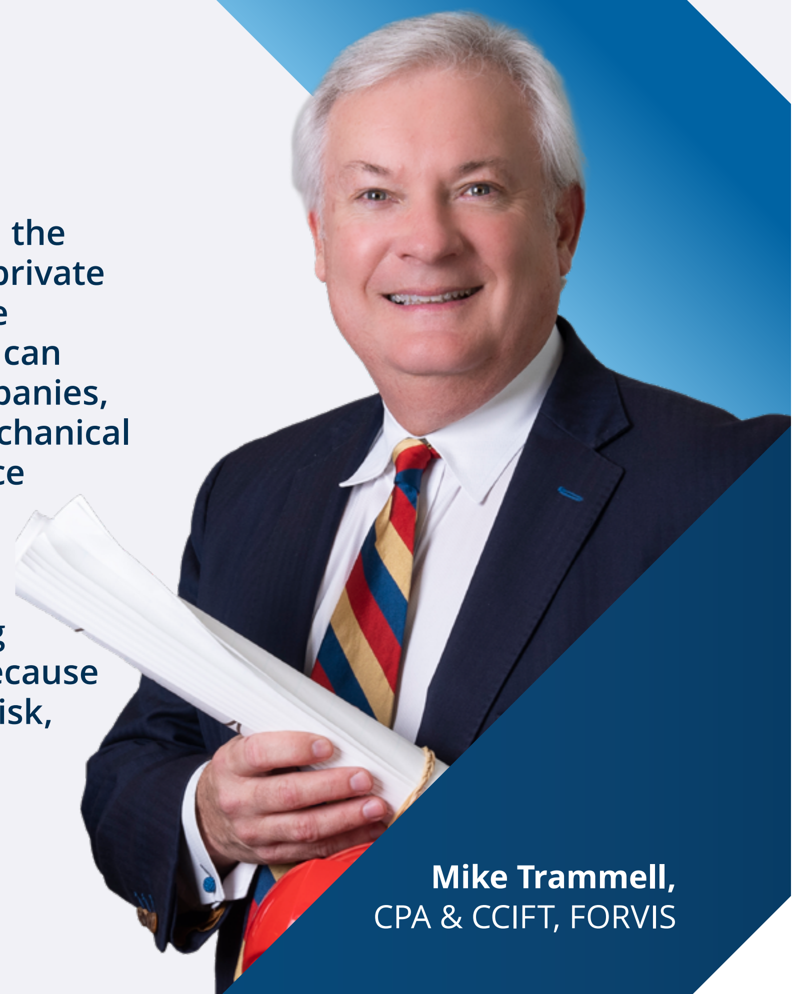
Cash Flow Stability

Most construction pros would agree that there's no such thing as too much available cash. Branching out into service, or subscription-based models can help keep cash on hand.

In general, these businesses cash flow well. There are generally less materials to purchase and service hour rates are easier to calculate accurately. And, since service-based projects are generally much, much smaller, cash will roll in more often (albeit in smaller amounts).

Mike Trammell, an accounting expert at FORVIS, says private equity investors are looking for this stability. According to Mike,

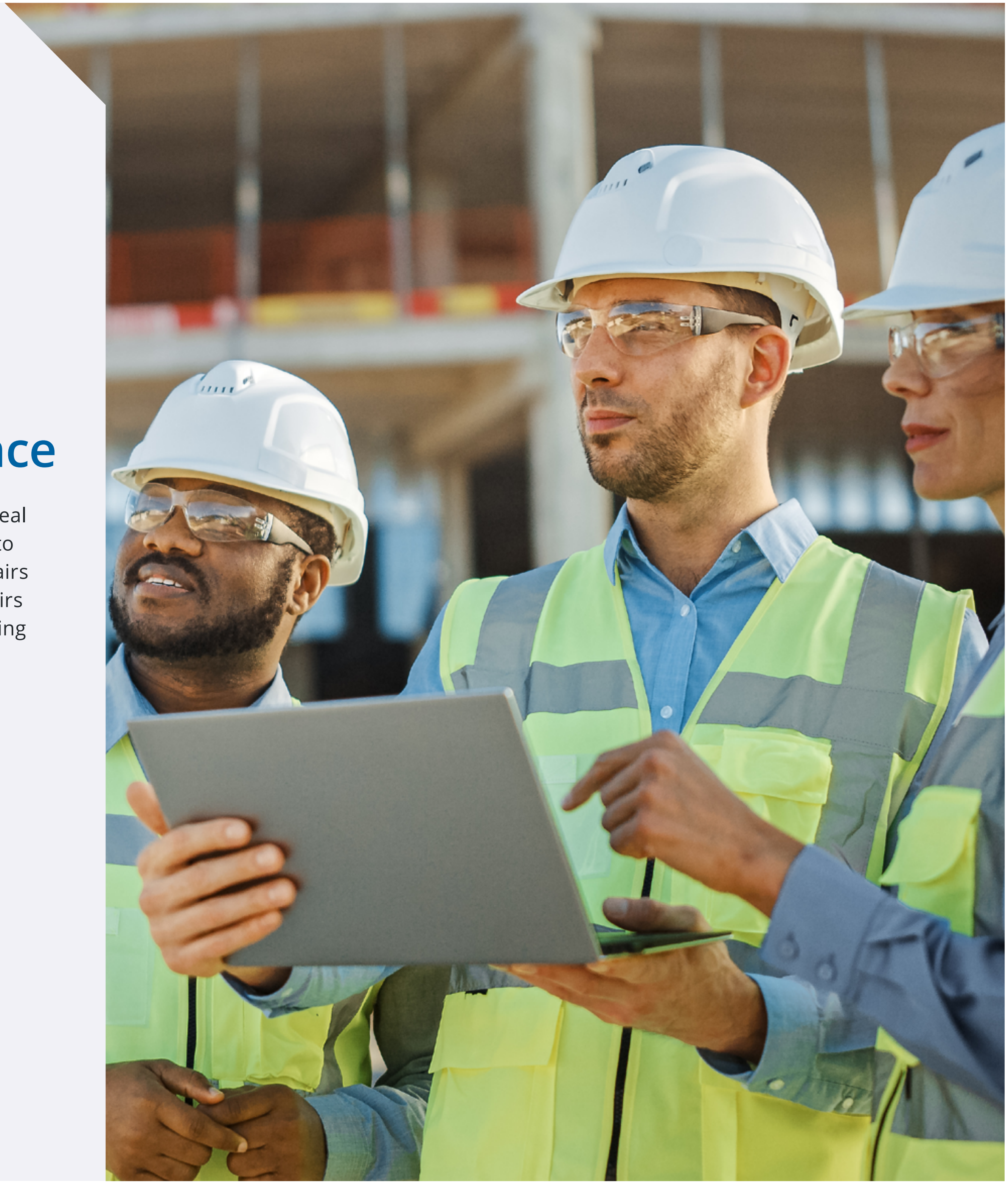
> "On the subscription and the service line, that's why private equity is getting into the construction field. They can take heavy service companies, whether it be again, mechanical or electrical maintenance on pressure vessels. Private equity won't say long stream of revenue. They're getting into construction not because they love construction risk, but because they want recurring revenue."



Mike Trammell,
CPA & CCIFT, FORVIS

Seasonal Balance

Seasonal slowdowns are tough to deal with. Sure, they give the crew time to handle some maintenance and repairs on equipment, but after those repairs wrap, layoffs and seasonal downsizing are common. But, with the right service-based business, companies can keep more employees working and producing recurring revenue.



Client Relationship Management

One of the best ways for construction companies to find recurring revenue customers is to turn to the customers they already have. Serving companies and clients whom they've already worked for is a great way to further build those relationships so the contractor is top-of-mind when the customer wants to take on a larger project again.

The same applies for new customers. If they appreciate the work and attention to detail they receive through their subscription services, they'll remember the contractor when it's time to start their next endeavor.

Better Resource Utilization

There is an aspect of starting an additional service that just makes sense: the equipment and personnel are already in place. The tools, machines, operators, and tradespeople are available. It makes sense to use them to offer more services that provide cash flow and stability. If the endeavor requires additional equipment purchases or other expenditures, it doesn't make quite as much sense (though it may still be a smart move).

Nick Grandy,
RSM

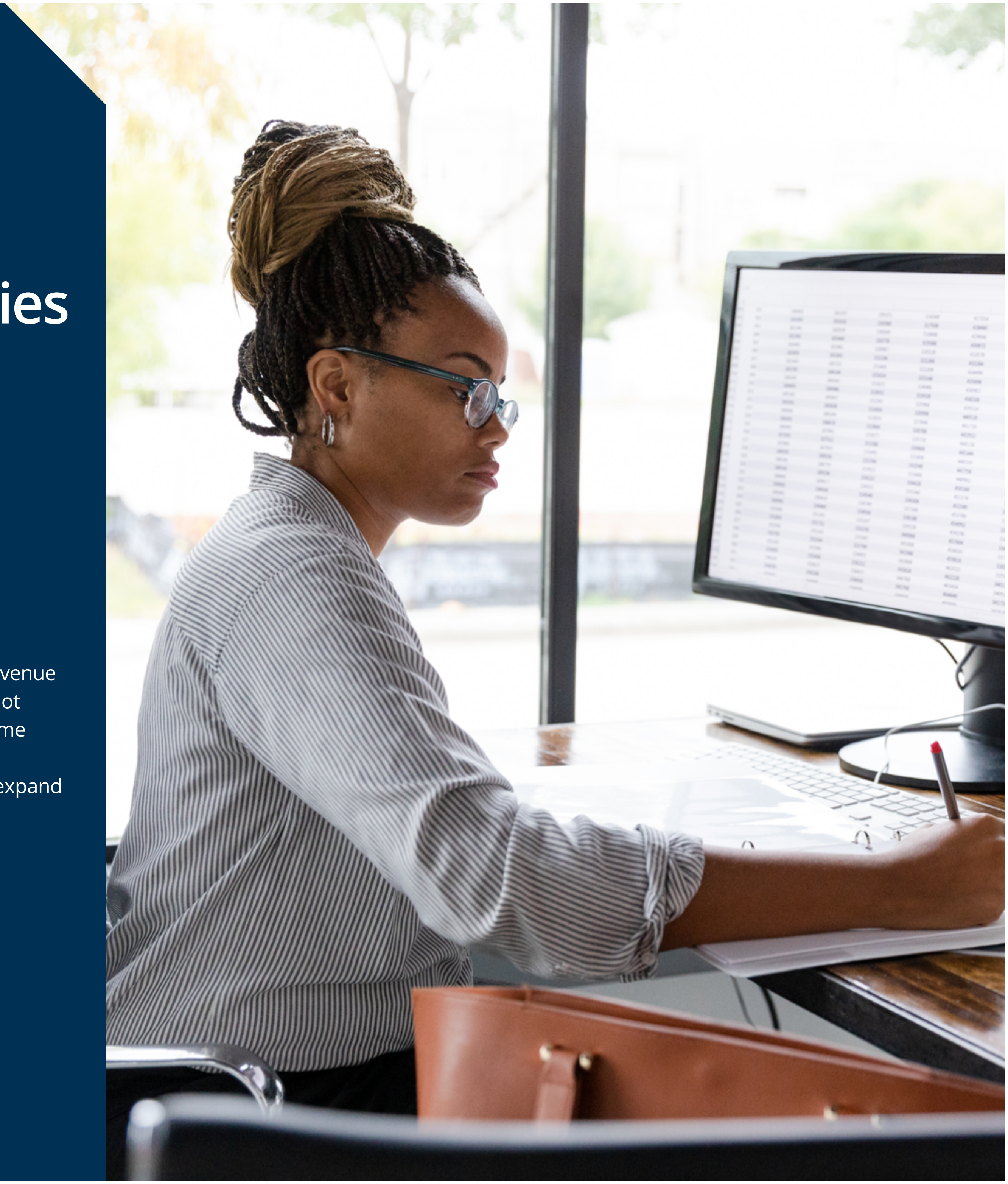
Increased Valuation

Business models with recurring revenue streams are usually far more exciting for potential investors than those without. These businesses show stability, better cash flow, and owners with higher business acumen. These companies are generally seen as having lower risks and higher rewards—a major benefit when it comes to getting a loan, when looking for investors in a difficult market, or even when it's time to exit.

Nick Grandy, a financial consulting manager at RSM, says, "If you don't want to go an ESOP route, can you sell to private equity? Private equity values a couple of different things a little bit greater than others. So they value that recurring service model."

How Companies Can Create Recurring Revenue Divisions

Whether it’s for the cash flow or the valuation, expanding into recurring revenue platforms makes sense. But it might not seem easy to get started. Here are some examples of how contractors can add recurring revenue streams or simply expand their business to new customers.



Repair Services

An easy way for contractors to add a recurring revenue branch is to offer repair services for previous clients. This works best for homebuilders and renovation companies. They can contact customers they completed work for five or so years ago and sell repair services to fix the things that have broken since the build.

These prior customers' homes likely experienced some sort of damage in the last few years. Since they know and trust the company, they might hire them straight away without even shopping for quotes. As this branch of the company grows, it can take on new clients and continue to focus on recurring revenue.

According to Mike Trammell, "[We] talked about the opportunity to enter more of the service side of things. Private equity tends to place a greater value on that because that's recurring billing. You probably don't need to work very hard to win that client and win that work, and there probably isn't a huge amount of risk. So that work tends to be more favorable."

Seasonal Services

Other sensible services that construction contractors can offer when things are slow are seasonal services like snow removal and salting. Submitting bids to local commercial businesses could lead to some relatively lucrative contracts. These pros can get paid to clear the parking lots and even move the piles of snow when they get too high, and they likely have the equipment required (though they might have to add a plow or two).

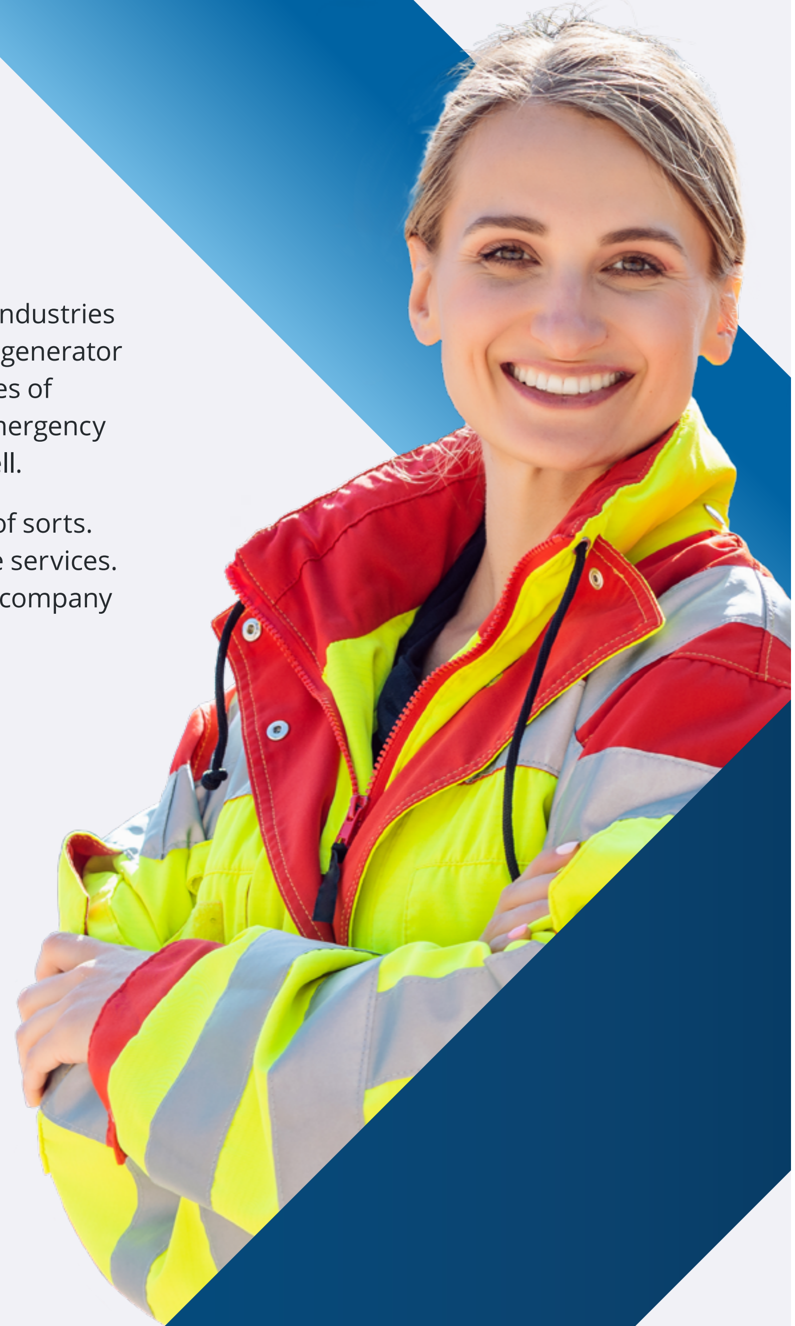
Emergency Services

Consider taking a page from the electrical or plumbing industries' books. These industries install electrical or plumbing systems, but they also respond to emergencies like generator failures and plumbing stoppages. Survey your strengths to determine which types of emergencies your crew can handle and which licenses you'll need, but adding emergency services is a great way to keep money rolling in, especially since they pay very well.

Another point to consider here is offering emergency services as a subscription of sorts. Companies can pay a set amount each month to guarantee emergency response services. This can be very lucrative on a large scale, as most companies will only need the company once or twice a year.

Disaster Restoration

Disaster restoration can be a great business to get into. Floods, fires, and other disasters can put people out of their homes, and restoration contractors help put the pieces back together. Contractors that go this route will have to become comfortable working with insurance companies, but the learning curve isn't steep and there is certainly money to be made.



Residential and Rental Divisions

Many commercial contractors stick to commercial and industrial projects. But, in some cases, adding a residential-only arm could provide some stability, providing building services for a portion of the population the firm hasn't tapped yet.

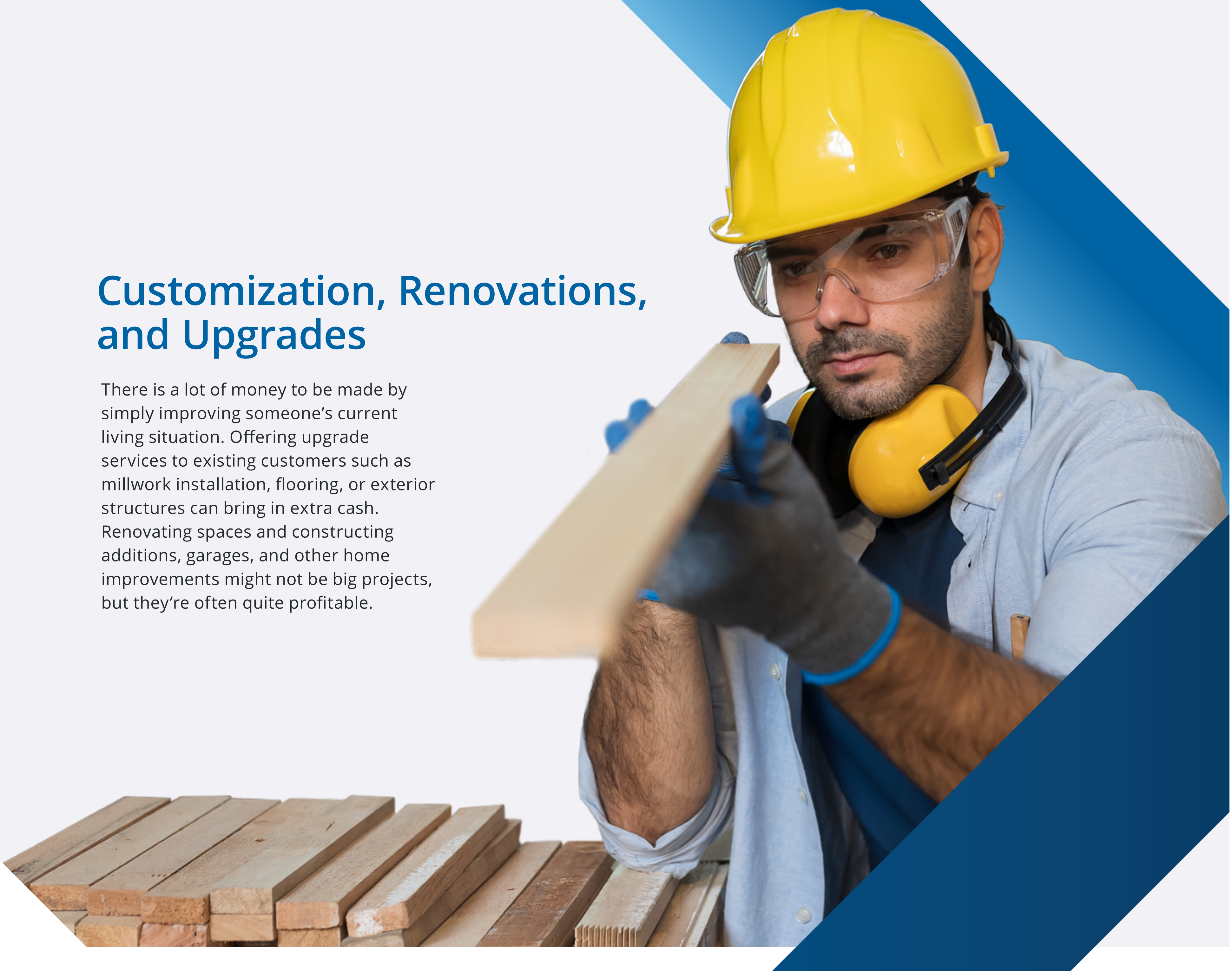
Another opportunity could be property holding and rental branches. Depending on the circumstances, some construction companies may choose to purchase, renovate, and rent buildings. In many cases, this requires forming a holding company separate from the majority of the construction company, but can provide stable, reliable income throughout the year.

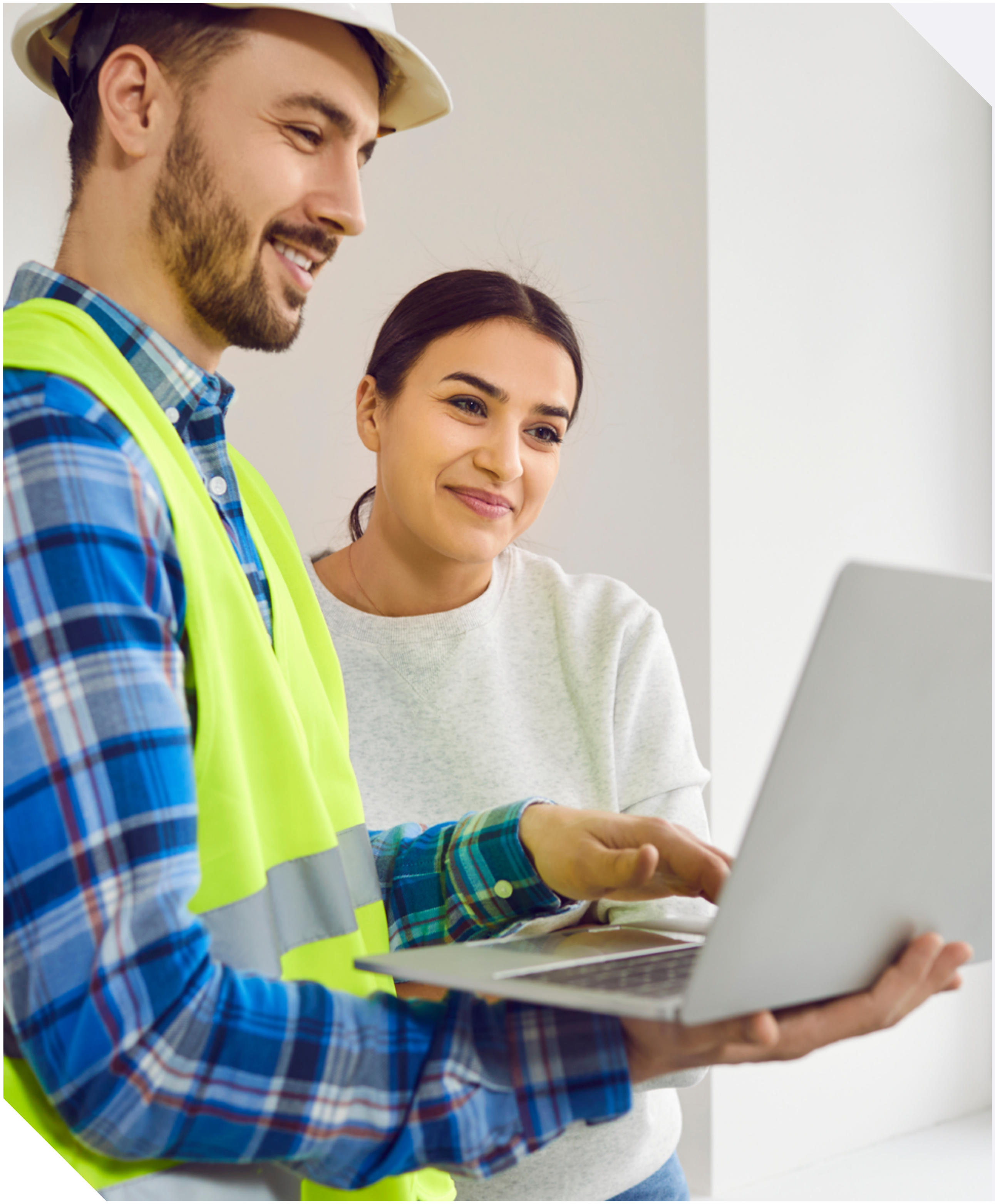
Home Inspections

Home inspections are another great way to add some revenue to the company's bottom line. Home inspectors need to attend classes and shadow experienced inspectors at first, but maintaining a few licenses on the staff should be fairly easy and allows the company to branch out. If repairs are needed, homeowners are likely to remember the company and give it a call.

Customization, Renovations, and Upgrades

There is a lot of money to be made by simply improving someone's current living situation. Offering upgrade services to existing customers such as millwork installation, flooring, or exterior structures can bring in extra cash. Renovating spaces and constructing additions, garages, and other home improvements might not be big projects, but they're often quite profitable.





Eco-Friendly and Home Tech Services

There is a keener eye on eco-friendly homes and people are turning to technology to help them achieve it. As such, contractors that offer eco-friendly tech installation and integration could stand to make a lot of money. These pros would connect smart thermostats, digital voice assistants, alarm systems, entertainment technology, and other cutting-edge technology as an additional recurring revenue stream.

Property Maintenance Subscriptions

Property maintenance subscriptions are a great way to create recurring revenue that's generally very safe. Under this model, the contractor pays a set amount at the beginning of the month, and throughout the month, the contractor performs property maintenance tasks like clean-ups and grass cutting.

If the weather is wet or the grass isn't growing, the contractor still gets paid regardless of how many (or few) times they actually performed the work. This is similar to a retainer, but the contractor outlines all of the work they're willing to do for the subscription amount. This prevents the contractor from being taken advantage of and sets expectations from the start.

Recurring Revenue Could Be Your Key To Success

It's hard to argue that diversifying income isn't becoming increasingly important. The stability that a recurring revenue stream can provide not only keeps the lights on but also indicates to investors that your company is worth the risk. Whether it's a repair division, a remodeling division, or a property maintenance subscription, offering additional services allows companies to take advantage of resources they already have to make more money, assuring success this year and beyond.

Conclusion

The tips we discussed can help your internal accounting experts move toward becoming vital members of the decision-making team. They'll be able to bring better insight, better risk assessment, and a better financial outlook to the table than anyone else on the team—and that's where their value really lies.

But it takes more than reading these tips to get the job done. CFOs and accounting staff have to put these ideas into action.

Trimble's suite of tools and software can also be the catalyst to getting there faster. If you're interested in changing the way you interact with your project management team, executive board, and other company decision-makers, let Trimble show you how we can help.

Find more tools to help you be a change-maker in your company at the Turbo-Charged Accounting Resource Center.

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