



## **Around the Industry** *an increased perspective*

### **How Subcontractors Became Accounting Firms Who Do Construction** *(and how to get back to being contractors with strong accounting)*

By: Chad Pearson | Plexxis Software, Inc.

#### **The problem**

Most subcontractors have accounting software as the foundation of their technology stack, which forces operations to use a costly web of spreadsheets, systems, apps and custom reports and modifications.

#### **How it happened**

Until recently, the only technology available to subcontractors was accounting software made for GCs, which was often deceptively relabelled as subcontractor software. Subcontractors spent years, and sometimes decades, finding creative ways to make the technology handle their excessive granularity and transactions.

#### **Why this hurts subcontractors**

Subcontractors work in Volatile, Uncertain, Complex and Ambiguous (VUCA) environments, which the generalist accounting perspective is incapable of managing.

Similar to military, law enforcement, and mining, craftspersons are the players on the field, while financial management is the scorekeeper tracking mission cost and recommending adjustments to maintain fiscal health.

*“Craftspersons in VUCA environments work with units of measure, units of time, phases, stages, unknown unknowns, third party impacts, safety, psychological and behavioral cues, documentation, weather and acts of god, terms and sometimes the dollar perspective.  
Accounting is mission critical, but far from the foundation.”*

Subcontractors who operate with accounting centricity might be experiencing the following:

1. Their accounting teams may be stable, but they likely see high turnover in operations and an increasing divide between operations and admin.
2. They may find it harder and harder to maintain profit, despite growing revenue and having a healthy backlog.
3. They are likely enduring perpetual financial assault from technology providers and consultants who claim to be able to integrate their workflows but continue to fail.



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4. In VUCA environments, unknown scenarios arise (often daily) and dollar-centric subcontractors often build custom reports aimed at diagnosing and protecting them from the sudden scenarios that hurt them.
  - a. This perpetual bandaid response builds a house of cards on the current software version, creating an endless financial assault.
5. Predatory consultants/service providers seek out these subcontractors and sell themselves as a solution through custom work WITHOUT disclosing the high cost of future overages required to maintain their custom during upgrades.

#### **How to fix the problem**

Adding more technology to all accounting-centric tech stacks only makes the problem worse. Consider replacing existing accounting technology with a subcontractor-specific engine that automatically translates all operational and accounting perspectives simultaneously.

This enables team members to make decisions with timely information that fits each person's perspective so the team is efficient from the start of every job.

The technology stack should automatically translate the following perspectives:

- Units of measure for materials, equipment and tools
- Units of time for labor, equipment and tools
- Phases, stages
- Unknown unknowns and third party impacts
- Safety, psychological and behavioral cues
- Document types and content
- Weather and acts of god
- Dollar/accounting
- Contract compliance

#### **Three predictions for subcontractors over the next eight years**

1. Rising expectations will require quicker delivery with higher quality.
2. Larger subcontractors will get hurt the most.
  - a. Over 50 percent of the Fortune 500 companies from 2000 no longer exist, because they failed to adapt.



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- b. As larger brands lose talent, they will try to attract and retain talent through higher salaries, benefits, flexible hours, work-from-home freedoms and other perks which will expedite their failure at an extreme cost.
3. Early adopters and some of the early majority (19-35 percent of subcontractors) will secure approximately 80 percent of the total accessible market (TAM).
  - a. The remaining 65-81 percent (who fail to adapt) will likely dissolve or compete for the 20 percent TAM remaining.

#### **Final Prediction**

Strong financial management will be a result of effective VUCA management.

*“Manage the field well and financial management is simplified. Manage the field with finance, and you’ll fight unnecessary fires all day, every day.”*

#### **About the Author**

Chad Pearson is the Director of Business Development for Plexxis Software, Inc. Plexxis Software creates innovative technology for the wall & ceiling industry and other specialty trades.

Plexxis is a supporting partner of FCA International.