

# Adopting the Right Digital Tools Opens Door to Unprecedented Growth in Construction

## Strategies for increasing productivity and profitability

There is no industry with greater complexity and risk, tighter margins or a higher likelihood that big projects will be delivered late and/or over budget than the construction industry.

Yet, many in the sector have been slow to adopt performance management systems that mitigate risk while increasing productivity and profitability.



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# The Opportunity

Globally, the construction sector is one of the world's largest and fastest growing industries.

As the world's ever-expanding population moves increasingly into urban areas, the demand for new buildings and infrastructure is outpacing global GDP growth. Some estimates put the construction industry's growth at close to 4 percent a year through 2030.

By 2020, it will account for more than 13 percent of global GDP, according to a PwC report. With the global population predicted to hit 9 billion by 2050 – and two out of every three people living in cities by 2050 – the opportunity for construction has never been greater.



# The Challenges

Unfortunately, at the same time the sector's opportunities are expanding, so is its project complexity. In turn, greater job complexity creates a cascade of overlapping risks that put even the largest firms in perpetual jeopardy.

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Planning  
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Taking  
Early  
Breaks



A fundamental correlation between the complexity of a project and shrinking profits is productivity. A McKinsey & Co. report on labor productivity found that, “while many U.S. sectors including agriculture and manufacturing have increased productivity ten to 15 times since the 1950s, the productivity of construction remains stuck at the same level as 80 years ago. Current measurements find that there has been a consistent decline in the industry’s productivity since the late 1960s.”

Why hasn’t construction productivity improved like every other industry? According to a Construction Owners Association of America study, 63 percent of direct labor time on mega-construction projects is spent waiting for materials and equipment, traveling to the area, taking early breaks, and planning how to do the work.

A lack of productivity also applies to equipment and materials. Expensive pieces of construction equipment sitting idle and huge stores of materials waiting in storage are balance sheet costs that drag down profitability and diminish a company’s cash management program and profitability.

When a company is costing a job, it calculates the resources needed: the kinds of labor skills, types of equipment, location and amount of time it needs specific skills and equipment on site; and all the other materials it needs and when it will need them.

To get the greatest benefit from its balance sheet assets, such as an expensive piece of construction equipment, a company needs to have that in use as much as possible. That means moving heavy equipment, and its operators, from job to job efficiently, with as little downtime as possible.

A delay at one job can grind work to a halt at another site, leaving workers waiting for needed equipment or materials. Or it can delay needed maintenance on the equipment, putting it at risk of break-down and even greater costs and delays.

Construction companies must also carefully manage cash flow, with outlays for materials for one job affecting how much and when it can put out for materials on another job.



# The Route to More Efficiency, Productivity, and Profit

Historically, construction companies cost and manage jobs through tedious, time-consuming, and error-prone spreadsheet systems. On multi-million-dollar jobs, this would mean charting hundreds of thousands of spreadsheet cells, representing labor, equipment, materials, financial obligations, etc. If one of those items changed, it took an enormous effort to reforecast. All other elements had to be reforecast. Estimates had to be made of how changes on one job would affect other, unrelated jobs. How does it affect margin on that job? On the next job, if another job had to be delayed? How does it affect cash flow coming in because construction companies are usually paid when a job is finished? Does it place a strain on cash flow such that it affects the company's ability to bid on other jobs?

One broken link in a spreadsheet, one missed update or errant number, can put the finances and operations of a company in serious jeopardy.

That's why the construction industry is at a crossroads. One path leads to profitable growth and the other to potential stagnation.

Traveling the profitable-growth path requires actionable real-time data. It demands the ability to access and adapt to information on the fly; to use real-time data to update financial forecasts; to project cash flows and budgets based on operational changes. If one variable is changing, how does that affect other jobs? If a job is going to be delayed or finished early, how does that affect the operational requirements for other jobs and how does that affect the company's financial position?

Companies that are moving down the path of profitable growth are the ones that have adopted or are adopting Corporate Performance Management (CPM) tools that provide realtime access to all their information. They use tools that automate many old manual processes, so they can predict and forecast all their job costing and financial variables.

Construction companies that fail to adapt to the real-time data requirements of today's building sector will find themselves trapped between shrinking profit margins and stagnant productivity, unable to generate the profit necessary to invest in their futures. The old ways won't work.

But companies that do make the move to new digital tools will find themselves with a big competitive advantage in one of the world's fastest growing and largest economic sectors.





## About Prophix

Your business is evolving. Your systems should evolve too. Achieve your goals more successfully with Prophix's innovative Corporate Performance Management (CPM) software. Improve profitability and minimize risk when you automate repetitive tasks and focus on what matters. Budget, plan, consolidate and report automatically. Whether in the cloud or on-premise, Prophix supports your future with a platform that flexes to suit your strategic realities, today and tomorrow.

### Head office

350 Burnhamthorpe  
Road West,  
Suite 1000  
Mississauga, Ontario  
Canada · L5B 3J1

+1 (800) 387-5915  
1- 905 - 279 - 8711  
info@prophix.com  
www.prophix.com

### United Kingdom

Davidson House  
The Forbury  
Reading  
RG1 3EU

+44 (0) 118 900 1900  
uk-info@prophix.com  
www.prophix.co.uk

### South America

São Paulo – SP – Brasil  
Rua André Ampère,  
153/7o andar  
Novo Brooklin – SP  
04562-080

+55 11 3583-1678  
lpego@prophixsouthamerica.com  
www.prophix.com/br

### DACH Region

Messeturm  
60308 Frankfurt am Main  
Germany

+49 69 509 565 605  
dach-info@prophix.com  
www.prophix.de

### United States

707 SW Washington St.  
Suite 1100  
Portland, OR 97205

+1 (800) 387 5915  
info@prophix.com  
www.prophix.com

### Europe

Sankt Knuds Vej 41  
1903 Frederiksberg C  
Denmark

+ 45 7023 2375  
europe-info@prophix.com  
www.prophix.com/dk

### South America

Rio de Janeiro – Brasil  
Av. Marechal Câmara 160 cj 932  
Centro – RJ  
20.020-080

+55 21 3094-3900  
lpego@prophixsouthamerica.com  
www.prophix.com/br