

Vargo Measures the Profit of Every Job, Big and Small

Industrial automation specialist, Vargo Companies, uses Eralis Job to understand the true profit of every job it undertakes, increasing profit margins by 10% and reducing cost of sale at the same time.

Benefits

- Know the true profit of each job
- Know the actual cost of pitching new business
- Sales commissions based on true profit
- Useful benchmarks apply to future projects

Key Outcomes

- Margins boosted by 10%
- Reduced cost of sale

About Vargo Companies

Vargo Companies is made up of three distinct divisions, all specializing in industrial automation, and all using Eralis Job. Vargo's software development group designs controls around distribution processes and equipment; a second group designs, procures, manages, installs and services distribution systems such as large conveyor and sophisticated sortation systems; and a third group provides thousands of material handling products including industrial rack,

shelving, lockers, work tables, picking carts, bins, hoists, pallet handling and dock equipment.

Everything the company does in each of its three divisions is a job, created inside Eralis Job. A single job may run for more than a year, requiring the purchase of millions of dollars of equipment, hiring multiple contractors, as well as software development and significant internal labour costs. Each job is unique and will have its own complexities and needs.

Gaining Visibility

Vargo Companies uses Eralis Job to capture and measure the profitability of all activity across the various types of sales the company encounters, says COO and CFO Bart Cera. The solution provides point-in-time awareness

of all the costs related to a specific job, including hard costs (such as equipment, travel expenses and subcontractors) and soft costs (like internal labour and resource consumption of equipment).

"We use Eralis Job across everything. If we buy a single cart and sell it drop shipped to the customer, that sale is tracked and referenced internally as a job – even though it's a single line item for the cost of the cart plus freight. If we design and install a \$20 million material handling system for a client, that's also a job, although we typically track this in somewhat smaller increments using sub job functionality in Eralis Job."

Vargo uses Eralis Job to understand the profit of every job, large or small. It captures all hard and soft costs including field services, software development,

"We use Eralis Job to understand the profit of everything we do, whether it's building a \$20 million material handling system or selling a single warehouse cart."

– Bart Cera, COO and CFO, Vargo Companies

"We've boosted our margins by around 10% using Eralis Job to capture our true costs, including soft costs like equipment allocation."

– Bart Cera, COO and CFO, Vargo Companies

parts, tool repairs, forklifts, plane tickets, truck depreciation and dumpster fees, right down to the use of tools and extension cords.

"We used to have an "approximation of" our project margin, but Eralis Job gives us our actual margin," Bart Cera says.

"Eralis Job has also made us better at pricing, which has led increasing our margins by around 10%. Our industry has become fairly commoditized which typically forces us to work on relatively low margins. The significance of making even small mistakes, or not accounting for soft costs, can greatly affect your profitability on any given job."

Vargo applies the same rigour to its commission calculations. Failure to capture all the true costs—and therefore determine true profit—could lead to inaccurate sales commission calculations.

Eralis Job gives Vargo visibility of all hard costs and internal effort. Everyone is a timekeeper – even most salaried employees.

"We track our effort as if we're a law firm. All of our people are accountable for recording their hours. We want to track all costs and we want all effort to show up in our job, even though there may

be a difference in exempt salaried wages versus true effort," says Bart Cera.

Multiple benefits flow from Vargo's ability to build this data set over time, with the company able to apply business intelligence to how it's staffing or costing jobs. Vargo still manages to keep things simple for individual users.

"Our software group, for example, is oblivious to the whole cost structure. We use a simple web portal user interface that enables staff to easily track and assign time codes for each hour and to each project they may be working on. For each project we can see what percentage is made up of development, documentation, training, planning, design, installation, support etc. Over time, we get useful benchmarks we can apply to future projects. Was engineering effort twice what we expected? Was it 6% of the project instead of the expected 3%, and if so, why?" Bart Cera says.

Vargo uses a uniform process for measuring the cost of making new sales. It spends a lot of upfront time in site visits, sales analysis and travel, and uses Eralis Job to measure the effort of each job pitch.

"We now understand fully the time and cost of every opportunity and this has changed the way we go about the pursuit," Bart Cera says.

"Our goal is to attempt to streamline the upfront sales effort as much as possible before we get the order. With Eralis Job, we are able to easily track pre-order activities to make us keenly aware of the time spent in the sales pursuit phase. This tracking in turn gives us the visibility we need to make reasonable decisions relative to the amount of investment we want to make, and/or what is generally required to chase opportunities of a certain level. In our industry it's not unusual for a significant pursuit to run in the tens of thousands of dollars. Having visibility along the way, and the history behind similar project efforts, gives us the right information to make smarter business decisions."

When every job is different, determining the profitability of each job is a key benefit. Vargo does not hold much inventory, so the cost of each job is affected by each and every purchase and contractor hired as the job progresses. Vargo Companies uses Eralis Job to track every input and easily recognize when invoicing milestone payments are reached or required.