



# COLEMAN

Building your construction business

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## MEASURING AND MANAGING

(950 words)

You can only manage what you measure. If you are doing an activity where the outcome can't be measured ask yourself the question "why am I wasting my time doing this". If you can't measure the outcome there is no way you can tell whether you are getting better or poorer results.

Ask a golfer about his game. He can (and will) tell you about every stroke on every hole. Which club he used, how far and how straight he drove the ball and how many strokes under/over par he was. He will then go on (and on) telling you why he didn't play as well as he did the last time out and what he's going to do differently next time out.

Every golfer knows that you have to keep the statistics or you won't be able to compare how you are doing compared to your history and to the standards set by the course. By doing this the golfer knows what part of his game to focus on or get lessons in. You see it's all about measuring and managing.

But when I ask a contractor for the same information on his business he becomes very silent; not because he doesn't want to tell me but because he doesn't know. He hasn't identified the Critical Success Factors (CSF) for his business or his Key Performance Indicators (KPI). Therefore he can't be proactive in running the business.

What are the factors that need to be monitored to ensure the business is successful. Having analyzed this question with many contractors we have come up with seven. (Maybe there are fewer or more for you)

1. Sales
2. Profits
3. Cash flow
4. Marketing
5. People
6. Communications
7. Fun

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Each of these factors represents outcomes you need. Each factor has several indicators that will tell you if you are going to meet your factor.

**For example:**

**Cash flow:** The Critical Success Factor might be – do not exceed the \$100,000 bank overdraft limit.

**Sales:** Annual contract sales \$2 million; annual service work \$1 million.

**Let's work on contract sales for this example:**

Critical Success Factor - \$2 million for the year (\$167,000 per month)

What are the Key Performance Indicators that will tell you in advance if you are likely to meet your Factor? **The elements that you need to provide indicators for are:**

- Level of work on hand
  - How much is completed
  - How much has to be completed
- Level of “walk in work”
- Normal level of extras on a contract
- Amount of work that has been bid but not awarded
- Our conversion rate
- Amount of work that is being bid over the next three months.

By combining all these indicators we should be able to identify when this work will be performed and make a fairly accurate forecast for the coming six months.

From your history you should be able to set up indicators for each of the elements. For example, if you are getting 20% of the work you bid and you have \$4 million dollars of bids outstanding then you can expect to get \$800,000 of this work.

As you set this system up and fine tune it you will improve your accuracy. The accuracy level for the first three months of a forecast will be higher than the second three. But I do believe the accuracy will be sufficient to help you improve your business game (you already know how to improve your golf game). One of the most difficult parts of the forecast is the timing of the work. Schedules do change all the time. But again, from your history you have a good idea of how timelines change.

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**What can you do with the information that you glean from these projections?**

If you are getting too much work you need to marshal more forces or subcontract out more or better still put your prices up and secure less work at higher margins (it's all about profit; not volume).

The real strength to this process is that you, as a manager and leader, become more proactive instead of reactive. You will be handling potential problems before they even rear their ugly heads. Your team will function with greater efficiency and you will make lots more money. Reacting to all the stressors and spending most of your time putting out fires is not productive. An effective manager diverts problems rather than solves them.

**If you are constantly putting out fires then you can't take time off. What would happen if you were to take three weeks off? Who's going to do the job as well as you?**

Sit back, have your favourite beverage and sketch out what life would be like if you were in control of your business. You have the magic touch, you tell your team what their needs are going to be in one, two, three, four, five and even six months in advance. Their confidence in your leadership will soar.

The amazing thing is that you can monitor these Key Performance Indicators from any beachside café with your Blackberry in just a few minutes each day. **The big danger is that you might work yourself out of a job and then what would you do with all that free time?**

If you had started this process six months ago you would now have that lifestyle. If you don't start it now then in six months time you will be still micro-managing and spending your days putting out fires. This may give you a false sense of importance. The emphasis is on the word false!

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