

DIAGNOSING ***5 POTENTIAL PAIN POINTS*** **IN YOUR REAL ESTATE OR CONSTRUCTION BUSINESS**



ASKING THE RIGHT QUESTIONS

A management team has many things to consider in any given workday—some supremely important and some otherwise mundane. The mundane tasks can overshadow the broader aspects of running a business, especially if those broader aspects seem less important than the day-to-day operational issues of keeping things on an even keel. While it is critical to keep one eye on the daily tasks at hand, it is equally critical to explore some of the aspects of your company that tend to be overlooked. This resource offers important questions to ask about five potential pain points of your company's business operations. It also offers some thoughts on what you can do to ease the discomfort.

Areas of Focus

1. Technology
2. Employees
3. Reporting Output
4. Internal Controls
5. Key Performance Indicators

1 TECHNOLOGY

- Is your current software platform doing what you need it to do?
- Are you spending time and resources on a manual system when there is a technological solution to your problem?

We take technology for granted when it's working perfectly, but we certainly notice when it all goes wrong. The real estate and construction sectors rely heavily on traditional business methods that sometimes seem immune to changes happening in the wider business community.

In many companies in the sector, change is seen as something negative. The consensus response seems to be something like, "Why should I change something that is working fine?"

Cost, delivery, training and ease of implementation are all reasons to reassess or upgrade your company's technology. Whether you need a specialized software platform to manage lease renewals in your residential property management business, or construction management software to automate your lien waivers and AIA billing statements for your construction business, the right technology can and will help to make your business operations more efficient and less prone to human error.

Case Study: Outgrowing a System

One of our clients is a large, vertically integrated property developer who expanded into general contracting and construction management. The company had been using a combination of manual spreadsheets, an over-the-counter accounting software package and a well-known real estate management system to do all its accounting work across several businesses. This combination system had grown too unwieldy to be efficient, and the real estate management software platform did not offer the specific functionality required to operate as a general contractor.

The CEO recognized that the company needed to find an integrated system with project accounting and construction management software for the standalone general contracting business, so the business's accounting and reporting output was efficient, streamlined and accurate. The company invested in a new system led by an outside project manager, and the short-term pain of a system implementation gave way to long-term ease of use and a system that provides exactly what is needed to operate the growing business.

Here are some of the most popular software platforms for your sector, along with some insight into how they can be leveraged.

Real Estate & Property Management



Yardi is a full-service accounting and management software platform dedicated to the real estate management space. Its two flagship platforms (i.e., Yardi Breeze and Yardi Voyager) serve large, mid-sized and small companies and all types of portfolios.



MRI Software is a provider of real estate and investment management software for real estate owners, investors and operators. MRI specializes in all types of commercial, retail and residential property management, especially the multi-family and affordable housing markets.



Buildium is a cloud-based platform that targets multi-family property management, including lease renewals, online rent payment and maintenance management. It's a good choice for a specific type of property management company that needs targeted features to run its business.

Construction Management



Procore is geared toward larger companies, and its pricing is based on the aggregate dollar value that the company processes through the system. It's a standalone management software platform and does not have integrated construction accounting functionality.



Foundation Construction Accounting Software is a combination system for construction management and construction accounting. It's built for small and medium-sized companies but is also scalable to larger companies. This platform works well for both general contractors and subcontractors.



Sage Construction Software is a full-service construction software platform with two primary versions available (i.e., Sage 300 and Sage 100) based on the size of your company. Sage is a legacy platform, formerly known as Timberline, that can accommodate any size or division-based construction company.

Case Study: Bad Fit Technology

We also worked with a civil construction company during the acquisition of a competitor. The target company had previously purchased an accounting and management system that was far too robust for its needs, not to mention exorbitantly expensive. The stakeholders had been convinced that the software system was the industry standard and the only choice to satisfy the company's needs. However, the system was meant for companies with much higher revenues, a larger staff and an advanced technology infrastructure to support such a complicated system.

In the end, the target company had to break its sales contract and start the implementation process over again with another system provider to get what they needed. This could have been avoided with some better questions and an advocate working in the company's best interest.



Case Study: Clocked Out

We often work with clients to assess their staffing structures as unbiased third-party consultants. In one case, a client had a long-tenured CFO who had mentally checked out of the job months earlier. He was showing up to work each day, but his thoughts were obviously elsewhere, and he was not pulling his weight. As an external third-party, we reported the situation to the CEO and collaborated on a strategic exit plan. An employee reporting directly to that CFO would likely have had reservations about the consequences of such a conversation with the CEO.

2 EMPLOYEES

- When was the last time you looked critically at your employees? Does the current makeup of your team include the right amount of sector experts, accounting professionals, leaders and followers?
- Is there a leadership vacuum at your company? Is your staff being thoughtfully guided and directed to the outcome that your strategy requires?

Employees are the lifeblood of your company's daily operations. Whether you have two employees in the office or 200 employees in the field, human resources are responsible for a major part of your real estate or construction enterprise.

Employees are critical components of a successful business, and you should constantly analyze your team to ensure that your company has the right people working in the right jobs and utilizing the right set of skills. It may be difficult to assess your own employees, and it may be downright uncomfortable to look critically at what is lacking in their performance. Many of your employees may have been with the company for a long time and feel like family. Or they may have spent their entire careers working in the sector and do not know (or are not interested in) how to adapt to modern technology- and automation-driven real estate and construction best practices. Perhaps your current organizational chart needs to be updated to reveal a better chain of command, or you need to make a fundamental change to existing job titles to ensure your most-skilled employees are leading the charge and mentoring any employee that needs additional workplace experience.

Qualified consultants can work with your organization to not only diagnose any staffing needs, but also to direct required changes and adjust relevant roles and positions. This outside assessment of a team's strengths and weaknesses will bring a fresh perspective and provide potential opportunities to make meaningful changes to the size or makeup of your staff.

3 REPORTING OUTPUT

- Are you getting the amount of detailed information that is required to properly track your company's operations?
- How could your company's reporting output be improved to provide more accurate and timely data?

The language of business is numbers, and as such, accurate reporting of your company's revenue, costs and financial statements are key to understanding your company's trajectory. Every CEO and CFO needs annual, quarterly and monthly reports to properly track the company's level of success. It is crucial to build an infrastructure where accurate and timely financial reports are made available, and if that infrastructure does not already exist, you should prioritize it. Reporting requirements are essential in the continuation of your business and should be prioritized with your accounting department on an ongoing basis.

Case Study: DIY Slowdown

A client in the land development sector was preoccupied with keeping a small shop, specifically in the reporting and accounting functions. The uncomfortable truth was that the CEO believed he could do everything himself when, in fact, he needed to hire an accounting team to manage his books, prepare his financial statements and act as an intermediary between management and operations.

Because the CEO spent years doing his own accounting, most processes were only intelligible to him, and the company's internal controls were practically nonexistent. This left the company unprepared for an imminent growth spurt. When it was time to think about raising additional outside capital, he recognized it was impossible to effectively manage the operations of the company while still overseeing the preparation of quarterly financial statements, crafting detailed footnotes and complying with reporting requirements to satisfy investor interest in the company.

When the CEO eventually recognized the need for outside help and welcomed external accounting professionals to his team, he was able to return to his main goal of expanding his land holdings and growing his portfolio.

Is Your Reporting Improvable?

Your management team and stakeholders should have as much reporting as they need, and that reporting should be produced in the most efficient and timely manners possible. The following are examples of signals that your reporting output can be improved:



Quarterly investor reports are created manually using a combination of Word and Excel. (They can be automated into a consolidated system to reduce errors and increase efficiency.)



Internal financial statements require a trailing 12-month Income Statement that your antiquated accounting system cannot provide but that can be built specifically inside your new accounting platform.



Work in Progress and Backlog reports for a bonding company need to be delivered faster than your manual monthly or quarterly closing schedule can provide.



Pro forma reports and cost breakdowns for individual real estate investments are unwieldy and complicated without an automated process for actualizing the data when necessary.

An integrated project or real estate accounting software platform can generate specialized reports like cash flow and project budgets without manual effort. Users can download this directly, so that data does not need to be copied and entered manually.

4 INTERNAL CONTROLS

- When was the last time you reviewed your current internal controls, and should they be reviewed more regularly?
- Who is currently overseeing your company's internal controls, and are they being documented and updated regularly?

Internal controls are supremely important to the long-term success of your business, but they're often not prioritized as much as they should be. Your business relies heavily on its people, in the office and in the field, so verifying the integrity of your team and your systems is paramount to healthy internal controls. Your unique business model requires internal controls to ensure that all aspects of the business are operating above board and within a low range of risk. For example, your business may have a centralized home office where administrative tasks are managed, but you conduct much of your business away from the office, where middle managers are in control of daily operations at owned properties or on live construction sites.

Here are some internal controls that you should be considering for your business:

- **Segregation of Duties** – Is one employee responsible for an entire process from start to finish with no external sign-off?
- **Oversight of Job Responsibilities** – Is your chain of command logical, and does each department have a leader to oversee work output?
- **Cash Disbursements** – Who has access to company cash, and how often do you review the cash disbursement log?
- **Payroll Timesheets** – Are your timesheets automated using individual logins to upload and approve hours, or are you using manual timesheets being delivered to the office from the field?
- **Check Signing** – Does your company require two signatures on every check? Are signatures electronic, hand-written or stamped?
- **Invoice Approvals** – How many people in your chain of command are responsible for approving invoices? Are those employees making time in their day to thoroughly review each expenditure, or are they rubber-stamping them to save time?
- **Vendor and Client Management** – How often is vendor and client data updated in your system, and is it being referenced against expired insurance certifications, new mailing addresses or individual occupancy requirements?

Case Study: Out of Controls

A real estate investment client had a substantial number of investors. The acting Controller had formerly been a Staff Accountant, and management elevated her to the Controllershship out of necessity, though she didn't have adequate leadership or operational training for such a role. She was responsible for not only all lease agreements and internal monthly financial statements, but also for delivering investor reports for each individual LLC ownership entity to the appropriate group of investors.

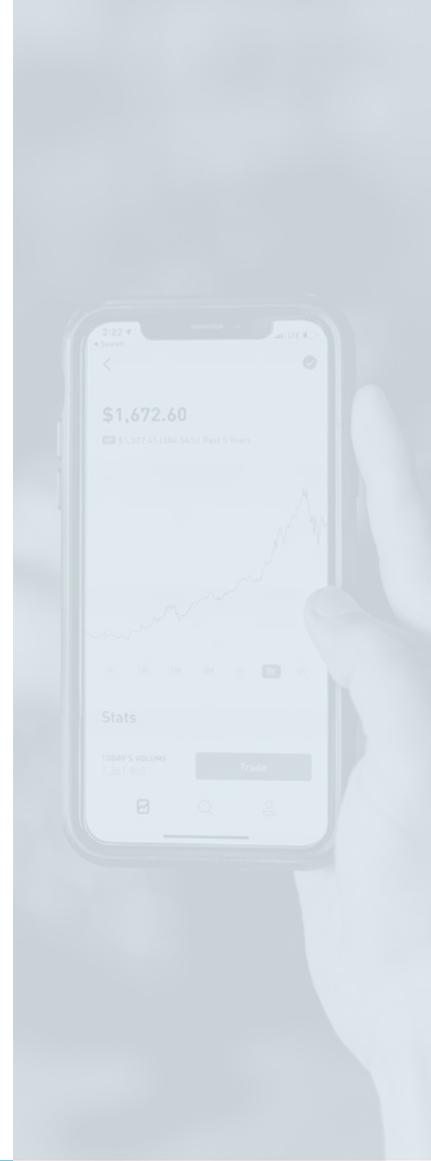
Unfortunately, the company did not take the time to properly learn how to maximize its real estate management software, so all accounting and reporting was created manually using Excel. This system became so confusing over several years that the employee began to suffer emotionally and physically from the stress of her required job duties. She was the only one who understood the system she built, and she was unable and/or unwilling to share her knowledge with other members of the team. This accounting and reporting bottleneck not only caused undue burden on the employee, but also an extremely high risk of eventual burnout or missing a deadline due to her workload—both of which eventually occurred. Her sudden departure left the CEO in a terrible situation of having to continue to meet investor demands, search for a replacement Controller and make sense of an overly complicated set of equations, processes and protocols that no one else in the company had fully used or been expected to understand.

5 KEY PERFORMANCE INDICATORS

- How are you currently judging your success metrics?
- When did you outline your existing KPIs, and is it time to reassess them now?

The language of business is numbers, and as such, accurate reporting of your company’s revenue, costs and financial statements are key to understanding your company’s trajectory. Every CEO and CFO needs annual, quarterly and monthly reports to properly track the company’s level of success. It is crucial to build an infrastructure where accurate and timely financial reports are made available, and if that infrastructure does not already exist, you should prioritize it. Reporting requirements are essential in the continuation of your business and should be prioritized with your accounting department on an ongoing basis.

Whether you track these traditional KPIs or use some other criteria, each company needs to know how to measure its own success and how to translate that information into informed strategic decisions for budgeting and growth. KPIs are valuable pieces of information that need to be tracked and reviewed regularly for relevance, not only from the perspective of current strengths, but also weaknesses that need to be identified and corrected.



Case Study: Unclear Direction

A client in the residential real estate and land development space dreamed of solving the world’s homeless problem by creating a new model for providing manufactured homes across the country. The idea was inspiring and extremely exciting from a social aspect, but it was complicated from a financial modeling and implementation perspective. What does solving the world’s homeless problem actually mean? When would it be achieved? Is this a breakeven business model, or is there a way to be profitable while making the world a better place?

For the above scenario, some important KPIs to track would have been:



Manufacturing

- Quality of Output
- Capacity Utilization
- Production Rate



Supply Chain

- Transportation Costs & Logistics
- Warehouse Costs
- Inventory Supply



Operations

- Cash to Cash Cycle
- Land Acquisition Costs & Permits
- Project Overhead

Bring in the *Professionals*

The real estate and construction industry is one of the cornerstones of the American economy. It has unique needs that should be addressed specifically by experts in the field who are focused on the necessary requirements of operating a successful business. 8020 Consulting is focused on accepted industry best practices, and we have a keen eye on addressing operational, accounting and management issues related to your company's lifecycle—from startup to rapid growth, maturity and everything in between.

Contact us today to support your project goals—*now is the time.*



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HEADQUARTERS

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