

Top 5 profit leaks for contractors and how to plug them



INTRODUCTION

As a business owner, you understand the importance of staying profitable. Yet, many contractors lose money to hidden profit leaks in their operations.

In fact, “margin erosion,” which is when a company’s gross profits reduce over time, is a growing problem in the construction industry. A [2019 study](#) in the Journal of Building Engineering found that gross profit margins started declining in 2014 and dipped dramatically in 2017. It also found that 44% of all projects were not profitable once adjusted for overhead.

The problem has persisted in the years since the study: In its [2024 Engineering and Construction Industry Outlook](#), Deloitte reports that volatility in material prices and growing labor costs are major challenges to growth in the industry.

By knowing the common ways that construction and contracting businesses leak profit, businesses can protect themselves from margin erosion. We highlight the top five leaks and provide practical solutions to plug them. By implementing these strategies, you can help boost your bottom line and set your business up to thrive.

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1 Inefficient project management

One of the most significant profit leaks in the construction industry is inefficient project management. This includes poor scheduling, inadequate resource allocation, and ineffective communication. When projects run over schedule or require unnecessary resources, your profit margins can quickly erode.

SOLUTION

Invest in project management software that integrates with accounting tools like Intuit QuickBooks. These platforms can help streamline project timelines, manage resources efficiently, and improve communication among your team members. By optimizing your project management processes, you could reduce overhead costs and enhance profitability.

QuickBooks Solution Providers (QSPs) can help design a back-to-front-office solution that fits your needs. Certain partners know construction businesses and can help you design a custom solution to help boost your business.

- 2 Costly material waste**
Waste is a common issue in construction, whether it's due to over-ordering materials, improper storage, or inefficient use of supplies. Every dollar wasted on excess materials directly impacts your profit margin.



SOLUTION

Implement strict inventory control and monitoring systems by working with a QuickBooks Solution Provider to help develop a custom solution for your business. Regularly audit your material usage and storage practices to identify areas where waste could be reduced. Additionally, negotiate with suppliers for better pricing or discounts on bulk purchases to help lower material costs, and remember to renegotiate regularly as your business grows.

- 3 Inaccurate job costing**
Accurate job costing is essential for pricing projects effectively. When you underestimate project costs, you risk losing money on every job.

SOLUTION

Utilize accounting tools like QuickBooks and third-party apps from its over 750 app integrations directory (additional terms, conditions, fees apply with apps) to track expenses for each project in real-time. This can enable you to adjust your pricing and budgeting strategies as needed, ensuring that you cover all costs while maintaining a healthy profit margin.

- 4 Unplanned downtime**
Unexpected downtime can significantly impact your profitability, especially when it results from equipment breakdowns or personnel shortages.

SOLUTION

Regularly maintain and service your equipment, including trucks and company-owned vehicles, to prevent breakdowns. Establish contingency plans for personnel shortages. Ensure you invest deeply in subcontractor and supplier relationships. Keep track of estimates and invoices and pay on time to retain valuable subcontractors.

5 Inadequate financial management

Due to the complex nature of construction and contracting—with timelines often going off track, the challenges of managing subcontractors, weather delays, and the daily minutia of running a business—having a clear picture of your financial forecast can become another task on an unending list of to-dos that is just impossible to complete. If you're struggling with cash flow management, delayed invoicing, or lack of clarity when tracking your receivables, it can feel difficult to know how to course-correct.

SOLUTION

Work with a QuickBooks Solution Provider to help develop a system to manage your finances efficiently. Implement a strict invoicing schedule, offer early payment incentives to subcontractors and suppliers, and actively pursue overdue payments. Monitoring your cash flow and financial statements will help you make informed decisions and maintain a healthy bottom line.



CONCLUSION

Running a successful construction business involves more than just skilled craftsmanship. It requires effective management and financial discipline to plug profit leaks and ensure long-term profitability. By addressing these top five profit leaks and implementing solutions, small construction businesses can thrive in a competitive industry. Remember, every dollar saved contributes directly to your bottom line, allowing you to grow your business and help secure a prosperous future.

Plug your profit leaks today with a QuickBooks Solution Provider who knows your business

Book a meeting

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