



THOMAS N. HENLE, CPA
KARL E. SCHUNCK, CPA
MICHAEL R. HUHN, CPA

CRAIG A. CLEVELAND, CPA
JAMES F. KEPKE, CPA

AN ACCOUNTANCY CORPORATION

Managing Backlog Is a Must

It's easy to assume as a contractor that the more backlog you have, the better off you are. You may think that a large backlog of projects is a sign of continuing financial health and a vote of confidence in your company by property owners and developers. In fact, you may believe that a large backlog is as good as money in the bank. However, that's not always the case. What's more important than the size of the backlog is your ability to manage it effectively.

Filling the Jobs Pipeline

Obviously, no contracting firm wants to find itself with an empty jobs pipeline. You may have been in that position in the past and felt pressured to take on any kind of project simply to cover your overhead. As a long-term strategy, however, taking on jobs just to cover your expenses is not a recipe for financial health.

While a sizeable backlog of projects is certainly a testament to both your reputation, as reflected through referrals, and to your staff's sales skills, too many jobs in the pipeline can create its own set of problems. For example, you risk alienating your customers with delays when you take on more jobs than you can handle in a timely manner. What's more, there's a real danger that your crews and your finances will be stretched too thin if you overestimate your capacity for additional work. Growing too quickly without the systems and personnel in place to handle the increased workload can actually threaten the solvency of your business.

Finding a Balance

Determining the level of backlog your business can comfortably handle is a key to keeping your customers satisfied -- and it's critically important to your business's financial health. In general, you'll be within industry norms if you have a backlog of six to twelve months.

You'll be better able to reach and maintain an optimal level of backlog if you pay attention to the following issues:

Analyze the Risks Before You Bid

Before you submit a bid on a job, analyze how each project will affect your financial resources, liability exposure, personnel levels, and scheduling needs. These factors need to be weighed against anticipated profitability. Pay particular attention to cash flow. Do projections to identify the jobs that will strain your firm's liquidity -- even if they appear profitable on paper. If you anticipate cash flow problems, take steps to negotiate favorable terms with your suppliers and lenders in advance.

Don't forget to take a close look at your current staffing levels. Are they sufficient to handle all the jobs that you are bidding on? The success of any project will depend largely on the ability of your project manager to deal with personnel constraints.

JONES, HENLE & SCHUNCK
STRATEGIC ACCOUNTING ADVISORS

135 TOWN & COUNTRY DRIVE P.O. BOX 9500 DANVILLE, CALIFORNIA 94526

ph (925) 820-1821 fx (925) 820-8266 danville@jhs.com www.jhs.com

DANVILLE • ORANGE



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Meet Customers Regularly

Once a customer accepts your bid, it's important to maintain regular contact with that customer, especially in the pre-construction stage. It's an opportunity to make sure that you are both very clear about what the project entails. It gives you a chance to clarify design, material, cost, and scheduling issues and to prevent potential problems or delays from materializing. Regular meetings reassure the customer of your company's professionalism and help manage expectations. The meetings also make it more likely that you'll start and complete the project according to the agreed-upon schedule.

Keep an Eye on the Bottom Line

Always monitor the progress and the projected profit of an ongoing job. When you identify under-billed jobs, bill them quickly, as provided under the terms of your contract.

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