

XL Insurance @-Clips

Thieves in the Night: Write-Offs

At a time when margins are already low and competition fierce, the difference between a profitable firm and an unprofitable one can frequently be measured by the amount of money written off at the close of projects. Fortunately, write-offs also represent the single largest obstacle to profitability that firms can seek to reduce without changing their client base or raising their prices.

In the course of its work, the Design Professional group of the XL Insurance companies has encountered firms that write off hundreds of thousands of dollars annually. Though most firms measure the total amount of money written off by each project manager or division, the XL Insurance companies found that very few take the time to determine why and how these write-offs occurred, much less take the proactive steps to prevent them from recurring.

These write-offs represent money the staff has logged but which cannot be charged to the client. Since the staff will still be paid for all the hours they spend working on a project and the shareholders expect the maximum return on their investment, it is incumbent on the firm to design its processes for the most efficient work performance possible, and that means minimizing write-offs.

Write-offs generally fall into two classes: rework and unbilled work. Rework is design work done over and over—but paid for only once. Sometimes rework is produced during the final QC check before the designs are delivered. It also can result from requests for information (RFIs) from contractors during the construction phase. It is an axiom of quality, however, that the cost of correcting each step beyond the original design increases geometrically. By the time designs go to the field, the cost to correct and rework them has become exorbitant.

Unbilled work is work performed at the request of the owner or client for which no change order is written. In the heat of a project, it's often easy for a project manager to acquiesce to a few changes at the client's request, but, as we all know, a few lead to a few more and when the project is completed the client often "forgets" authorizing any of them.

Write-offs sometimes have other effects even more insidious than the initial dollars they represent. If measures aren't taken to quantify where the write-offs occur, the firm will use the same estimating parameters for the next similar project, undoubtedly with the same result. This means the mistakes not only occur, but also keep repeating themselves. An investigation into the processes that lead to the write-offs may change



the estimating assumptions for the firm overall, with some phases found to take more time and others less. The result should be more accurate estimates of the time it takes to do the project right the first time.

It's not enough to lecture, cajole or threaten project managers and other design staff not to give away work. The only effective way to conquer write-off problems is a systematic, firm-wide investigation of their causes.

One way to start the process is to choose a single recent project and invite all those who were involved to a "project *post-mortem*." Show the participants all the project financials, write-offs, stages of billing and profit. Then ask the project staff what happened. The goal of the *post-mortem*, as with a physical autopsy, is to discover why the patient died. It's best if the group can come up with two or three *quantifiable* ideas that can then be measured during the next project. If RFIs are a suspected cause, for example, then measure the sources and types of questions

asked in the RFIs. At the end of a designated period, sum the categories for the RFIs to get a clearer picture of how and why these questions are occurring regarding your designs. You may find that your design department has not furnished complete designs, a sub-contractor has been stalling, or your specifications are unclear or incomplete. Without quantifying the problems and attacking the largest ones first, all of them remain equally costly, undefined and unaddressed.

Reducing the amount of write-offs is the key to many firms' ability to remain profitable. While determining and reducing the root causes of write-offs can often cost your firm time and money, those costs are miniscule compared with the time and money you lose in write-offs.

This article is reproduced with the permission of X.L. America, Inc. The Design Professional group of the XL Insurance companies is the industry leader in offering innovative professional liability insurance programs for architects and engineers. Its programs protect against and minimize professional liability risks through insurance, proactive loss prevention techniques and expert claims service. For additional information on this topic and others, or to contact an agent in your area, go to www.xldp.com.



XL Insurance
Design Professional Group
30 Ragsdale Drive
Suite 201
Monterey CA 93940-7811
800-227-8533 ext.210-2508
www.xldp.com/eclip

The information contained herein is intended for informational purposes only and does not constitute legal advice. For legal advice, seek the services of a competent attorney. Any descriptions of insurance provisions are general overviews only.

"XL Insurance" is the global brand used by XL Group plc's (NYSE: XL) insurance companies. Coverages underwritten by Greenwich Insurance Company, Indian Harbor Insurance Company, XL Specialty Insurance Company, and XL Insurance Company Limited—Canadian Branch. Coverages not available in all jurisdictions.