

## Protecting Your Profit

*Reinforcing your company's Bottom Line*

**D**uring a conversation with a new client, I asked how they were costing projects. His response was, "We don't do any costing." I asked him, "How do you know if you are making a profit?" He replied, "The checking account is always growing each month. Allocating my time to work on new projects is a better use of my time than costing."

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*"There are only two ways to make money on a project."*

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This scenario is not an uncommon conversation. Some owners believe that working on new and existing projects vs. costing projects completed is a better use of their time. This is a myth and this month we'll be showing the advantages to costing and how it will add profit to your company.

The first goal of costing is to make sure you made money on the project. You need to know what you did right (or wrong) to make sure you can capitalize on what the shop fabricates well. By costing out the project (and comparing the materials and labor used against the estimate), you can analyze your company's performance. In the case study above, the client was making money but without costing, he would never have uncovered the following issue: The metal dept was beating the estimate by a wide margin but the paint dept was losing money every time they touched a project. Possible solutions to this attack on the profit by the paint dept. could be more training, or as simple as the estimator giving more time on the estimate for the painter. Either way, this is a potential profit loss area that was not being recognized due to a lack of actual cost analysis.

There are only two ways to make money on a project. You can ask for more money up front or you can work on making your production more efficient to realize bigger profit margins. Costing is a good way to confirm if your estimator is accurate in their estimating. Since an estimate is an educated guess as to what it takes to do a project, feedback is crucial in making sure your estimator is accurate with their predictions. A company that knows exactly what it will cost them to produce (including overhead) is in a much better position to steer clear of losing projects. This is only attainable through the feedback of costing. Accurate estimating is a huge reason why successful companies' profit margins are staggering compared to their peers.

Another advantage to costing is you are aware if there was a mistake or redo in the shop. If you know the project had problems in the shop, you can be more cautious the next time you take on that style of work. If it was harder to complete than previously thought (estimate was too low), you'll know to ask for more money initially on the next similar project to be sure your target profit margins are obtained.

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You will add more profit to your bottom line by reviewing the projects of the past and learning from them than you will helping out one more customer. One of our foundations at V Sign Software was to make the costing easy to read and have the costing reports accrue in real time. Being able to check the bottom line while you are still working on the project enables you to make adjustments to correct your course and protect your margin.

If you want to start costing, but don't know where to start, we can help you get started on understanding where your money is going. Learn how to start protecting your bottom line today with V Sign Software!



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