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Defining the challenges of job and project costing

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Defining the challenges of job and project costing

Overview

In any industry, knowing your costs is important. But for service-based businesses where time really does equal money, knowing or not knowing your costs is the difference between success and almost certain failure.

So what is job costing?

In its most simple form, job costing is a means of measuring exactly how much it costs you to service your clients. By comparing your costs with your charges, you can see whether you're making a profit or a loss.

So why is it so important to know this on a job-by-job basis? Isn't it enough to make calculated estimates, say, once a quarter?

Unfortunately, with intense competition and the virtual disappearance of long-term customer agreements, margins are now tighter than ever. The pressure to offer rock bottom prices in a bid to undercut the competition means there's a very real risk of over-servicing clients (committing more in time or resources than you'll get back in revenue).

A certain amount of over-servicing in the current climate is, perhaps, inevitable. It's probably even acceptable. But habitual over-servicing can only lead to one realistic outcome – mounting losses and, ultimately, failure.

You can try to compensate by raising prices, but you risk becoming uncompetitive in the process. So the only way to prevent over-servicing becoming habitual is to monitor costs at every stage of the project lifecycle and make compensatory adjustments as you go.

Estimating simply isn't good enough. To get control and visibility on your costs, profits and resources you need one thing above all – detailed intelligence.





Defining the challenges of job and project costing

Gathering detailed intelligence

Job costing is much more than just knowing your costs. It's about knowing the health of your business. Because by knowing that – by having that detailed intelligence on your business – you can make strategic decisions with absolute confidence.

You can employ more people in the sound knowledge that your business really can sustain additional costs. You can allocate funds to the right departments. You can report back to clients on the progress of a particular project knowing for certain how many hours have been spent. And you can plan future work around start and end dates without worrying that you've over-committed.

In short, intelligence on job costs gives you intelligence on your business as a whole. And that makes gathering it critical.

Of course most businesses are aware of the need to keep a close eye on costs. But for the following reasons, they're not actually doing it.

1. **Over-reliance on spreadsheet-based systems** – reluctance to ditch these leviathan-like beasts
2. **Not understanding the true costs** – failing to see beyond labour and resources, and
3. **Choosing the wrong software** – opting for low-end accounting systems with little or no genuine job costing functionality, they're not actually doing it.

Over-reliance on spreadsheets

The chief culprit in the battle against unseen costs is the spreadsheet.

There are few of us in business who aren't reliant on spreadsheets for one thing or other. As programs, they're very capable of performing certain tasks – like recording simple general ledger entries, forecasting basic profits and losses or working out 'what if' scenarios. They're also easy to use, which makes them ideal tools for businesses just starting out.

What programs like Microsoft Excel are not so good at – indeed, what they were never designed for – is storing vast amounts of data. But all too often, that's how they end up being used.

As sales grow, new columns get added, simple calculations give way to more complicated formulae and worksheets become entire workbooks. Before they know it, businesses find themselves reliant on an unwieldy and error-prone system for much of their business critical data.





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The problem isn't that spreadsheets are unstable. It's that the integrity of the data in a system like Excel is entirely dependent on the user inputting the right figures. And doing that – accurately – takes up an awful amount of time.

Not understanding the true costs

It's one thing to have small accounting errors that can be ironed out by your accountant. It's another thing entirely if you're relying on a spreadsheet to accurately cost jobs on a daily basis. Because with tight margins, the smallest oversight can mean the difference between profit and loss.

Errors in the data you have aren't the only threat to your bottom line either. The data you don't have is just as much of a concern.

A common oversight is to underestimate the number of costs involved in running a business. It's easy to account for labour and resources. But there are host of other costs to consider too, including:

- estimating for work up front
- consultancy before, during and after the job is completed
- outsourcing work to contractors
- using, maintaining and replacing equipment
- storing stock
- stock depreciation.

With a spreadsheet, it's all too easy to overlook any one of these. But it's not just spreadsheets that are to blame.

There are plenty of off-the-shelf accounting products out there that simply don't have the flexibility to record all the data businesses need to get an accurate view of their costs.

And then there's reluctance on the part of business owners to change. To some, the idea of having to migrate masses of data to a less familiar environment is what puts them off. For others, not knowing which of the many systems out there to choose from is just as much of a turn off.





Defining the challenges of job and project costing

Choosing the right job costing system

As we've explained, job costing is – as much as anything – about gathering intelligence. Accurate (and complete) figures enable management to understand their changing costs and profits and, ultimately, gauge the progress that the business is making.

The only way to get those figures is from a purpose built, fully centralised job costing system. Not a spreadsheet or general accounting package.

Any job costing system needs to:

- track jobs from quote to completion
- generate documents from quotation to bill
- track all costs to a job including goods
- track job status and cost
- provide comprehensive reporting
- support complex pricing models
- be capable of analysing jobs, costs and time
- carry out scheduling.

But features alone are a distraction from what's crucial.

When choosing a job costing system, businesses need to consider two essential points.

- 1) **Choose a system that looks and feels easy to use.** Don't be seduced by systems that come laden with bells and whistles. They may look attractive, but if they're impossible to get to grips with or require support calls every few hours, you'll be less productive than you were back in the spreadsheet days.
- 2) **Choose a system that is flexible.** You need a system that not only integrates with your existing processes, but isn't so rigid that it has you looking for a replacement six months down the line. In short, you want a system that grows as you do.





Defining the challenges of job and project costing

The complete picture

Job costing systems differ fundamentally from spreadsheets in the way they are designed to be used. Built on databases, they can return large amounts of data to more than one person at a time.

Because they're centralised, there's little danger of duplication. And because they're purpose built, there's far less manual entry required and therefore, typically, fewer errors are produced.

But above all, in a decent job costing system every single entry is assigned to a specific job. Which means there's simply no way of overlooking costs.

From the quote, to the timesheets, the invoices and the reporting, everything is added into the same system – which means the entire job history is available at the click of a mouse. There's a trail to everything, which means all costs can be tracked.

Better still, the information is available in real time. It's not entered manually into a spreadsheet two or three weeks after the end of a job. Because a job's workflow starts and ends in the same system, information on that job is available from the word go. And that gives management genuine intelligence on the business, whether that's job profits, excess work in progress levels or overdue invoices.

One other significant aspect of a purpose built job costing is the reporting capability. To help managers and other users gather snapshot information on costs and performance, these systems are designed to enable the easy creation of customised reports – tailored specifically to deliver the information that's valued most.

What that means is that you can scrutinise costs even more closely, identifying areas for improvement even where the business as a whole may have made a profit.

And that's something that even the most complicated spreadsheet would fail to do – at least not without significant manual input.





Defining the challenges of job and project costing

EXO: a platform for growth

MYOB EXO provides businesses with a purpose built system for tracking and reporting on the status and costs of all jobs from quotation to completion.

Its accurate reporting means that management can be on top of the decision making process at all times. But what sets it apart from other financial management products is its ability to expand and co-exist with other systems. In doing so, it provides a platform for growth not limited by the constraints of rigid programming.



Mind Your Own Business. Smarter.

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