

7

Everyday Financial Risks Possessed By Your Construction Business

Understanding The Challenges &
Ways To Prevent Them



Table of Contents

Introduction	3
Inaccurate Reporting	3
Over Expense On Material	5
Inaccurate Material Forecasting	5
Wrong Deliveries	5
Imports	7
Pay-Less Notices When Contractor Is Not Satisfied	7
Not Receiving Expected Payment	7
Valid Pay Less Notice	7
Alterations To Project Scope	8
Analyzing Potential Hurdles	8
Time Impact Analysis	8
Change Orders Creating Unexpected Loss	9
Common Risks	9
Hiring Extra Labor To Solve Issues	10
Construction Workforce	10
Real-Time Insights	20
Inability To Check On Risks	10
Conclusion	11
About ProjectPro	12

Introduction

Construction is one of the most significant aspects of our day-to-day routine. From residential apartments to skyscrapers, everything related to a strong and feasible infrastructure can be made possible through construction. Still, the industry has to deal with extensive criticism when it comes to the delivered and expected results.

However, the only thing which we all need to understand that every construction firm is different and so are the construction projects. This usual difference between the practices and projects leads to different challenges and opportunities that affect the overall results of the process.

Though risks in construction are often considered as a negative term, the early identification of the possible risks can be a blessing to the project. The timely assessment of the risks could help any firm to overcome financial backlog and have the opportunity to use it for business benefit driving profit and delivering satisfaction to the clients.

Since it is necessary for construction firms to identify any financial risks associated with their business to determine the root cause of the concern and act early according to the measurable impact, this eBook will help you learn about 7 financial risks that contractors have to face in their everyday routine.

Besides this, we will also try to highlight the recommendations that can help avoid these risks and ensure more profitable outcomes.

Inaccurate Reporting

Most contractors usually resist reactive reporting as it needs advanced preparation to process real-time reports. However, the data from these reports is vital for quality decision-making as it not only helps to deal with any challenges but helps plan corrective actions long before a complexity appears.

In short, Daily reporting for construction projects is vital. It helps contractors and project managers to keep a check on completed activities while locating any delays for ongoing activities that are running ahead of schedule. Since a minor error in the project could lead to expensive fixes, planning on time and in a coordinated manner could help control the finances.

The only thing that can help prevent the loss is working on Cost to Complete Reports as these reports could help project managers to access data related to expenses made to achieve the existing stage of the project while giving detail to expected expenses that are required to be made until completion.

Remember, Cost to Complete Reports are the most important form of documents you'll work on when aiming at a construction project. It is more of a collective report that contains data from other reports and gives you a check on the profit margin that is likely to have at the beginning and end of the activity.

Though not new to the industry, practicing cost to complete reports need you to have access to advanced construction accounting software rather than manual calculations made on excel sheets. Also, working manually on the cost to complete reports could consume a lot of time and the stats may get expire already when they reach the project head or owner.



Over Expense On Material

The next big thing that could incur a potential financial burden to the construction project is the material. “No Material” means “No Construction.” However, there are so many financial risks that may appear to a project if planning is not done right.

Inaccurate Material Forecasting

The first thing that we have on top of our list is the problem that occurs due to inefficient estimates and improper management. Since estimation is the primary stage of developing a construction project, most contractors skip working with precision when doing forecasting. Though it is challenging to have the accuracy, the inability to produce a precise estimate could lead to overheads, delays, and therefore, delayed payments.

Wrong Deliveries

When we talk about sound construction, it all begins with material that is rich in quality, is accurate to the raised orders, and most importantly, timely deliveries. However, missing on the deliveries is completely not feasible for the contractors and project managers as returning or replacing damaged material could affect the entire schedule.

Besides this, the firms that do not have access to advanced technology solutions to keep them updated on the real-time condition of the construction site may have to deal with changed deliveries. The lack of access to precise data leaves no space to keep a record of pre-ordered material and equipment which has been planned according to the original schedule. In such a situation, materials are stored at the site even during the most adverse weather conditions leading to loss of material and money.

Also, the construction industry being one of the largest users of natural resources produces a huge amount of waste as every project has its unique structural and material-related needs. However, all such over expense related to resources and waste of material could be prevented by taking early on project design.

All in all, delayed delivery of the material and over expenses with the material are two of the challenges that come as standard with every project if a firm lacks access to daily progress data. This further leads to issues with placing orders, transportation, storage, treatment, and disposal of the waste. And if contractors need to ensure minimum spend on material related challenges, it is essential that a few important aspects related to the impact must be considered:

- Improved material planning that compliments project lifecycle
- Ensure using a standardized shape and quantity of material
- Smart inventory and order management
- Storage should be made as per recommended guidelines
- Prevent duplication of work
- Utilize off-cuts when possible.



Imports

When you are dependent on a large number of imports to carry on with your project, it is very likely for you to deal with the situation that involves a sudden jump in material prices. Having a high dependency on material imports needs you to involve in taxes that affect your financial management.

The import rates and delivery delays could even affect the overall budget of the project since fluctuations made to the cost of material are not worked during the initial stage of the project lifecycle.

Pay-Less Notices When Contractor Is Not Satisfied

Pay-Less Notices have turned to be a trending topic in the industry. PLNs need to comply with certain requirements but are actually the notices to a payer bound to a contract to pay less amount for a service provided by a contractor or subcontractor.

However, such notice brings financial risks where general contractors are paid the full amount of money even after delivering a lower standard of work while they may make deductions to the perfectly delivered job done by a subcontractor causing underpayments.

Not Receiving Expected Payment

Though there have been long-running concerns in the industry related to payment practices, there are still many issues that need to be worked for preventing any loss on expected payment or making the subcontractor receive less money against the initial contract. However, working on such issues need contracts that do not have an option to include Pay-Less Notices leaving no chance of exploitation of subcontractor and even giving them authority to recover in case any disputes with payment occur.

Valid Pay Less Notice

Also, if there are any Pay Less Notices involved in a contract, the contractor must only issue a valid pay less notice to the client in case a job does not meet its quality requirements. Else, the contractor needs to stick with the original contract and pay full payments to the subcontractor.

Moreover, the contract should have a provision that allows the subcontractor to suspend an operation and recover the payment as debt with interest if the contractor fails to make timely payments.

Alterations To Project Scope

Every construction project, no matter, how well it is planned, deviation from the original project scope is an industry ritual. This is why the change in scope is considered as one of the most significant risks to the project along with budget and schedule. Since working on change orders is quite consuming, it may consume a lot of time to keep things on track which may jeopardize the financial success and delivery goals.

Analyzing Potential Hurdles

When it comes to change in the scope of the project, they make two-third of reported changes made to any construction project. This is why construction projects demand extensive planning for defining the project lifecycle while having space for some acceptance criteria that allows comprehensive due diligence analysis. It is meant to identify all the unexpected, hypothetical, and unknown impacts that may possibly happen with the project.

Though it becomes most challenging for the contractors due to the extensive pressure of starting and competing for a project. However, spending a little extra time analyzing the project for any possible hurdles could help work on a contract that is more achievable and have minimal chances of issues. This can help all the contractors, subcontractors, and project owners to enjoy efficient development while ensuring savings and quicker deliveries.

Time Impact Analysis

Planning is something that should take maximum space on your schedule when working on a construction project. If done effectively, you can achieve accurate and well-configured schedules for your project which is the primary requirement of Time Impact Analysis. The Time Impact Analysis allows you to map the changes and find the most accurate time that is required to work on them.



And when it comes to financial risks, it could save you thousands of dollars and can even benefit to validate the link between planned process and expected changes.

Change Orders Creating Unexpected Loss

Change orders are a part of the usual project lifecycle in construction. Even if you are not able to define a clear impact they can make on scope, budget, and schedule, they have a direct impact on deliveries.

As most construction projects go through a change of scope, modifications and alterations to existing plans are evident. Even if the change order contains only one or two elements for replacement, it could have a huge impact on the scope of the project. Overall, change orders could lead to potential financial risks to the project as they not only call for costs but have a direct impact on the planned schedule of the project.

Common Risks

Consider a construction project where all the changes made to the project lifecycle are done without informing the project manager or it can be the new order of materials that have been placed without making variations to the changed budget.

Hiring Extra Labor To Solve Issues

For over a decade, the construction industry is continuously struggling while making a hunt for the most skilled labor resources. It means the recruitment process is difficult and simply adds to the cost of the project. Also, the limited time to complete the construction project and recruit the right talent brings huge pressure on the finances. Moreover, when there are stricter deadlines, chances are high that project deliveries are achieved by hiring last-minute labor resources.

Construction Workforce

Most of the construction workers move to the countries that offer promising salaries to the employees. This simply calls for a shortage of labor, especially during current times of pandemic where projects demand labor resources but limitations to hire labor resources from international boundaries is either not possible or expensive. In short, the situations calls for outstripping demand and supply difference that adds extensive costs of labor to the project.

Besides this, contractors have a general lookup towards construction projects that believes that any problem in the construction industry could be resolved through extra labor. This situation further calls for overtime or even greater headcount at site negating the predicted profits and ROI.

Real-Time Insights

The only way to overcome labor productivity issues and the need for extra resources at the construction site is to have a real-time check on the progress. Having real-time insights could help contractors to detect any early signs of labor issues that are likely to happen at the site allowing control on current activities, get approval for change orders, and ensure smoother deliveries without getting any loss of finances

Inability To Check On Risks

Last but not least, contractors are often found spending their time on the above-mentioned tasks and risks related to them. However, a check on risks and opportunities must be kept to avoid unnecessary loss in business.

Tracking all the risks and opportunities could help project managers to find possible areas of problem and rewards. Moreover, having an advanced approach to check on risks and opportunities could help control costs, time, and profit margins. Also, monitoring the risks and opportunities in advance could help achieve more predictable results.

For instance, if you are expecting so many risks with the current process, you can always plan for worst-case scenarios and settle for a good amount of profits and margin by altering the process. Else, working on risk and opportunity scenarios could help to find opportunities at every stage of the project lifecycle while enjoying maximum profits.

Conclusion

Ever since the construction industry has managed to be one of the fastest-growing industries contributing to global GDP, the industry experts, contractors, and construction firms, all have talked about the razor-thin margins and profit-loss scenarios.

However, such hassle is quite natural when construction projects involve a large number of stakeholders and all have a dynamic behavior calling for complexities. Most of the time, it calls for problems related to synchronization in data or work that is identified when the project is completed. And these substantial errors that are often kept hidden in the process then lead to financial damages.

Therefore, it is necessary that the construction industry should start with a new approach to locate the potential financial risks that are hidden in their routine process. Working on real-time insights, control on finances, and have a synchronized approach to project lifecycle could help contractors to secure better profit margins and have more predictable deliveries.

In the end, we would like to finish it by saying that working on any problem needs you to identify it at its earliest. It just needs you to spot the warning signs and start finding solutions that can help deter any unwanted loss on project cost, time, or scope.

A quick solution for the same could be adopting an integrated construction accounting and project management software technology that keeps all the stakeholders on a single platform while giving access to real-time data. Using such a system can help improve communication, cut the administrative load on the project teams, and allows them to keep things organized so they can focus on identifying any potential areas of loss. Also, such an approach can be a gift to cultivating better customer relationships, improving sales, and ensure optimized and refined allocation of resources.

About ProjectPro

ProjectPro is a cloud-based Construction Accounting Software Solution integrated with Microsoft Dynamics 365 Business Central. It is designed to help construction companies manage tasks and requirements related to Project Accounting, Resource Management, and Project Management.

Streamlining business processes for construction firms, real estate developers, and contractors, ProjectPro can be used to work on integrating data, transaction processing, and robust reporting. Moreover, features like Cloud and Power BI help construction companies for improved Business Decision Making.

Some of the other features include Project Management, AIA Contract Billing with Retention, Advanced Job Labor, Change Order Tracking, and Material Planning. Moreover, ProjectPro includes Subcontract Management, RFQs, TimeSheets, and keeps users updated with real-time Notifications and Alerts. It also comes with a dedicated mobile technician app that can help with field service operations.


At ProjectPro, we help construction companies with customized software solutions to make their construction business sustain and grow in this digitally growing world. We help you turn your vision into a value with promising services and a pleasant customer experience.

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Take Care! Stay Safe!