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How To Maintain a Steady Backlog

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If you want to grow your construction firm, getting your backlog right couldn't be much more important. A strong backlog gives you the ability to plan ahead — whether that's for hiring needs, manpower needs, key strategic investments, or general cashflows for things like trucks or raises.

Backlog is a measurement of how much work you have booked that you have not yet billed for. So, for example, the day you sign a $3 million contract, you add $3 million to your backlog. After your first billing — let's say it's for $100,000 — your backlog on that project is now (you guessed it) $2.9 million. To get your total backlog, add up the remaining billings on all of your projects.

Since backlog is a key indicator of future billings, and therefore future profits and cash flows, there are many reasons why you should be making every effort to maintain a steady backlog. Here are the top four considerations you should make to ensure you are using this information to best guide your business:

Follow the numbers. As it goes with most things, people won't focus on backlog if it's not quantified, tracked, and emphasized. The more you talk about and measure backlog, the better chance you have of achieving your goals.

Set a target based on your business's strategic goals and then measure backlog on your financial reports. Once you've started crunching the numbers, distribute up-to-date backlog data to your estimating team at least monthly, but preferably weekly.

Consider your sales cycle. If you're a mechanical contractor, it may take eight to 12 months from the time you bid a project to when you are onsite and substantially billing. Therefore, this type of contractor would be said to have about an eight- to 12-month sales cycle, and should book backlog about eight to 12 months in advance.

For example, if you are targeting $100 million in revenue in 2025, and your sales cycle is eight to 12 months, that would mean that by Jan. 1, 2025, you'd want to have about $80 million to $100 million in backlog. Because if you don't, any work you win in 2025 will likely start in 2026 and not contribute to your 2025 goals.

If you're a smaller contractor with a shorter sales cycle — say two to three months — and have a target revenue of $35 million, you would only need to have about an $8 million backlog on Jan 1, 2025 — or about 25% of the goal. Again, because that's what you should be billing in the next two to three months to hit your goal.

Separate your backlog. While all backlog is great, if, today, you win a megaproject that doesn't start until 2026, you may meet your backlog target, but it doesn't mean you have work for 2025. I always recommend separating your backlog for the next 12 months from your backlog that falls 12+ months out. That way, you are still tracking both important numbers, but making decisions based on the right information today.

Look to other indicators. While you must measure your backlog, it's important to realize that it is a lagging indicator. This means that whether backlog is low or high doesn't tell us much, other than that we either do or don't need work. What it doesn't tell us are things like:

» Are we bidding enough work to maintain/grow our backlog?

» Are we having enough sales meetings to maintain/grow our backlog?

» Do we have enough clients to support our growth goals?

» Are we doing enough business development with new potential clients?

So, while backlog should serve as a target, it's critical to create a set of leading indicators that will ensure you are doing the things you need to be doing in order to maintain a steady backlog. A simple process for creating leading indicators for backlog is as follows:

1. Calculate your win rate.
2. Use your win rate to create bidding and sales goals. For example, if your win rate is 10%, and your target backlog is $35 million, then you would need to bid $350 million. It also means you need to win $35 million. Firms with more than one estimator should then break that $350 million down by estimator and create an individual bidding goal for each, and break the $35 million down by estimator and create an individual sales goal for each.
3. Every week, meet as an estimating team and review the amount each person bid/won the previous week and compare it against goal. Because you may not be bidding every week, you should track weekly bidding and sales goals as an accountability tool, but ultimately you should measure failure/success for meeting goals based on monthly bidding and sales totals. Four weeks is enough time for the data to settle.

Follow the steps here, and I promise you will be shocked by the results you get in the form of a steady backlog that gives you the ability to chase your strategic goals.

About the Author

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