

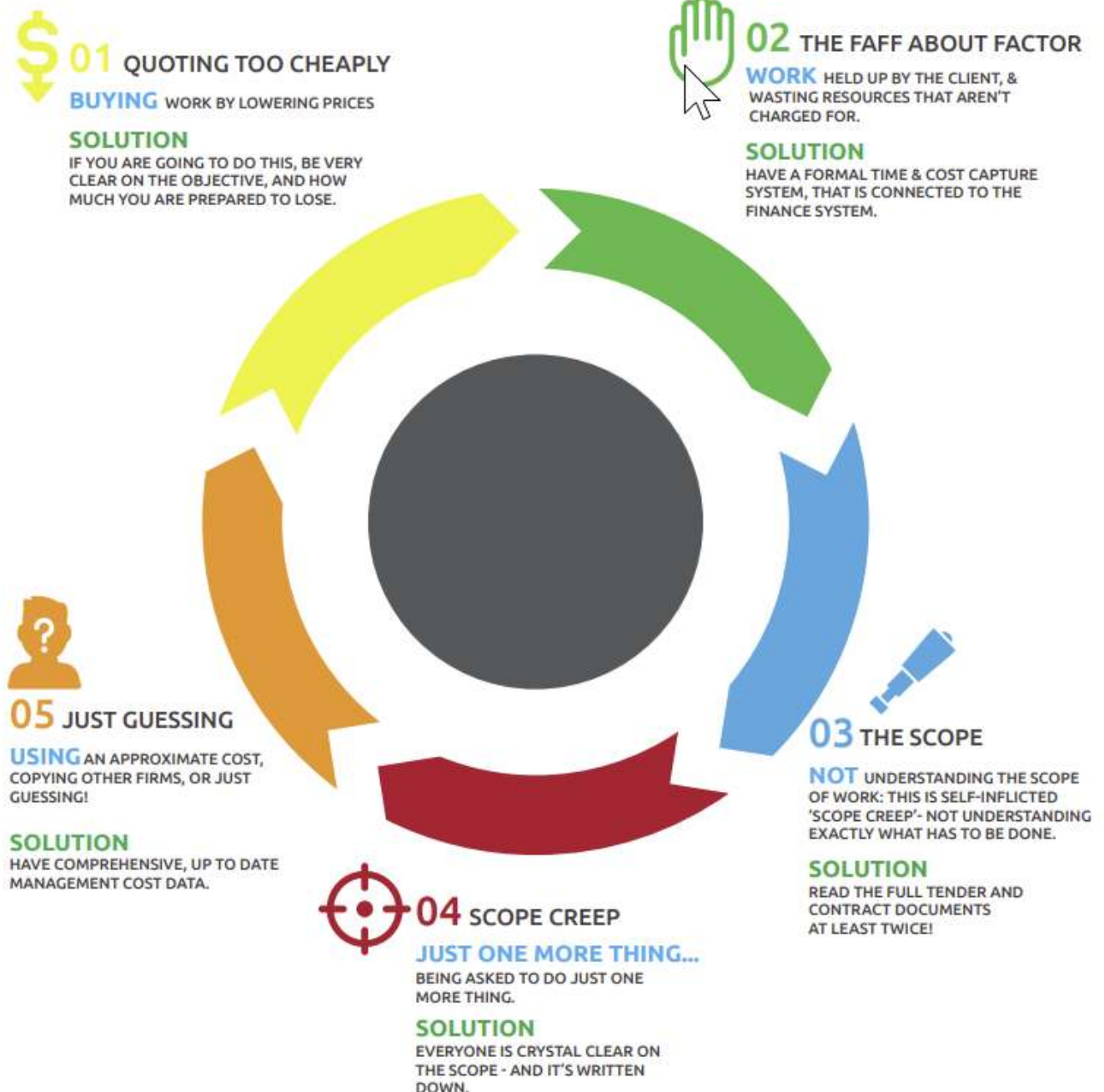


THE 5 EASIEST WAYS TO LOSE MONEY ON A CONTRACT WITH A BIG COMPANY

An eBook by
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Helping Small Business Do Business With Big Business

A handy infographic to help you to identify where your business may be losing money.



1. Buying Work

I know that there are many companies out there at the moment who are “buying” work – for various reasons. It may be to keep a workforce employed, to get one first job that will hopefully lead to other work, or a host of other reasons. If that is a well-reasoned and deliberate strategy by your business – so be it. But know how far you can take this strategy – it carries risk!

Solution:

Have comprehensive, up to date, management cost data. Having good cost data will let you calculate just exactly how far you can push a “loss-leader” strategy. Set the limits, and stick to the plan.



2. The FAF

The Faff About Factor (or substitute any other word that may come to mind).

Every contractor knows the story – you rush to site to fulfill your URGENT, URGENT, URGENT client's request. When you arrive, you find that the person you have to see is on lunch, or is on leave at the Sunshine Coast.

The “losing” part comes in when this time is not recorded, and therefore not claimed, or if you are working to a fixed-price contract with no avenue for variations.

Solution:

Ensure that all time is captured by having a formal time-recording system – ideally one that links directly with your finance and invoicing software. Only then can additional time be turned into dollars.



3. The Scope Of Works

Not reading and understanding the Scope Of Works or Contract in detail. For all the tenders that are prepared and distributed by large organisations annually, we still see some shocking ones. Common problems include the ever-popular ‘copy and paste from the last tender’, using a template that was clearly prepared for a major engineering contract, not a small, non-complicated job, and inconsistent requirements (such as one part of the tender documents requiring 2 hard copies, and another part requiring electronic submission).

The result is that you (or your tender team) MUST read the entire Scope of Works, and the accompanying documents, thoroughly – not just to identify these issues, but to be crystal clear on exactly what it is that you are tendering on. In some cases, this won't even be spelled out in the tender documents, and part of the tendering process is for you to come up with a solution that will solve the client's problem.

Solution:

Ensure that you have correctly identified and differentiated the MUST, WILL, SHALL, WOULD, SHOULD, MAY and COULD items. Remember that all of these words have a specific meaning in the tendering process. If you are unsure about any aspect of the tender documents, ask. There will always be a means of contacting the tender owner to have your queries clarified.

Once you are clear on exactly what is included in the tender documents, prepare a Tender Preparation Plan which sets out all the elements that you need to address in the tender, and ensure that they are all addressed by checking them off.

4. Scope Creep

Scope Creep can sneak up on you – that’s why it’s called “Creep”. In this scenario, you are working on a job, and you are asked to “just do this [insert name of other job] while you’re here”. Before you know it, you’re doing 5%, 10%, or even more work – all for the same contract price!

Solution:

Make sure that the client, yourself, and your team are crystal-clear on exactly what has to be performed, and that it has been confirmed in writing.

If your client does request extra tasks, be sure to let them know that extra costs will be incurred, and equip your team to do the same.



5. Just Guessing - Quoting Too Cheaply

If you are making a loss on a job, you may as well have stayed home in bed! To quote on work effectively and profitably, you must have a good handle on your costs – what is it actually costing you to do the job? How much per man hour? How much per machine hour? Without a thorough knowledge of your costs, you may be blindly working yourself towards significant losses.

So if you don't know your costs, and how much it will actually cost you to do a particular project, in both time and money, how do you know what to charge?

For many small businesses, the answer is one of these three:

- * An approximate cost
- * Guessing
- * Copying other firms

There is more to this than meets the eye as well. Labour costs are not just the per hour wage or salary you are paying to your team members. You must also take into account Superannuation, Workers Compensation premiums, etc. and all leave entitlements. You then need to add on all your overhead expenses – the ones that you will have to pay even if you stay in bed. These will include your vehicle and machinery payments, insurances, electricity, rent – and others that may be specific to your business.

Solution:

Have comprehensive, up to date, management cost data. That way, you will know just how much it will cost you to perform each operation needed to complete the job.

Beware Of The Traps

Doing business with larger organisations is not always easy. For a start, there is often a power imbalance between you and the larger company. Consequently, you need to do everything you can to ensure that your profit potential is protected.

Being aware of these 5 traps, and putting systems and procedures in place to avoid them, is an excellent start.



