



**SMEGROWTH**  
SERVICES

**2023**

2023

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# **3 Steps to Overcome Challenges in the Construction Industry**

# **Running a profitable construction business, in the current environment, is hard. It requires dedication and determination to overcome the obstacles.**

For many years, the construction industry has been operating with razor-thin margins. The recent increases in material and labour costs, along with supply disruptions and labour shortages, have put businesses under further increasing pressure. Companies are exposed to higher risks and many are experiencing financial difficulties and eroded margins.

“We haven’t had a good year, but we’re going to turn over \$3 billion, and we’ll make \$30 million – a 1 per cent margin. That’s the margins you’re dealing with.” (Hutchinson chairman, Scott Hutchinson, Australian Financial review, 2022)

The conditions have been far from ideal.

I have been transforming, re-energising and turning around businesses, operating in various situations and industries, for over 30 years.

I have helped businesses, large and small, emerge as profitable, growing and wealthy companies. I have deep expertise and proven success in the Construction industry. (Historically, half or our clients are in this industry.)



**Don Robertson**

Managing Director  
SME Growth Services

I know what goes into building a sustainable and thriving construction business. So I’m sharing 3 important steps to help ensure that your business is primed for success.

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# STEP 1:

## Overcome Industry Challenges

Some of the challenges currently faced by the construction industry are directly related to the impact of COVID-19 and likely to be temporary. However, there are indications of deeper structural shifts emerging with a longer-lasting impact on the industry. As the Australian economy continues to recover, we identified the top 5 challenges currently facing construction businesses across most sectors:

- 1. Increase in material and labour costs
- 2. Supply chain disruptions and material shortages
- 3. Skilled labour shortage
- 4. Cashflow management
- 5. Delays, fluctuations and productivity

### Industry Market Size 2022

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\$438 bn

### Projected Annual Growth 2023

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2 %

### Number of businesses

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397, 642





**MARKETS CHANGE AND MOVE.  
KNOW YOUR MARKETPLACE.**

— Mark Bouris

# CONSTRUCTION INDUSTRY 2023 - CHALLENGES AND SOLUTIONS

## 1. Increase in materials and labour cost

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In 2022, the construction industry faced an average cost increase of 15% in material and 10% in labour. The cost escalation has impacted all sectors and sent many businesses to voluntary administration or liquidation. While the cost increase is expected to ease in 2023, the industry is still expecting 4% higher cost. Some of the steps business can take to navigate these challenges:

- Segment all projects based on revenue and gross profit margin. Assess if projects are facing issues related to under-pricing, higher cost, low productivity, or a mix of all three
- Develop a risk management plan for key projects with specific monitoring data and mitigation actions across delivery, legal and financials.
- Try to renegotiate and be cost transparent with your customers on unprofitable projects as soon as possible. Identify the shortfall and reach an outcome to avoid failure and replacement (Win - Win approach).
- Depending on the contract's legal obligations, consider exiting losing projects and cut losses as a last resort.

## 2. Supply chain disruptions and material shortages

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Most of our clients have been experiencing supply shocks causing project delays, low efficiency and higher cost. While supply challenges are expected to remain in 2023, businesses are required to have the right skills, tools and structure to remain on top of this challenge. We identified some steps that could assist in mitigating the impact:

- Keep close contact with your suppliers to identify potential supply disruptions. Identify risks, gaps and potential solutions in the event that an existing supplier is unable to deliver.
- Expand your network of suppliers and negotiate preferred supplier contracts.
- Forecast supply needs for upcoming projects and simplify the process by bulk or staggered ordering if possible. Structure and plan your resources so you are able to quickly adapt to sudden supply changes with minimal impact on ongoing operations and deterioration of margins.

### 3. Skilled labour shortage

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Your staff is your greatest asset. You need an "A" team to succeed. Hiring and retaining staff remains a significant challenge for the industry. Successfully navigating staff shortages requires focus and careful planning rather than hiring for a quick fix. Our tips for managing workforce shortage:

- List all current and upcoming projects and confirm the resources required to successfully deliver on time and within budget
- Map projects based on activities, timelines, volumes, and skills, and identify where the gaps exist
- Develop upskilling and recruitment plan with focus on immediate and long term business needs and objectives
- Ensure building a team not just based on skills, but also a culture of collaboration and excellence
- Implement a 12 months "Beyond the Wage" program and site productivity incentives.

### 4. Cashflow management

It is essential to know your numbers – and before they happen. Businesses are recommended to review and renew their cashflow reporting and forecasting structure, to ensure accuracy and avoid cashflow surprises. We suggest implementing a 13-weeks rolling cashflow forecast based on future invoicing and payments.

### 5. Delays, fluctuations and project productivity

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More than ever, businesses are required to predict and manage delays, fluctuations and project productivity. Not getting these three levers right, can have significant impact on project cost and the business as a whole. We recommend our clients to implement the following:

- Consolidate your projects and plan thoroughly across timelines, deliverables, resources and contingency considerations.
- Ensure having accurate and timely project financials (up to date and to complete.)
- Regularly communicate with project teams and staff on sites.
- Keep relevant staff informed on project issues. Encourage and reward improvement ideas.
- Implement technologies, management structure and reports to acquire live and accurate site data and to enhance overall efficiency.



**GROWTH IS NEVER BY MERE  
CHANCE;  
IT IS THE RESULT OF FORCES  
WORKING TOGETHER**

— James Cash Penney



# STEP 2:

## Build on the 5 Pillars of a Healthy Business

### Pillar 1 – Right Numbers

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Accurate & timely bookkeeping with full accrual Accounting on a monthly basis (better still weekly) and correct sales and cost allocations for each month, with no cross over between months.

3 way budget – profit & loss, balance sheet, and cash flow.

Monthly Advisory Board Meetings.

### Pillar 2 – Right People

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Simple Organisation Structure with clear lines of authority and accountability.

Grading of all employees as “A”, “B” or “C” for their current roles.

Detailed job descriptions, KPI's and incentives.

### Pillar 3 – Right Processes

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Strong systems with fully integrated end to end processes.

Cutting edge technology.

### Pillar 4 – Right Business Model

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A big vision, clearly communicated and documented.

Simple, effective, adaptive and growth oriented business model.

Customised strategy for each business unit.

### Pillar 5 – Strong Growth

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20% annual organic growth.

Strong effective marketing strategy.

“A” grade sales team.

# STEP 3:

## Strengthen Your Weakest Links

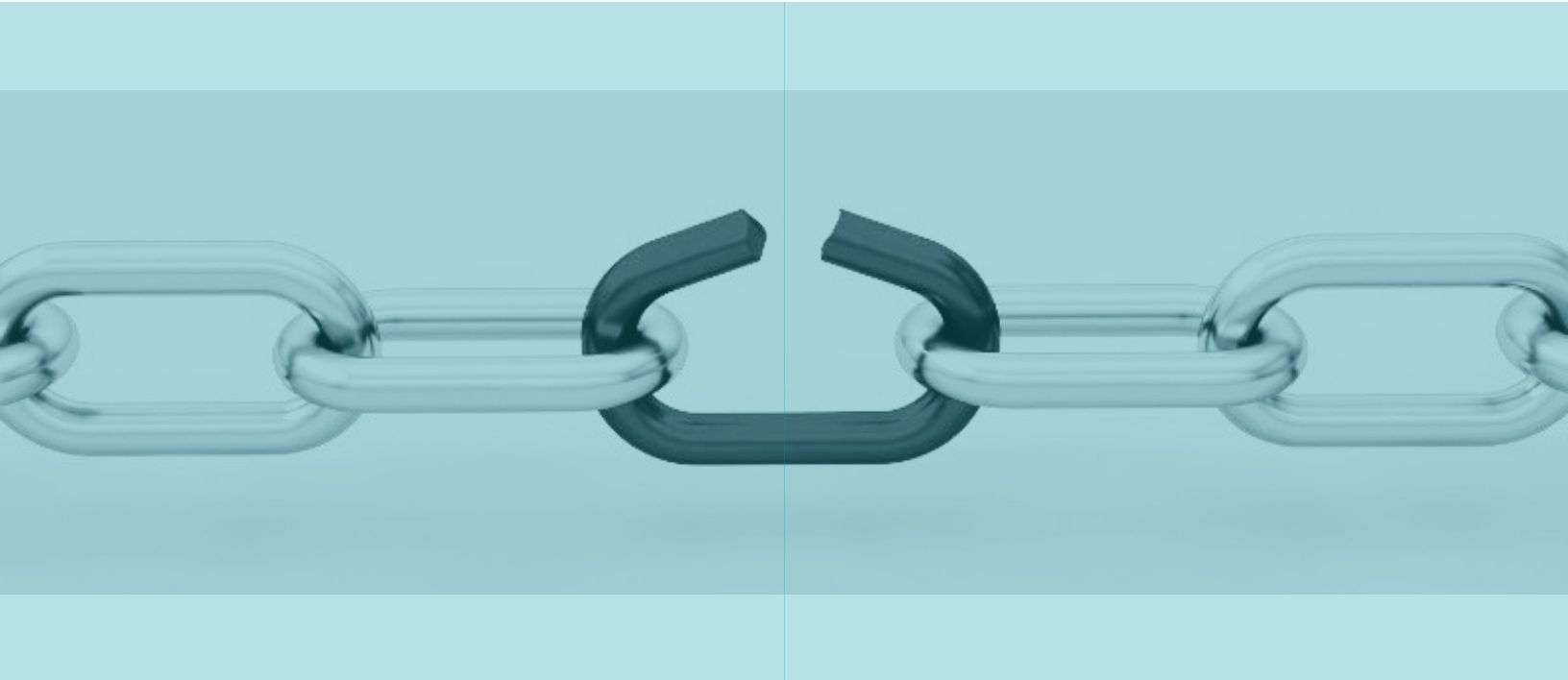
**Every business is built on 3 linked foundations:  
Sales and Marketing,  
Operations, and Finance**

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Identify which are the weakest links in your Construction business. Deep dive when needed.

Prioritise what is urgent and focus your efforts there.

Build on your business strengths and seek assistance for weaknesses.



# THE SALES AND MARKETING LINK

**Each Social media platform has unique strengths when it comes to building your online presence**

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**LinkedIn:** For a Construction business, this is an effective way to connect B2B. It is a way to connect with your current and potential business partners and current and prospective team members.

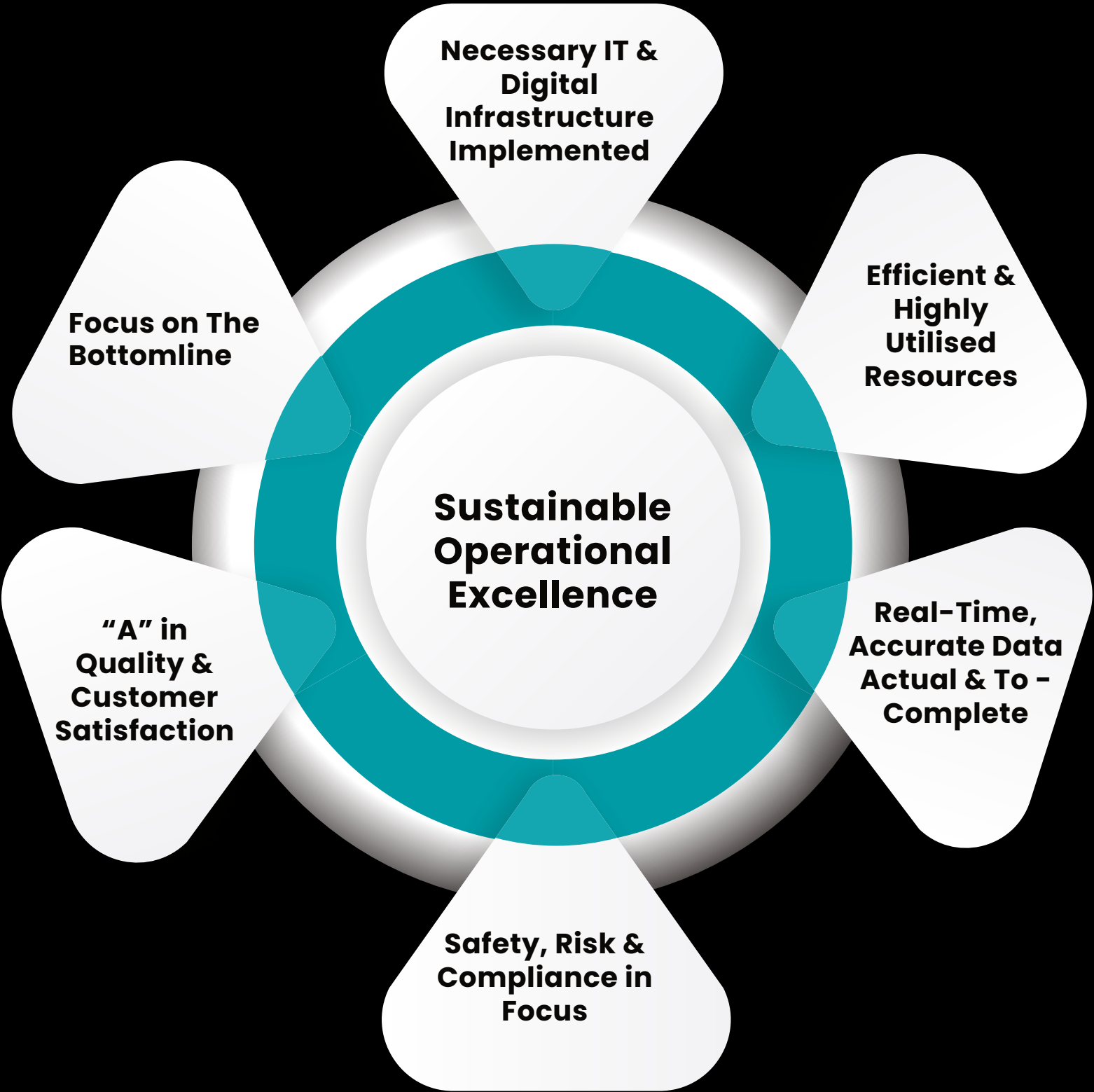
**Facebook:** Facebook is a popular and easy to use platform, It can be a powerful resource for connecting with potential customers and employees. In terms of ROI Facebook Ads are a great way for construction businesses in particular to promote their businesses.

**Instagram:** Instagram is a highly visual platform and is a great place to display photography of your work, people and business culture.

**YouTube:** YouTube is designed to host videos. If you have videos about your business this is the perfect platform to feature them.



# THE OPERATIONS LINK - FOCUS ON DAILY EXCELLENCE





# THE FINANCIAL LINK



Have accurate, timely, accrual-based Accounting Reports reviewed by the leadership team on a periodic basis, ideally weekly.

Construction companies are high activity businesses. Frequent and accurate P&L reporting and review will allow issues to be identified and acted upon as early as possible.

Calculate the margins per customer, per job, per lane.

Given the highly competitive nature of this industry, margins can be razor thin and need to be analysed at a granular level. This ensures there are no holes in the business that are reducing profits or worse, causing losses.

Ensure that Operations and Accounts teams are working together and communicating regularly. This will guard against revenue leaks and runaway costs.

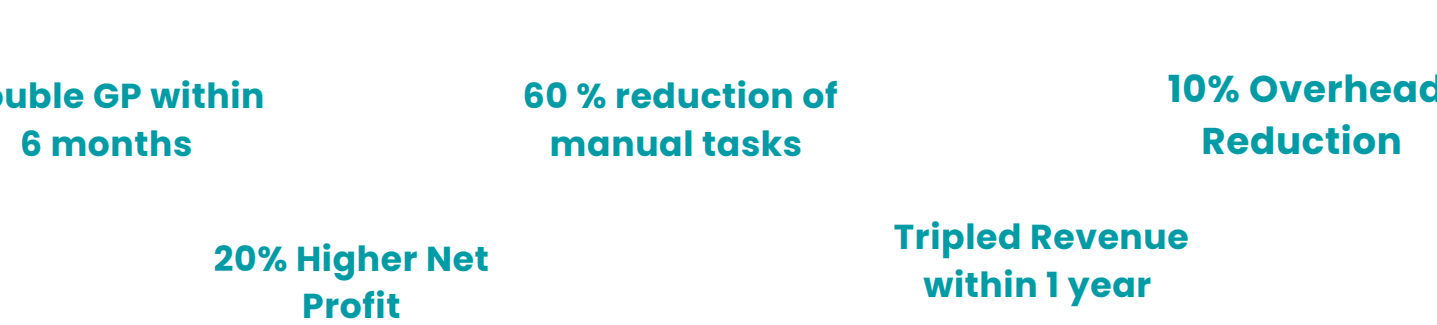


**“WORK HARD,  
TAKE ACCOUNTABILITY  
FOR EVERYTHING YOU DO  
AND SURROUND YOURSELF WITH  
GREAT PEOPLE. ”**

– Janine Allis

# CASE STUDY

## Construction Business – \$12M Turnover



Lack of Projects Profitability	<ul style="list-style-type: none"><li>• Clear Job Costing and Margins Targets</li><li>• Excellent Tendering and Variations Management</li><li>• Up to Date and Accurate Projects Data</li></ul>
Poor Projects & Sites Management	<ul style="list-style-type: none"><li>• Technology Utilisation for Sites Communication</li><li>• Clear Structure Based on Deliverables, Timelines and Budgets</li><li>• Sites Performance KPIs and Reporting</li></ul>
Unclear Processes & Outdated Systems	<ul style="list-style-type: none"><li>• Process (Re)design &amp; Implementation</li><li>• Enhance Productivity &amp; Reduce Cost through Automation</li><li>• End to End Implementation Approach Across Business Functions</li></ul>
Customers & Accounts Management Issues	<ul style="list-style-type: none"><li>• Clear Program of Accounts Management</li><li>• Proactive Approach to Address Potential Disputes or Issues</li><li>• Professional &amp; Transparent Organisation with Focus on Customers</li></ul>
Organisational Issues	<ul style="list-style-type: none"><li>• Foster Leaders Across Departments &amp; Roles</li><li>• Clear Performance KPIs &amp; Incentives</li><li>• Excellent Communication &amp; Team Engagement including Sites Staff</li></ul>

# ABOUT US

When you want to grow and improve your business, our 40+ team of experts can help with the heavy lifting.

We are a national leading Business Consulting and Professional Services company. We provide a full range of professional services, such as Management Accounting, Operations Management, Bookkeeping, Administration, Software Developers, Marketing and Sales.

We proudly execute up to 300 Transformational Initiatives annually for our clients with the following outcomes:

Up to triple revenue growth within 12 months of engagement.

Quadruple Net Profit margin improvement within 24 months.

Reduction of Direct and Indirect costs up to 20%, within 12 months due to cost restructuring, solid cost management and higher productivity.

A current client has a 600% ROI from our fees.



We partner with Small to Medium businesses, to provide practical and value adding expertise. This enables businesses to navigate difficult and competitive business environments, and thrive.



# WHAT'S NEXT?

## TALK TO US



☎ 0428 765 397

✉ [elka@smegrowth.com.au](mailto:elka@smegrowth.com.au)

in [www.linkedin.com/in/elka-adams-ba1802ab](https://www.linkedin.com/in/elka-adams-ba1802ab)

## Elka Adams

National Business Development Manager

## OUR OFFICES

### 📍 SYDNEY

Governor Phillip Tower,  
Level 36/1 Farrer Pl,  
Sydney NSW 2000

☎ (02) 8226 8617

### 📍 MELBOURNE

Level 23, Tower 5, 727 Collins St,  
Melbourne, VIC 3008

☎ (03) 9101 8094

### 📍 BRISBANE

Level 54,  
One One One Eagle St.  
Brisbane, QLD 4000

☎ (07) 3012 6579

### 📍 PERTH

Level 25, 108 St. Georges Terrace,  
Perth, WA 6000

☎ (08) 6557 8957