Prophix

Adopting the Right Digital Tools Opens Door to Unprecedented Growth in Construction

Strategies for increasing productivity and profitability

There is no industry with greater complexity and risk, tighter margins or a higher likelihood that big projects will be delivered late and/or over budget than the construction industry.

Yet, many in the sector have been slow to adopt performance management systems that mitigate risk while increasing productivity and profitability.

A Prophix Whitepaper

Inside this document

The Opportunity

Construction and real estate companies have to continuously adjust budgets, project timelines, staff schedules, and materials to keep up with the pace of change. And it's likely your contractors, developers, and project managers realized that being reactive instead of proactive is no longer feasible.

Globally, the construction sector is one of the world's largest and fastest growing industries.

As the world's ever-expanding population moves increasingly into urban areas, the demand for new buildings and infrastructure is outpacing global GDP growth. Some estimates put the construction industry's growth at close to 4 percent a year through 2030.

The Challenges

Unfortunately, at the same time the sector's opportunities are expanding, so is its project complexity. In turn, greater job complexity creates a cascade of overlapping risks that put even the largest firms in perpetual jeopardy.

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of direct labor time on mega-construction projects is spent waiting for:

- Materials And Equipment
- Planning How To Do The Work
- Taking Early Breaks
- Traveling To The Area

A fundamental correlation between the complexity of a project and shrinking profits is productivity. A McKinsey & Co. report on labor productivity found that, “while many U.S. sectors including agriculture and manufacturing have increased productivity ten to 15 times since the 1950s, the productivity of construction remains stuck at the same level as 80 years ago. Current measurements find that there has been a consistent decline in the industry’s productivity since the late 1960s.”

Why hasn’t construction productivity improved like every other industry? According to a Construction Owners Association of America study, 63 percent of direct labor time on mega-construction projects is spent waiting for materials and equipment, traveling to the area, taking early breaks, and planning how to do the work.

A lack of productivity also applies to equipment and materials. Expensive pieces of construction equipment sitting idle and huge stores of materials waiting in storage are balance sheet costs that drag down profitability and diminish a company’s cash management program and profitability.

When a company is costing a job, it calculates the resources needed: the kinds of labor skills, types of equipment, location and amount of time it needs specific skills and equipment on site; and all the other materials it needs and when it will need them.

To get the greatest benefit from its balance sheet assets, such as an expensive piece of construction equipment, a company needs to have that in use as much as possible. That means moving heavy equipment, and its operators, from job to job efficiently, with as little downtime as possible.

A delay at one job can grind work to a halt at another site, leaving workers waiting for needed equipment or materials. Or it can delay needed maintenance on the equipment, putting it at risk of break-down and even greater costs and delays.

Construction companies must also carefully manage cash flow, with outlays for materials for one job affecting how much and when it can put out for materials on another job.

The Route to More Efficiency, Productivity, and Profit

> Historically, construction companies cost and manage jobs through tedious, time-consuming, and error-prone spreadsheet systems. On multi-million-dollar jobs, this would mean charting hundreds of thousands of spreadsheet cells, representing labor, equipment, materials, financial obligations, etc. If one of those items changed, it took an enormous effort to reforecast. All other elements had to be reforecast. Estimates had to be made of how changes on one job would affect other, unrelated jobs. How does it affect margin on that job? On the next job, if another job had to be delayed? How does it affect cash flow coming in because construction companies are usually paid when a job is finished? Does it place a strain on cash flow such that it affects the company's ability to bid on other jobs?

One broken link in a spreadsheet, one missed update or errant number, can put the finances and operations of a company in serious jeopardy.

That's why the construction industry is at a crossroads. One path leads to profitable growth and the other to potential stagnation.

Traveling the profitable-growth path requires actionable real-time data. It demands the ability to access and adapt to information on the fly; to use real-time data to update financial forecasts; to project cash flows and budgets based on operational changes. If one variable is changing, how does that affect other jobs? If a job is going to be delayed or finished early, how does that affect the operational requirements for other jobs and how does that affect the company's financial position?

Companies that are moving down the path of profitable growth are the ones that have adopted or are adopting Corporate Performance Management (CPM) tools that provide realtime access to all their information. They use tools that automate many old manual processes, so they can predict and forecast all their job costing and financial variables.

Construction companies that fail to adapt to the real-time data requirements of today's building sector will find themselves trapped between shrinking profit margins and stagnant productivity, unable to generate the profit necessary to invest in their futures. The old ways won't work.

But companies that do make the move to new digital tools will find themselves with a big competitive advantage in one of the world's fastest growing and largest economic sectors.

About Prophix

Your business is evolving. And the way you plan your business activities and report on them should evolve too. To empower mid-market companies to achieve their goals, Prophix provides an integrated, cloud-based platform to the Office of Finance; one that delivers planning, budgeting, reporting, forecasting and consolidation solutions. With Prophix, finance leaders improve profitability and minimize risk and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovations that adapts to meet your strategic realities, today and tomorrow. Over 2,500 active customers around the globe rely on Prophix to transform the way they work.

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