BRUCE WILSON | The author, of the Wilson-Oyler Group, is a 30-year industry veteran. Reach him at bwilson@questex.com.

Are bad habits keeping profits down?

"Chains of habit are too light to be felt
until they are too heavy to be broken."
— Warren Buffet

It's budget season. Time to take a look at how your performance stacked up against last year's goals and set improvement milestones for next year that will grow sales and increase profitability.

It sounds simple enough, but it's not. Problem is, developing an executable strategy for sustained profitability is tough. Let's take a look at what gets in the way and how to fix it.

The biggest obstacles to improved profits are bad habits that consistently inhibit your potential.

One common "old way of doing business" is also the second most common obstacle to improved profitability — the lack of a clear path. Both habits need to change if you want to increase profits.

Start by making small adjustments — consistently and over time. Unless you have some fundamental flaws in your organization, such as poorly bid work, there is always room to improve habits, clear the path and improve profits. I have clients who want to jump from 5% profit to 10% profit. This can be done, but usually not in one year.

I am an advocate of the defined path. The defined path to higher profitability starts with knowing where your opportunities are most likely found. This is where benchmarking can help. If other companies spend less as a percent of sales on a cost line such as labor, it means you might be able to do the same.

You can also learn from your own performance. Place the last few years' financials on a spreadsheet in columns so you can easily compare results side-by-side. Look for indications where you might have had lower costs for a line item. Track trends. Plot hits and misses. By studying your financial performance you can start to dissect your costs and reflect on the reasons that your costs are rising, or on practices that you may have gotten away from, that led to lower costs in the past.

With improving profits there are no silver bullets, but once you know what you're doing wrong and fix it, the change will have a positive effect on your business. You will be much more successful at what you do. And it will be more profitable.

Identifying areas of potential savings

In looking at costs, consider that the greatest impacts on savings can be made in labor, equipment and enhancements. Enhancements, in particular, are often small and not very cost effective. If not well planned or managed, it is easy to see bid margins evaporate.

When you identify an opportunity to save, it takes more than wishing to make it improve. You must dig into the cost category and try to identify why it's too high. Often, it is not obvious. If you do not spend time analyzing the probable cause, you will probably not be as effective in gaining improvement.

Common mistakes affect labor cost

Two primary but different factors can affect labor costs. The average hourly wage composite of crews affects the margin. So if you manage hours, you might be hitting your budgeted hours but missing the gross margin because the composite average hourly rate of the crew is higher than you think. Since companies have lost work due to the economy, many have laid off the newer lower paid employees. This in turn has increased your average hourly wage cost. This must be managed.

The other reason labor may be higher than desired is exceeding the bid hours. This could be due to a number of things, including: inefficient crews, wrong crew size for the job, not assigning enough work for the day, not having the right equipment and poor routing. You must take time to look at exactly what the problem is and fix it. Some companies approach this by cutting crew hours. But it's a bandage that does not fix the underlying problem and leads to a loss of quality.