How Visible is Your Pipeline and Backlog?

By Phil Nimmo, MCA, Inc.

Construction contractors have been plagued with unique challenges when it comes to financial projections and long-term planning. One of the most significant contributing factors is the uncertainty that exists with future sales, not knowing what's in the pipeline until it's time to do the work. The pipeline, and even backlog, for the construction industry is a little bit of reality, a little bit of wishful thinking, and a whole lot of fudge factors and estimates. Not just because the estimates themselves are often just a best guess, based on history and not future realities, but also because once a contractor has more than one person running work, facing the customer, keeping track of what's been committed, and what's been bid is a nightmare.

Verbal quotes, email proposals not in the estimation program, rough order of magnitude (ROM) estimates, and commitments to scope changes without change orders are just a few of the items not really known by anyone other than the project manager or foreman that's in front of the customer. This is construction, and this is most accurately, the world of the sub-contractor. So how do you get a picture of your future work, where can you look to see all those verbal quotes and email proposals that never touched any formal estimation or accounting program until the work is being performed? If you're like most electrical contractors, you just don't. You try to build spreadsheets and you try to implement the latest modules and features in estimation and accounting programs, but still the real numbers are changing every day and they aren't being tracked...

anywhere. Contractors who are trying to measure and manage their hit ratio or cost of estimation are doomed to have bad data without a complete picture of what is being estimated and proposed. The accuracy of any measurement also is skewed by jobs sitting in estimation long past the point that they were lost or dropped.

How often does the contract that gets signed look like the estimate that was submitted? How are those changes tracked, and how can they be useful for projection when the work often begins long before the contract negotiations are finalized into the contract? For most electrical contractors, the impact of negotiations, changes and additions to the work, alternates, and even your own value engineering are only tracked after accounting can produce a job summary or project P&L (profit and loss), and then only if the change order is properly reflected in terms of profit and cost. This is way too late for projections,

way too late for strategic planning and investment in people, tools, equipment, and facilities.

Is There a Fix to This Problem?

Making your actual pipeline and your real backlog visible is not impossible, it just requires a different type of solution than a one-size-fits all module for your existing enterprise resource planning systems (ERP). Making your pipeline and backlog visible requires data from the same elusive source that troubles and plagues accurate productivity measurement, the field. In addition to estimating and accounting data, field data also is required to true up the pipeline and backlog reporting.

Given the three sources of data are all readily available, why are they not already being consolidated into an accurate projection? It's not so simple. The data from all three sources needs to be digitized in a manner that an accurate representation of the reality is converted to data that can be processed. Next, the digitized data from all three sources must also be in a common format. Even if you can develop interfaces for your commercially available accounting and estimation systems, digitizing and commonizing the field data remains the hurdle to overcome. A simplified field entry process and tool is essential to successfully completing the picture. Once the field data, all those handwritten notes, verbal promises, and email exchanges are converted into a common digital format, the three sources need to be interconnected to provide a real time, real accurate look at your future work.

Once you assemble the future outlook, having a single number isn't the most useful way to see the projections. Often it is far more advantageous to drill down and see how the work stacks up. Which customers will you be working for this year and next? Which project managers and foremen have more work than they can handle, and which ones are going to be slowing down because their work is declining or ending completely in three to six months? How much of your work requires minority participation, and when?

Answering these questions can be done using a comprehensive DCI Construction™ program that can digitalize, communize, and interconnect data from all sources to create a consolidated picture of the pipeline and backlog in a way, and with enough detail, to support management reporting and drill down.

Having a complete dollar value, over time, for pipeline and backlog, is a massive feat in itself, but being able to track, in real time, all contract negotiations and changes gives an even more visible and accurate picture. The point here is that just because we know what we estimated and how we priced our proposals, does not mean that those values don't change. In fact, the scope and value of the work performed changes almost daily on some jobs and during some phases. It's important that the visible pipeline and backlog reporting, also include real-time updates reflecting a running list of all proposed and accepted changes. The contract change log provides input to both pipeline and backlog values beginning in the estimation phase of the project and continuing through to close-out.
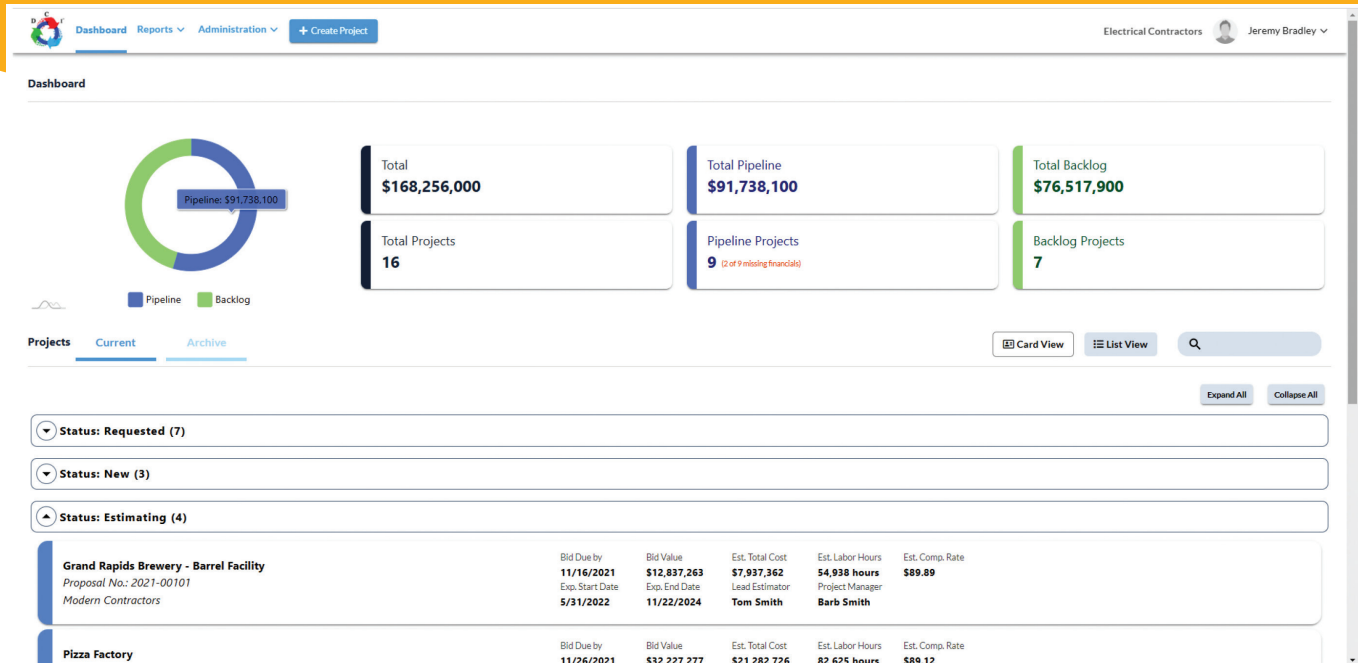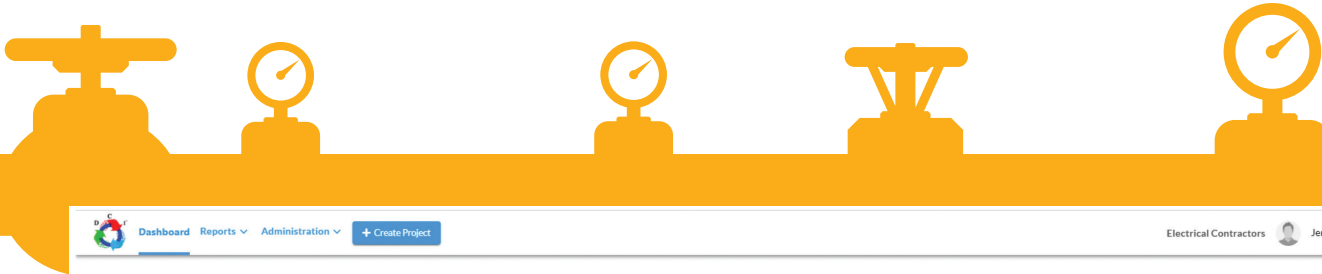
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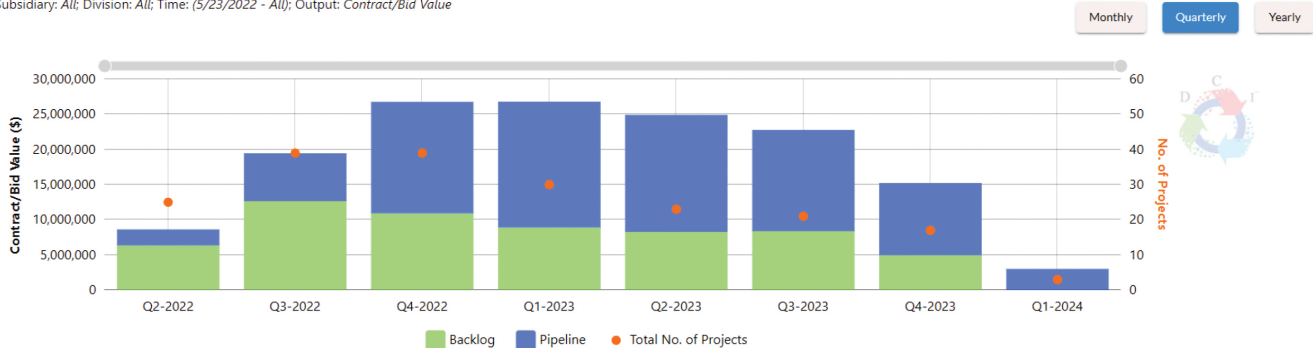
DCI Based Projection of Backlog and Future Pipeline

Take the Next Step

Knowing how much work is in your pipeline and how much remaining work is in your backlog is essential for the progress and effective management of any business, and obtaining that information presents numerous challenges for the contractor. These challenges are the result of industry habits as well as internal business processes. Additionally, for those contractors that endeavor to create, track, and manage their pipeline and backlog, an effective tool that can digitize and communize the reality of information from accounting, estimation, and from the field in an interconnected means is just now emerging in the form of DCI. Interconnecting the data in a tool that provides robust reporting and drill down provides a powerful management tool, but only at a given point in time, True visibility comes from continuous, real-time updates that include the status of previous quotes, all new quotes, and scope and value changes occurring throughout the lifecycle of each and every project. ⚡

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