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Write-Offs and Rework

Informal surveys conducted by XL's Design Professional group find project write-offs and rework can amount to as much as 8%–10% of total project budgeted billings—more widespread and severe than previously imagined.

At a time when margins are already low and competition fierce, the difference between a profitable and unprofitable firm 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.

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 quality control 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 at that point becomes 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 "forgets" authorizing any of them.

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.

Design Professional recommends measuring the total volume of write-offs as a first step in solving the problem.

Write-offs and rework can be assigned their own job number in your accounting software and tagged to a specific activity.

Once write-offs and rework have been defined, the firm can examine the costs by:

- Project types
- Client type
- Internal discipline

Looking at the costs this way provides answers to these types of questions:

- Do we write off more on schools than single-family developments?
- Do we do more rework on schools than shopping centers?
- Is our fire control department doing more rework than our civil department?

Only when these types of analyses are done is the firm able to grapple with the answers. It may be that one type of work is so consistently unprofitable you should abandon it. It may also be that some design clients demand rework as a matter of course, and change orders can be implemented to shore up the situation.

One way to start the process is with a single project “post-mortem.” The goal of the postmortem, as with a physical autopsy, is to discover why the patient died. Review all project financials, write-offs, stages of billing and profit. Then ask what happened. It is best to 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 you have not furnished complete designs, a subcontractor 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.

For more information on this and other risk management topics, visit our Loss Prevention Library at xldp.com.

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