

Decreasing AEC Project Write-Offs: An Effective Path to Improve Profitability, Cash Flow and Service Delivery

Architecture, Engineering and Construction (AEC) firms are in the project business. As such they need to have the best possible people, processes, systems and tools in place to estimate, initiate, manage, deliver and measure projects that are sold.

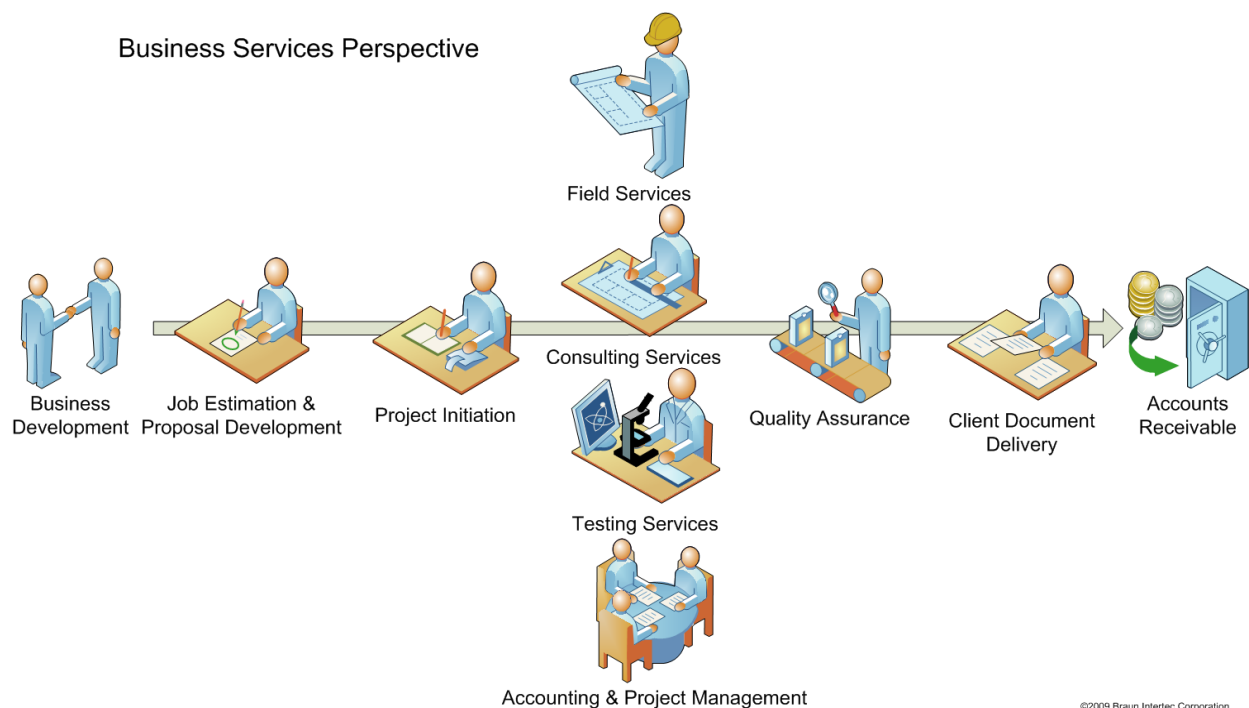
A typical engineering firm's project write-offs can account for 5% of annual revenue. Inattention matters: an AEC firm with 400 employees and \$40 million in revenue may have \$2 million in annual project write-offs. **Implementing best practices in process and technology can reduce project write-offs by 60 to 80%**, saving approximately \$1.2 to \$1.6 million annually. This could recoup 3% to 4% of revenue – a significant boost in good times or bad.

Systems Consulting Group (SCG), founded in 1991, has deep experience in approaching project execution holistically -- from prospect and customer development, on to job estimation, proposal and contracting, project initiation, project management, quality assurance, document delivery, billing and finally customer service and retention.

An AEC firm which wants to reduce its project write-offs must examine its business development, proposal creation, and project execution practices from end-to-end – throughout the **Project Lifecycle** - in order to materially decrease project write-offs.

We focus here on a few significant Project Lifecycle improvements that that our clients have made to decrease project write-offs – with the aim of reducing project write-offs by 60-80%.

This diagram shows an end-to-end “reference model” of the Project Lifecycle – how projects are generated, sold, staffed, executed, and completed to meet the client's needs.



Project write-offs in AEC firms are created due to a variety of reasons including:

- **Inadequate Planning**
 - A plan that is too general, overlooks items, or fails to address risk/contingency
- **Scope Changes and Change Orders**
 - Known changes in scope without a corresponding change order
 - Lack of a streamlined process for documenting and approving change orders
 - Lack of discipline to record change orders
- **Low-balling Scope/Cost to Win and/or Please Customer**
 - Inability to test profitability vs. focusing only on revenue
 - Lack of risk assessment
- **Unbudgeted Resources on Projects**
 - Poorly created project estimates
 - Staff billing to unapproved or wrong projects
- **Invoices Referencing Work Performed Too Long Ago**
 - Unresolved WIP
 - Unbilled or incorrectly billed work that took too long to reconcile

Some project write-offs occur when the engineering firm's client disagrees with an invoice. This is usually the result of poor processes, lack of timely communication and feedback, and inadequate, non-standardized project planning and management tools. Most project write-offs take place before a customer invoice is generated – where a decision is made to NOT bill for work performed to avoid customer conflict. In these cases, while the firm's customers are spared, management must rely on clear metrics from their ERP systems to note the extent of such discretionary write-offs. Under any circumstances, these conditions indicate what are likely serious and recurring service delivery issues.

In either case, these **write-offs quickly become a more compelling issue for many firms as they take on a higher volume of short-term, quick cycle projects in these economically challenging times.** Control processes that work well when project and business unit managers deal with fewer, larger projects may provide less support when many more – but smaller – projects become the standard project mix. Growing project manager workloads and increased pressure on service delivery staff to bill time often weaken controls – resulting in increases in client issues and write-offs.

SCG has helped engineering firms with Civil, Environmental, Geotechnical, Structural and Commissioning disciplines to streamline their practices across the entire Project Lifecycle.

- We help clients leverage best practices in business processes while implementing
- The Project Administration System (PAS), -- a proven, industry-specific software framework that leverages Excel-based templates to achieve a very fast return.

SCG has a proven track record helping our clients to improve these and other key processes:

- Project estimation/proposal creation
- Project initiation and setup
- Coordination and communication with service delivery staff
- Pre-bill review
- Change management
- Project write-off transparency – and the ability to manage same.

The result: Decreased write-offs and significant improvements in profitability, cash flow, productivity and service delivery.

Want to learn more? Please contact us at sales@scg-corp.com or 612-202-9011. We will be pleased to promptly schedule a no-obligation, no-cost initial meeting.