

Member Communication Experience

The Hidden Margin Killers Lurking In Construction Financial Processes

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Construction companies spend a lot of time chasing margins – negotiating better contracts, tightening estimates, and managing risk on the jobsite. Yet for many contractors, profit erosion isn't coming from bad jobs, tough owners, or one catastrophic failure. It's happening quietly, behind the scenes, in everyday financial processes that feel "good enough."

These hidden margin killers don't show up as one big mistake. Instead, they stem from small gaps in financial processes that quietly compound as job volume increases. Delayed information, disconnected systems, and manual workarounds that once felt manageable can quickly turn into serious risks when margins are already thin. The result? Contractors think they're profitable – until they're not.

Here are five of the most common financial process issues quietly eating away at construction margins, and what leaders can do to stop them.

1. MANUAL DATA ENTRY AND REWORK

Manual data entry is one of the most underestimated threats to profitability in construction. Time cards rekeyed into payroll. Vendor invoices are manually coded to jobs. Cost updates are copied from spreadsheets into accounting systems.

Every manual touchpoint introduces:

- » Delays in getting financial visibility
- » Increased risk of errors and miscodes
- » Rework when mistakes are discovered weeks later



While each task may only take minutes, multiplied across dozens of jobs and hundreds of transactions, the labor cost adds up fast. Worse, errors often surface too late – after costs have already hit the job and decisions have already been made.

Example: A project administrator manually enters vendor invoices into accounting, then later rekeys cost information into a separate job cost report for the project manager. A miscoded cost isn't discovered until the monthly review, requiring corrections, explanations, and updated forecasts. While the dollar amount may be small, the time spent fixing the issue and the delayed insight add up across dozens of jobs.

Margin impact: Extra administrative labor, inaccurate job costs, and decisions based on flawed data.

What helps: Reducing duplicate data entry through integrated, automated systems and standardized workflows so information is entered once and flows consistently across accounting, payroll, and job cost.

2. DELAYED COST CAPTURE FROM THE JOBSITE

When job cost data arrives days or weeks after work is performed, contractors lose the ability to manage proactively. Labor overruns, equipment overuse, and material waste can't be corrected in real time when data lives on paper tickets or in disconnected systems.

Many contractors still rely on:

- » Paper time cards submitted weekly
- » Jobsite notes entered long after the fact
- » Cost updates that lag actual production

By the time costs hit the books, the opportunity to course-correct is gone.

Example: A superintendent notices productivity slipping during a critical phase of work, but labor costs won't hit the job until time cards are processed at the end of the week. By the time the project manager sees the overrun, several days of additional labor have already been incurred. With timelier cost visibility, the team could have adjusted crew size, sequencing, or scope before the issue escalated.

Margin impact: Small jobsite overruns become permanent margin losses because they aren't identified early enough to fix.

What helps: Faster, more accurate cost capture from the jobsite that feeds job cost reporting quickly so project managers can act while it still matters.

3. INACCURATE WIP REPORTING

Work-in-progress (WIP) reporting should be a contractor's early warning system. But when WIP is built on inaccurate forecasts and outdated or incomplete job cost data, it becomes misleading instead of informative.

Common WIP challenges include:

- » Costs posted late or incorrectly

- » Forecasts that aren't updated to reflect current job conditions
- » Revenue recognized without real-time job insight
- » Manual WIP schedules that rely heavily on estimates instead of actuals

When costs lag or forecasts aren't adjusted in a timely and accurate way, WIP can make jobs appear healthier than they are – masking margin erosion until it's too late. Inaccurate WIP also distorts companywide financials, leading leadership to make decisions based on assumptions that no longer reflect reality.

Example: A project appears profitable in WIP reports based on outdated completion percentages and an overly optimistic cost-to-complete forecast, even though several cost categories haven't been updated. Leadership confidently forecasts cash flow and backlog, only to discover at job closeout that the margin was overstated for months. The result is an unexpected write-down and strained conversations with stakeholders.

Margin impact: Surprises at job closeout, overstated profits, unreliable forecasts, and sudden write-downs that damage cash flow and credibility.

What helps: Reliable, timely job cost data combined with disciplined, accurate forecasting so WIP reflects current conditions, not outdated assumptions.

4. POOR CHANGE ORDER VISIBILITY

Change orders are one of the most common and costly sources of margin leakage. Not because contractors don't price changes correctly, but because they struggle to track them consistently from jobsite initiation through billing.

Without clear visibility, contractors risk:

- » Performing extra work based on verbal direction or informal approval, without capturing it in the system
- » Losing track of pending or disputed changes
- » Billing changes late (or not at all)

In many cases, work must begin before a formal change order is issued. But when those changes aren't logged, even if the approval is verbal to start, costs and revenue quickly fall out of sync. When change orders live in emails, spreadsheets, or

someone's notebook, accountability disappears. Even approved changes can fail to appear in job cost forecasts or billing schedules.

Example: Jobsite crews proceed with owner-requested changes to avoid schedule delays, assuming paperwork will follow. Weeks later, some changes are approved, others are still pending, and a few are forgotten altogether. Without clear visibility, project teams struggle to determine what should be billed and what has already been absorbed by the job. Centralized tracking ensures that changes are documented, monitored, and reflected in financial forecasts – protecting margin and cash flow.

Margin impact: Unbilled work, delayed revenue, and jobs that look profitable on paper but underperform in reality.

What helps: Centralized tracking that connects change orders to job cost, billing, and financial forecasts, so no work slips through the cracks.

5. DISCONNECTED PAYROLL AND JOB COST DATA

Labor is often the largest controllable cost on a construction project. Yet many contractors lack timely visibility into how payroll is impacting job profitability.

When payroll systems don't integrate cleanly with job cost:

- » Labor hits jobs days or weeks after payroll is processed
- » Burden and labor classifications may be applied inconsistently
- » Project managers see outdated or incomplete labor costs

This delay makes it nearly impossible to manage productivity in real time – or to understand true job performance until after payroll is finalized.

Example: Payroll is processed on time, but labor costs don't post to job cost until days later. Project managers review outdated reports that understate actual labor spending, delaying productivity conversations with the jobsite. By the time true costs are visible, the opportunity to correct staffing or work methods has passed. When payroll and job cost data are closely linked, labor – the largest controllable job cost – becomes a tool for proactive management rather than a postmortem analysis.

Margin impact: Labor overruns go unnoticed, productivity issues persist, and corrective action comes too late.

What helps: Tight alignment between payroll and job cost systems so labor costs, burden, and classifications hit jobs accurately and quickly.

TURNING FINANCIAL PROCESSES INTO A COMPETITIVE ADVANTAGE

None of these margin killers feel dramatic on their own. That's why they persist. But together, they quietly drain profitability and limit a contractor's ability to grow with confidence.

Construction leaders who address these issues don't just improve accounting efficiency. They also gain:

- » Better visibility into job performance
- » Faster, more confident decision-making
- » Stronger control over margins and cash flow

In today's environment of tighter margins and higher expectations, financial processes can no longer be an afterthought. Contractors who treat them as a strategic asset, not just a back-office function, put themselves in a far stronger position to protect profits and scale sustainably.

Because in construction, the biggest margin threats aren't always on the jobsite. Often, they're hiding in plain sight. 



About the Author

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