

How to Determine a Fair Price

Presented by:

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www.TechKnowledgeonline.net



Part 1:

Systems in Your Office;

Computerized Design

Creating;

Proposal,

Contract, Specifications, etc.

Estimating

Consumer Financing

Tracking Job Costs

Managing Production



A unit cost system of estimating uses **scientifically determined, verifiable** numbers to determine job cost...

The results are:

consistency in estimating!

confidence in prices!

speed!

HIGHER PRICES...



Who uses 'unit cost' estimating?

- ◆ Building Department
- ◆ Surveyor
- ◆ Excavator
- ◆ Concrete flatwork/walls
- ◆ Frammer
- ◆ Electrician
- ◆ Roofer
- ◆ Plumber
- ◆ Mason
- ◆ Stucco
- ◆ Exterior trim and siding
- ◆ Window
- ◆ Insulation
- ◆ HVAC
- ◆ Drywall
- ◆ Plaster
- ◆ Interior trim
- ◆ Cabinetry
- ◆ Tile
- ◆ Carpet
- ◆ Painting
- ◆ Clean-up
- ◆ Realtor
- ◆ Banker





Man-Hour Productivity Study


www.powertoolssoftware.info

Research Methodology

The Manpower Productivity Study is a research project designed to establish reasonable, reliable and accurate man-power productivity rates for a number of common construction tasks. The results of the study are intended to be utilized in any construction estimating situation, and specifically to supplement the construction models in the UnitCost program.

The study consists of comparisons of the labor productivity rates provided by eight well established national estimating manual, each rate being converted to a common denominator and then compared side by side on a bar graph, and then calculating the standard and weighted averages to then establish a final generic productivity rate.

The national construction cost manuals utilized in the report are as follows:

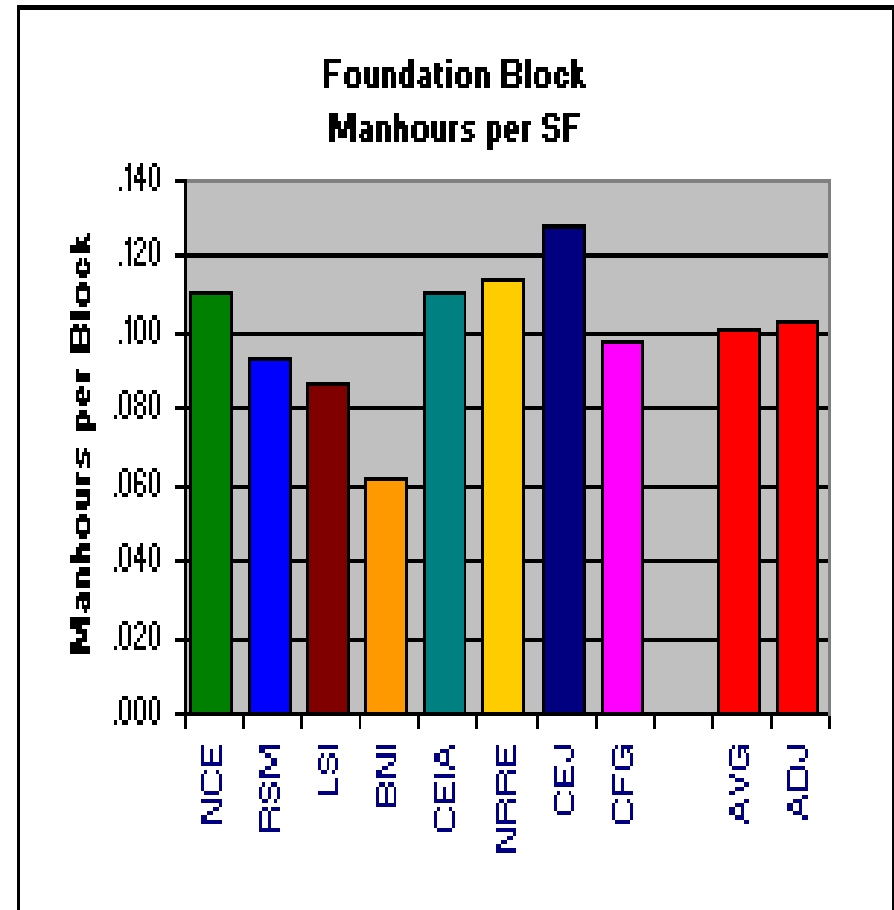
| <u>Abbreviation</u> | <u>Title</u> | <u>Author / Publisher</u> |
|---------------------|---|--|
| RSM | 2001 Residential Detailed Costs | R.S. Means |
| LSI | 2001 Residential Construction Costs  | Saylor Publications (AKA Lee Saylor) |
| BNI | Home Builder's 2001 CostBook | BNI Building News Incorporated |
| CEIA | Construction Industry Cost Data 96 | Construction Estimating Institute of America |
| NCE | National Construction Estimator | Craftsman Books |
| NRRE | National Repair and Remodeling Estimator | Craftsman Books |
| CEJ | Carpentry Estimating by WP Jackson | Craftsman Books |
| CFG | Contractor's Field Guide | Paul Thomas / Prentice Hall |



Foundation Block (per SF)

8x8x16 lightweight CMU - no rebar reinforcement

| SOURCE | | RATE | CONVERSION |
|--------|--------|---------------|---------------|
| NCE | pg 132 | 0.1110 mh/SF | 0.11100 mh/SF |
| RSM | pg 48 | 0.0930 mh/SF | 0.09300 mh/SF |
| LSI | pg 48 | 0.0868 mh/SF | 0.08680 mh/SF |
| BNI | pg 187 | 0.0620 mh/SF | 0.06200 mh/SF |
| CEIA | pg 86 | 9.00 SF/mh | 0.11111 mh/SF |
| NRRE | pg 154 | 350.00 SF/day | 0.11429 mh/SF |
| CEJ | pg 275 | 12.80 mh/sf | 0.12800 mh/SF |
| CFG | pg 241 | 11.00 mh/cbk | 0.09778 mh/SF |
| AVG | | | 0.10050 mh/SF |
| ADJ | | | 0.10322 mh/SF |



MONEY

MARKETS • A-15

A-16

Wednesday
June 17, 2003

State Farm suit hits federal court

*It alleges conspiracy to lowball payouts*By Rebecca Mowbray
Business Writer

A case alleging that State Farm Fire & Casualty Co. and Xactware Inc., the company that provides its claims estimating software engaged in a

conspiracy to depress construction unit prices and underpay homeowners insurance wind claims from Hurricane Katrina and Rita comes up for its first hearing in federal court today.

The case, Kathleen and Gordon Schuler v. State Farm Fire & Casualty Co. and Xactware Inc., tackles the controversy to recent allegations that insurance companies have inflated flood damages to take advantage of the National Flood Insurance Program.

The suit claims that Louisiana's largest insurance provider, aided by the insurance industry's main supplier of construction pricing data, manipulated unit prices for construction materials to systematically lowball homeowners insurance payouts.

The specific issues before Judge Stanwood Dewal Jr. are motions by the defendants to dismiss the case and strike preliminary motions seeking discovery status, but not much is

expected to happen since it's the first hearing of the case in U.S. District Court.

But those who are following the insurance issues highlighted by Hurricane Katrina say the case is potentially significant.

Bob Hunter, director of insurance at the Consumer Federation of America, said that State Farm is such a large company, if it is manipulating Xactware's prices to lowball claims, it would cause significant harm to consumers.

"As with anything else with State Farm, you're talking huge amounts of money," Hunter said.

Hunter has long criticized the insurance industry for having many companies use the same outside vendors for things such as construction pricing, credit scoring and claims history data. Insurance companies are exempt from federal antitrust laws so that companies

See B17, A-13

Xactware
makes
motion
to dismiss

B17, A-13

Xactware Inc. made its first motion to dismiss in federal court today, claiming that State Farm Fire & Casualty Co. and its subsidiaries conspired to depress construction unit prices and underpay homeowners insurance payouts.

The lawsuit, filed in U.S. District Court in New Orleans, alleges that State Farm and Xactware conspired to depress construction unit prices and underpay homeowners insurance payouts.

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The E\$timating System...

Estimating is *PRICING!*

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Tools for the present, traditions from the past.



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T e c h K n o w l e d g e

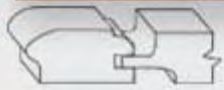


Tracking Job Costs

| | ◊ <u>Est. Cost</u> | ◊ <u>Act. Cost</u> | ◊ <u>(\$ Diff.</u> | ◊ <u>Est. Revenue</u> | ◊ <u>Act. Revenue</u> | ◊ <u>(\$ Diff.</u> | ◊ |
|----------------------|--------------------|--------------------|--------------------|-----------------------|-----------------------|--------------------|---|
| Service | | | | | | | |
| 01 Plan-Perm ▶ | 400.00 ◀ | 0.00 | -400.00 | 600.00 | 0.00 | -600.00 | |
| 02 Site Work | 576.16 | 0.00 | -576.16 | 864.24 | 0.00 | -864.24 | |
| 06 Fl Framing | 0.00 | 48.00 | 48.00 | 0.00 | 0.00 | 0.00 | |
| 06 Flr Frame | 306.88 | 0.00 | -306.88 | 460.32 | 0.00 | -460.32 | |
| 07 Framing | 0.00 | 24.00 | 24.00 | 0.00 | 0.00 | 0.00 | |
| 07 Wall Frame | 2,562.16 | 78.00 | -2,484.16 | 3,843.24 | 0.00 | -3,843.24 | |
| 14 Plumbing | 15,568.60 | 0.00 | -15,568.60 | 23,352.90 | 0.00 | -23,352.90 | |
| 16 Elec-Light | 352.00 | 111.00 | -241.00 | 528.00 | 0.00 | -528.00 | |
| 18 Int Wall | 550.40 | 0.00 | -550.40 | 825.60 | 0.00 | -825.60 | |
| 19 Ceil-Cover | 286.24 | 0.00 | -286.24 | 429.36 | 0.00 | -429.36 | |
| 22 Specialty | 270.00 | 0.00 | -270.00 | 405.00 | 0.00 | -405.00 | |
| 24 Paint | 296.48 | 0.00 | -296.48 | 444.72 | 0.00 | -444.72 | |
| 25 Cleanup | <u>164.00</u> | <u>0.00</u> | <u>-164.00</u> | <u>246.00</u> | <u>0.00</u> | <u>-246.00</u> | |
| Total Service | <u>21,332.92</u> | <u>261.00</u> | <u>-21,071.92</u> | <u>31,999.38</u> | <u>0.00</u> | <u>-31,999.38</u> | |
| TOTAL | <u>21,332.92</u> | <u>261.00</u> | <u>-21,071.92</u> | <u>31,999.38</u> | <u>0.00</u> | <u>-31,999.38</u> | |



White Maple - Revere Square



O.D. - Rnd F. P.
I. D. - Beaded
P. D. - L Panel



Decorative Side Plates



Helping the prospect visualize the project...

1. CAD (computer aided drafting)
2. Computerized estimating
3. Catalogues, brochures, internet
4. Printed estimates with product pictures



RemodelMax--Orlando Prices '09

open interior, gable roof--5.09

| Description | Quantity | Unit | Direct Labor | Direct Materials | Direct Total | Total Cost | Selling Price | Ttl Selling | Man- hours | Ttl Man-hours | Additional Specificatio |
|---|----------|------|--------------|------------------|--------------|-------------------|---------------|--------------------|------------|----------------|-------------------------|
| Plans with on-site survey, project \$8,000 - \$10,000 | 1 | EA | \$419.59 | | \$419.59 | \$419.59 | \$419.59 | \$419.59 | 13.614 | | |
| Building permit fee, project \$8,000 - \$10,000 | 1 | EA | | \$221.00 | \$221.00 | \$221.00 | \$221.00 | \$221.00 | | | |
| Cover contents with plastic sheeting | 400 | SF | \$0.08 | \$0.08 | \$0.17 | \$66.91 | \$0.28 | \$112.00 | 0.004 | 1.6 | |
| Move out then reset contents of room, average living room | 1 | EA | \$41.64 | | \$41.64 | \$41.64 | \$69.53 | \$69.53 | 2.000 | 2 | |
| Move out then reset contents of room, average dining room | 1 | EA | \$31.23 | | \$31.23 | \$31.23 | \$52.15 | \$52.15 | 1.500 | 1.5 | |
| Move out then reset contents of room, average bedroom | 3 | EA | \$31.23 | | \$31.23 | \$93.68 | \$52.15 | \$156.45 | 1.500 | 4.5 | |
| Move out then reset contents of room, refrigerator and range | 1 | EA | \$31.23 | | \$31.23 | \$31.23 | \$52.15 | \$52.15 | 1.500 | 1.5 | |
| Cover contents with plastic sheeting | 400 | SF | \$0.08 | \$0.08 | \$0.17 | \$66.91 | \$0.28 | \$111.74 | 0.004 | 1.6 | |
| Cover and mask floor with plastic sheeting | 1316 | SF | \$0.15 | \$0.12 | \$0.26 | \$343.77 | \$0.44 | \$574.10 | 0.007 | 9.212 | |
| Remove gypsum drywall from ceiling | 81 | SF | \$0.29 | | \$0.29 | \$23.61 | \$0.49 | \$39.42 | 0.014 | 1.134 | |
| Remove gypsum drywall from wall | 81 | SF | \$0.23 | | \$0.23 | \$18.55 | \$0.38 | \$30.98 | 0.011 | 0.891 | |
| Remove kitchen cabinets, wall | 12 | LF | \$5.04 | | \$5.04 | \$60.45 | \$8.41 | \$100.96 | 0.242 | 2.904 | |
| Install anchors at rafters 24" o.c. at living space | 81 | LF | \$4.00 | \$0.50 | \$4.50 | \$364.50 | \$7.52 | \$608.72 | 0.143 | 11.583 | |
| Install anchors at rafters 24" o.c. at garage | 28 | LF | \$4.00 | \$0.50 | \$4.50 | \$126.00 | \$7.52 | \$210.42 | 0.143 | 4.004 | |
| Install anchors at studs/top plate, 16" o.c. at living space | 81 | LF | \$4.00 | \$0.50 | \$4.50 | \$364.50 | \$7.52 | \$608.72 | 0.143 | 11.583 | |
| Install anchors at studs/top plate, 16" o.c. at garage | 28 | LF | \$4.00 | \$0.50 | \$4.50 | \$126.00 | \$7.52 | \$210.42 | 0.143 | 4.004 | |
| Install insulation, unfaced, in walls, R-13, 3-1/2" thick x 15" wide, 16" oc | 81 | SF | \$0.33 | \$0.26 | \$0.59 | \$48.04 | \$0.99 | \$80.23 | 0.016 | 1.296 | |
| Install insulation, unfaced, laid flat, R-19, 6-1/4" thick x 23" wide, 24" oc | 81 | SF | \$0.19 | \$0.39 | \$0.58 | \$46.93 | \$0.97 | \$78.37 | 0.009 | 0.729 | |
| Install drywall, taped and finished, 3/8", 1/2" or 5/8", up to 100 SF | 6 | EA | \$192.81 | \$38.00 | \$230.81 | \$1,384.86 | \$385.45 | \$2,312.72 | 6.256 | 37.536 | |
| Paint drywall or plaster wall with brush, 2 coats, smooth finish | 2650 | SF | \$0.44 | \$0.17 | \$0.61 | \$1,613.52 | \$1.02 | \$2,694.58 | 0.015 | 39.75 | |
| Paint drywall or plaster ceiling with roller, 2 coats | 1316 | SF | \$0.41 | \$0.17 | \$0.58 | \$762.46 | \$0.97 | \$1,273.31 | 0.014 | 18.424 | |
| Install wall cabinets per lineal foot | 12 | LF | \$15.41 | | \$15.41 | \$184.92 | \$25.73 | \$308.82 | 0.500 | 6 | |
| Clean-up, 1st floor, over 400 SF | 1316 | SF | \$0.46 | | \$0.46 | \$602.72 | \$0.76 | \$1,006.54 | 0.022 | 28.952 | All debris removed. |
| | | | | | | \$7,043.00 | | \$11,332.89 | | 190.702 | |



Five Part Judgment Analysis

- ◆ Code Analysis
- ◆ Owner Analysis
- ◆ Location Analysis
- ◆ Capability Analysis
- ◆ Hazardous Materials Analysis

The one-call close

- ◆ Design and estimate with the computer
- ◆ Leaving the house without a proposal on the table is like a *handshake* instead of a *kiss* on the first date...
 - A fixed-price contract
 - A design-build agreement



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Turnaround Time

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 05-26-2009, 11:46 AM

[#1](#)

[portnoy](#) 
New Member

Join Date: Jul 2005
Location: Boston, MA
Posts: 13

 **Turnaround Time**

I'm wondering what you all expect of yourselves as far as turnaround time on estimates/proposals. I usually try and tell prospective customers that they can expect to hear back from me within about a week and a half. Sometimes I make that and sometimes I don't. And in the instances where I don't, I often find myself feeling like I am losing control of the sales process.

What standard do you try to hold yourself to?




[David Meiland](#) 

Veteran Contributor

Join Date: Jun 2004

Location: Friday Harbor, San Juan Island, Washington

Posts: 7,768

 **Re: Turnaround Time**

My turnaround time is a week, in most cases. Usually my obligation is to get back to them with a preliminary cost estimate. That takes anywhere from 15 minutes to 2 hours to produce, and should be something that I can knock out easily. Then I can get back to them and determine the next step. Recently I had a situation where I needed to do some research and told them it might take 1-2 weeks for me to get them some info. In any case, I try to give them a clear statement of when they will hear from me.

If you don't give them an expectation they can count on, and then meet it, you are failing the first, easy test.

05-26-2009, 12:04 PM

#2

[David Meiland](#) 

Veteran Contributor

Join Date: Jun 2004

Location: Friday Harbor, San Juan Island, Washington

Posts: 7,768

Re: Turnaround Time

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If you ~~don't~~ give them an expectation they can count on, and then ~~meet~~ it, you are ~~failing the first, easy test.~~ **build trust!**

~~exceed~~


Mark G 

Veteran Contributor

Join Date: Jun 2004

Location: Meadow Vista, CA

Posts: 1,505

 **Re: Turnaround Time**

I show up for my one visit with laptop and portable printer. The customer gets an estimate on the spot.

I used to take a week or so to prepare a quote, which is typical, but I found 1. it put a stress on me in the evenings when I'd rather be relaxing and 2. I didn't do it (see #1).

A point I learned from Mike Gorman is that there really isn't THE price that is the perfect number everyone is seeking. There is A price (your price) which covers your costs and returns a profit. You don't need a week to develop A price and most customers are just looking for A price.

There are a host of techniques for generating a quick estimate. I combine unit pricing, SF pricing, and stick estimating to cover my bases.

I advise the customer during the first phone call that my visit will be longer than most for this reason. It typically takes a 1 1/2 to 2 hr. visit. I'm working on some sales literature to have them read while they are waiting for me.




[Alex Saloutos](#) 

Veteran Contributor

Join Date: Feb 2006

Location: Madison, Wisconsin

Posts: 573

 **Re: Turnaround Time**

Five points for you to consider:

1. The goal is to meet or exceed your profit goals and get the sale, not be precise to the penny.
2. Builders and remodelers who price quickly get more sales.
3. Be disciplined about this and think about it as a process that can be measured and improved. Design and continue to improve it so you meet your profit goals and get the sale.
4. Be realistic by under promising and over delivering. Don't say it will take a week and then take eight days. This sends a message to your customer about how you work and what the experience will be like.
5. Set standards for your process and cycle times. Run this part of your business just like the job site. For example, handyman work is estimated on the spot. Small jobs are X days. Larger jobs a preliminary budget which will be plus or minus a set % are done in 2 days and detailed estimates and scopes of work will be done in 7 days. Then do it! It is easy to spend too many man hours and take so long to do them the customer losses interest and you're out sold by a competitor.

Alex





CAN YOU ITEMIZE YOUR BID?

Itemizing your bid

- ◆ Giving away your power
- ◆ Integrated pricing system
- ◆ Ordering a la carte
- ◆ Transfer grill
- ◆ Worst nightmare
- ◆ Charging "Sales Tax"

If unable to calculate the price on the spot

1. Create a 'not to exceed budget' based on historical info.
2. Ask for a design retainer of \$XXXXX* to enable you to produce simple 'non-biddable' documents.
3. Return in three days with specifications and plans describing what you can deliver for that price, including financing options.

DESIGN AGREEMENT

THIS AGREEMENT made by and between _____ (BUILDER) and:

OWNER _____

ADDRESS _____

PHONE NUMBER _____

CITY, STATE, ZIP _____

PROJECT DESCRIPTION

This design agreement is for the development of a Preliminary Design, which shall include several reviews and revisions culminating in a floor plan and an exterior elevation (if applicable), to be developed as described below:

- SCOPE of WORK**
- SITE VISIT and CONSULTATION:** Visit project site and consult with Owner to discuss design objectives.
 - FIELD MEASUREMENTS:** Visit project site / take photographs and field measurements / draw existing floor plan.
 - FLOOR PLAN:** Draw initial conceptual floor plan (Floor Plan "A") / print and send to Owner for review.
 - REVISIONS:** Consult with Owner about revisions to Floor Plan "A" / revise Floor Plan "B" and send to Owner for review.
 - REVISIONS:** Consult with Owner about revisions to Floor Plan "B" / revise Floor Plan "C" and send to Owner for review.
 - EXTERIOR VIEW:** Draw initial conceptual elevation (Elevation "A") / print and send to Owner for review.
 - REVISIONS:** Consult with Owner about revisions to Elevation "A" / revise Elevation "B" and send to Owner for review.

BASIC DESIGN FEE

| | |
|---|---------------|
| <input type="checkbox"/> Bathroom / Kitchen Remodel | \$300.00 |
| <input type="checkbox"/> Porch / Garage Conversion | \$400.00 |
| <input type="checkbox"/> Porch / Portico / Porte Cache | \$300.00 |
| <input type="checkbox"/> Sundeck / Wood Sidewalk | \$200.00 |
| <input type="checkbox"/> Detached Shed / Carport / Garage | \$150.00 |
| <input type="checkbox"/> Interior Room Modifications | \$200.00 |
| <input type="checkbox"/> Room Addition under 600 SF | \$400.00 |
| <input type="checkbox"/> Room Addition 600 - 1000 SF | \$750.00 |
| <input type="checkbox"/> Room Addition 1001 - 1500 SF | \$1,000.00 |
| <input type="checkbox"/> Room Addition over 1501 SF | Quote |
| <input type="checkbox"/> New / Renovate Single Family Residence | \$.50 per sf |

ADDITIONAL FEATURES

| | |
|---|----------|
| <input type="checkbox"/> Porch / Portico / Porte Cache included with project | \$100.00 |
| <input type="checkbox"/> Sundeck / Wood Patio included with project | \$100.00 |
| <input type="checkbox"/> 2nd Floor / Stairs included with project | \$100.00 |
| <input type="checkbox"/> Fireplace / Chimney / Bay Window included with project | INCLUDED |
| <input type="checkbox"/> Other: _____ | _____ |

ADDITIONAL EXPENSES

- \$25.00 per hour for additional revisor _____ those included herein. (1 hr minimum)
- \$ 6.00 per page for reproducible vellum plots produced in addition to those included herein.
- \$ 1.00 per page for blueprints made in addition to those included herein.
- \$ 6.00 for each UPS pickup or delivery in addition to those included herein.

PAYMENT SCHEDULE

1. For Preliminary Design work, payable upon acceptance: \$ _____
2. Additional expenses or remaining balance, if any, payable upon completion.
3. Other: _____

The Builder agrees to perform the preliminary design work described above, and the Owner agrees to pay for this service as provided herein. This proposal does not include engineering certifications or review, soils exploration, soils analysis, energy calculations or surveying unless specifically indicated above. This agreement may be withdrawn if not mutually accepted within 30 days. **ALL FLOOR PLANS and ELEVATIONS SHALL BECOME the PROPERTY of the OWNER.**

Agreed _____

Agreed _____

[see more at www.powertoolssoftware.info](http://www.powertoolssoftware.info)

OWNER _____

Date _____

BUILDER _____

Date _____

Getting paid for your estimate

- ◆ Add a fee to each estimate calculated
- ◆ The Consulting Fee
- ◆ Charge the Architect for consulting



i **Systems run the
business...**

People run the systems...

Systems are the reason
entrepreneurs pay lots of money
to purchase franchises...

Do you plan to be working as hard in five years as you do now?

If not, what are you doing to prepare?

1. Pay yourself first (2% set aside account)
2. Buy and hold residential property.
 1. Invest, don't speculate!
3. Create systems in your business.
 1. Allow yourself to step away, sell or pass it on.



Profit is different from owner's compensation!

- ◆ **Profit** is the just reward for the effort and risk the Remodeler undertakes to produce the job.
- ◆ Sustained **Profitability** doesn't happen by accident, we must:
 1. track our job costs,
 2. compensate ourselves at replacement cost,
 3. understand the cost of doing business (overhead),
 4. plan and budget for a profit.





Job Cost **vs.** Overhead

◆ Labor w/ burden

| | |
|------------------------|-----------------------------------|
| FICA (social security) | 6.2% (to \$136,000) |
| FUTA (fed. unemploy.) | .8% (to \$7000) |
| SUTA | 1.5 to 6.5% (to \$8500) |
| MEDICARE | 1.45% (\$ all) |
| <u>WORK COMP.</u> | <u>5 to 240% (\$ all)</u> |
| Total | 14.95% to 254.95% of wages |





Employee: _____

Date of worksheet: _____

Workweeks this year 50

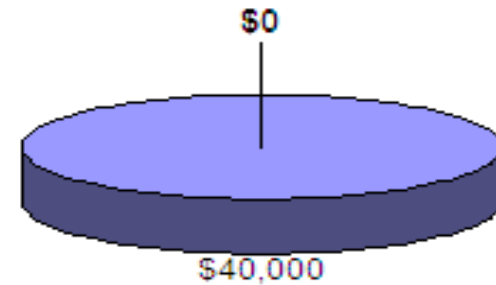
Workdays each week 5

Workhours each day 8

Actual hours to be paid 2000

Actual hours to be worked 2000

| NON-PRODUCTIVE TIME | Days | Total Hours | Cost/Year |
|---------------------------|------|-------------|---------------|
| Paid Holidays | | 0 | \$0.00 |
| Paid Vacation days | | 0 | \$0.00 |
| | | 0 | \$0.00 |
| Office meeting hours/year | | | \$0.00 |
| Hours to attend education | | | \$0.00 |
| | | | \$0.00 |
| Total | | 0 | \$0.00 |

Employee Compensation & Benefits

- Income for hours worked
- Income for non-productive hours
- Employer paid benefits

| EXPENSE | RATE | Capped at | Cost/Year | Cost/hour worked | TOTALS |
|--------------------------|---------|-------------|--------------------|------------------|----------------|
| Basic hourly Wage: | \$20.00 | | \$40,000.00 | \$20.00 | |
| FICA & Medicare | 7.65% | \$90,000.00 | \$3,060.00 | \$1.53 | |
| State Unemployment tax | 3.00% | \$8,500.00 | \$255.00 | \$0.13 | |
| Federal Unemployment tax | 0.80% | \$7,000.00 | \$56.00 | \$0.03 | |
| Workers Compensation | 25.00% | | \$10,000.00 | \$5.00 | |
| Liability Insurance | | | \$0.00 | \$0.00 | |
| Total | | | \$53,371.00 | \$26.69 | \$26.69 |

| BENEFITS | Cost/Year | Cost/hour worked | TOTALS |
|----------------------------|---------------|------------------|---------------|
| Medical Benefits/Insurance | | \$0.00 | |
| Education fees | | \$0.00 | |
| | | \$0.00 | |
| Total | \$0.00 | \$0.00 | \$0.00 |

| RELATED EXPENSES | Cost/Year | Cost/hour worked |
|--------------------------------|-----------|------------------|
| Truck Payments or depreciation | | \$0.00 |
| Truck Insurance | | \$0.00 |
| Gas and Oil | | \$0.00 |
| Cell Phone | | \$0.00 |





Job Cost vs. Overhead

Labor

Subcontractor

Material/Rental Equip.

Plans and Permits

Clean-up

Total Job Cost

X 1.50

Selling Price

Rent or Lease

Utilities

Communication

Advertising

Office supplies

Office staff

gen'l mgr—7%

production mgr—5-6%

sales/estimating—7-11%

Salary

Warranty work

And more...

30% of sales for GC

22% of sales for Trade

15% of sales for HB



Why do architects and some others think my mark-up is too high?

- ◆ Those who are not privy to the intricacies of remodeling and small home building tend to identify these more complicated, management intense businesses with construction industry statistics in general.
- ◆ A multi-billion dollar company doing highway construction can show an overhead of 3%.
- ◆ In larger projects, overhead moves into the job cost column.
 - Accounting, payroll, rent or lease, communications, etc.





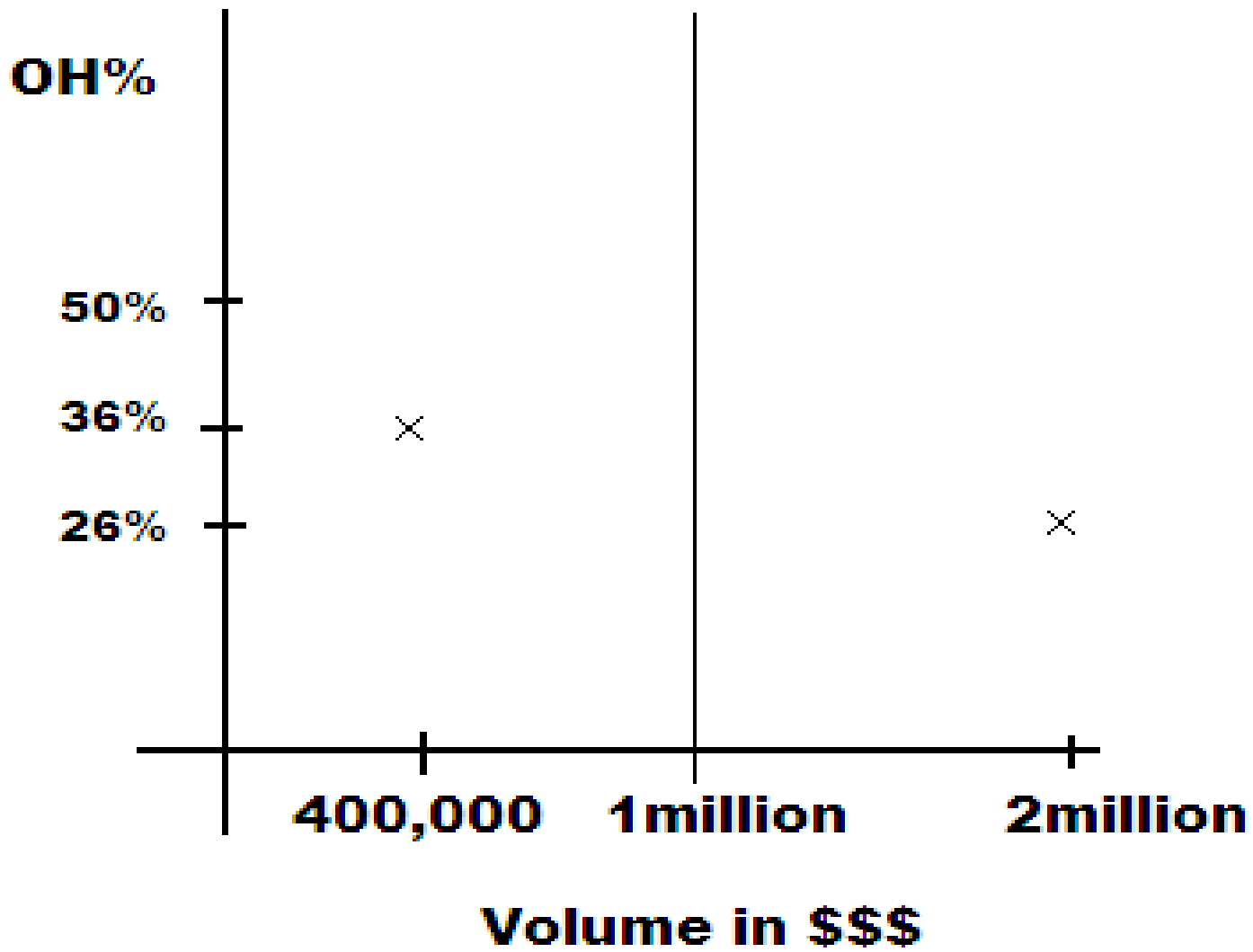
Overhead calculations

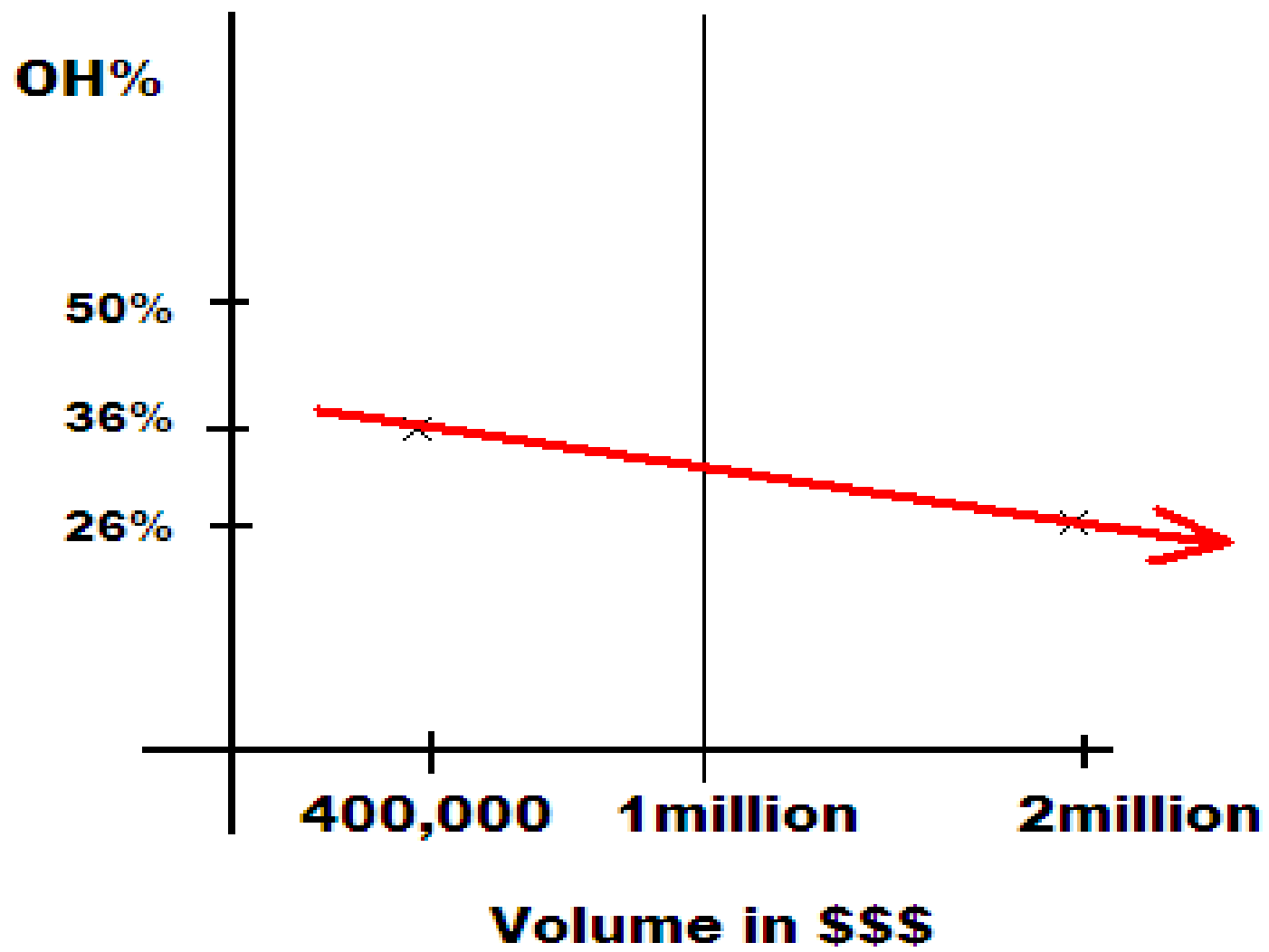
Verified by monthly statements...
a feedback loop

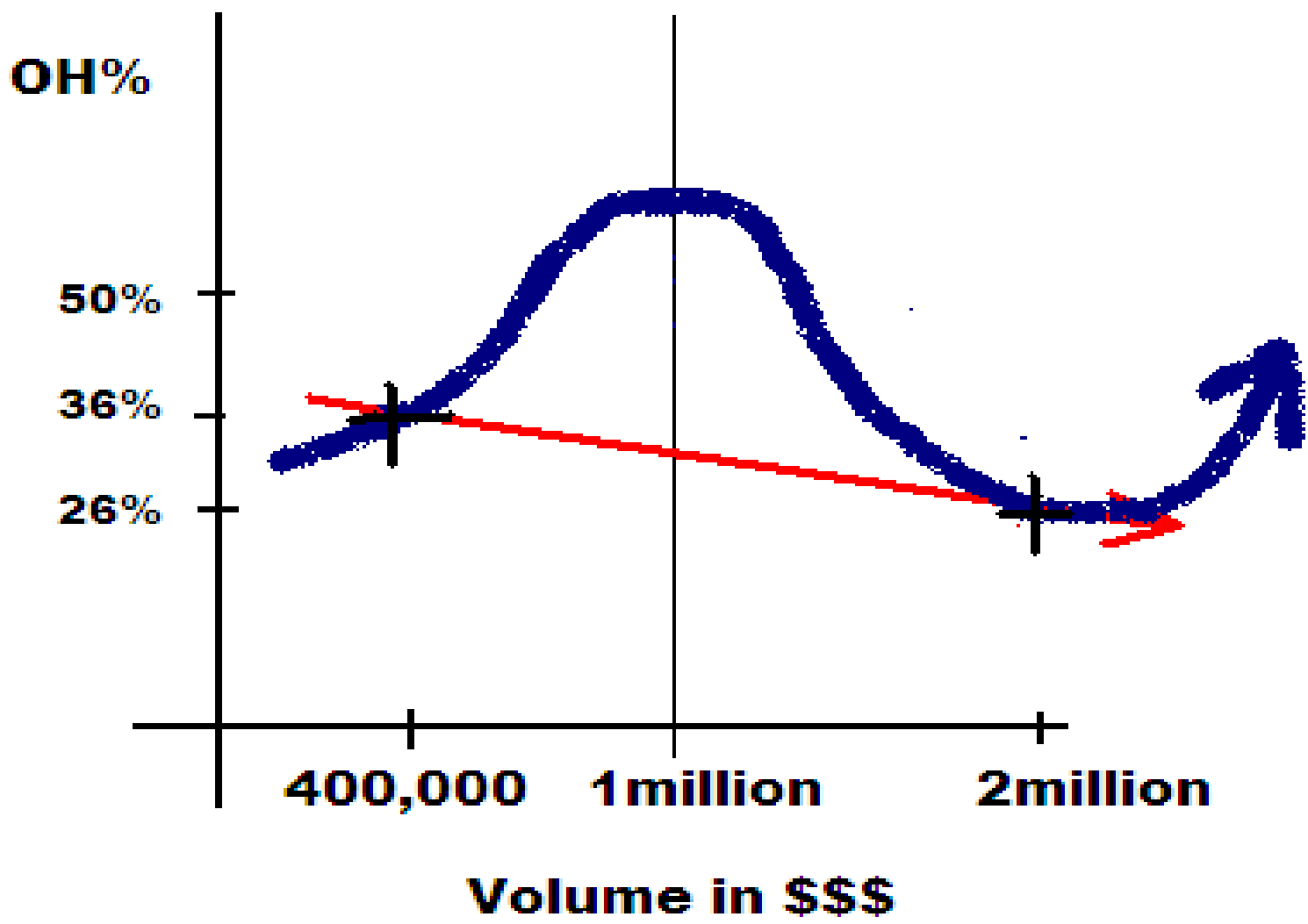


Don't know your overhead?

◆ The Overhead Calculator







Mark up to determine selling price...

| | | |
|------------------|----------------------|------------------|
| A) Job Cost | | 60,000.00 |
| B) Mark-up | 50% or $\frac{1}{2}$ | <u>30,000.00</u> |
| C) Selling Price | | 90,000.00 |

◆ Gross Profit Margin = $B/C = 30,000/90,000 = 33\%$

◆ 50% Mark-up creates 33% gross profit margin

Mark up to determine selling price...

| | | |
|------------------|------------|------------------|
| A) Job Cost | | 60,000.00 |
| B) Mark-up | 67% or 2/3 | <u>40,000.00</u> |
| C) Selling Price | | 100,000.00 |

◆ Gross Profit Margin = $B/C = 40,000/100,000 = 40\%$

◆ 67% Mark-up creates 40% gross profit margin

Mark up to determine selling price...

| | |
|-------------------------|-----------------|
| A) Job Cost | 60,000.00 |
| B) Mark-up overhead 10% | <u>6,000.00</u> |
| | 66,000.00 |
| profit 10% | <u>6,600.00</u> |
| C) Selling Price | 72,600.00 |

◆ Gross Profit Margin = $B/C = 12,600/72,600 = 17\%$

◆ 10 + 10% Mark-up creates 17% gross profit margin

Comparison...

| | | |
|-------------------|---------------------|-------------------|
| 90,000.00 | Selling Price | 100,000.00 |
| <u>-60,000.00</u> | - <u>Job Cost</u> | <u>-60,000.00</u> |
| 30,000.00 | Gross Profit | 40,000.00 |
| <u>-27,000.00</u> | <u>-30%Overhead</u> | <u>-30,000.00</u> |
| 3,000.00 | Net Profit | 10,000.00 |
| 3% | (before taxes) | 10% |

i **Total job cost + Overhead + Profit =**
Selling Price

OR...

Total job cost x (1.50, 1.67, 1.80) =
Selling Price

Risk/Reward Ratio...

The higher the risk,
the greater the return...

Profits in the real world...

- ◆ Chiles
- ◆ Avis Car Rental
- ◆ IBM

Mark-up in the real world...

◆ Macy's

◆ Starbucks

- \$1.00 dollar worth of coffee at cost...
is sold for \$12.78 to the consumer.

Overhead in the real world...

- ◆ Disney...Michael Eisner
- ◆ Time-Warner

How do you know when it's time to raise your prices?

- ◆ When you have too much work under contract and the phone is still ringing *"off the hook"* with inquiries.





Understanding breakeven: 50% markup

| | | |
|---------------|-----------|------|
| Annual sales | \$400,000 | 100% |
| Less Job Cost | \$268,000 | 67% |
| Gross Profit | \$132,000 | |
| Gross Margin | | 33% |
| Overhead | \$120,000 | 30% |
| Net Income | \$12,000 | 3% |

(break-even during week 48 if 52 wk/yr)



Understanding breakeven: 67% markup

| | | |
|---------------|-----------|------|
| Annual sales | \$400,000 | 100% |
| Less Job Cost | \$239,200 | 60% |
| Gross Profit | \$160,800 | |
| Gross Margin | | 40% |
| Overhead | \$120,000 | 30% |
| Net Income | \$ 40,800 | 10% |

(break-even during week 39 if 52 wk/yr)



Charging by the hour...

◆ Pro

- Easy to figure and bill
- Readily understood by clients

◆ Con

- Open-ended
- Prone to disputes

Charging by the hour--handyman

- ◆ Assume \$150k labor, \$50k mat'l per year
 - For the one man show, your wages become overhead; you are production and sales team for \$200k volume
 - ◆ Annual overhead (23%)/12 = monthly overhead
 - $\$46,000/12 = \3833.33
 - ◆ Monthly overhead/23 = daily overhead
 - $3833.33/23 = \$167.00$
 - ◆ Daily overhead + taxable wage = daily income
 - $\$167.00 + \$275.00 (\$39.285 \text{ for } 7 \text{ hrs}) = \442.00
 - ◆ Daily income/7 = hourly rate (before profit)
 - $\$442.00/7 = \$63.14 \text{ hourly rate (before profit)}$
 - ◆ Materials are billed at cost plus 25%





Owner's Compensation

Remodeling Magazine's "Big 50" Survey, 2005

| Company Size | Owner Salary | % of Volume |
|--------------|--------------|-------------|
| < \$1M | \$113,007 | 14.3% |
| \$1M-2M | \$102,453 | 7.3% |
| \$2M-3M | \$124,395 | 5.2% |
| \$3M-6M | \$184,130 | 4.4% |
| \$6M+ | \$377,333 | 2.4% |



2009 *BIG 50* Compensation

Owner Compensation

| COMPANY SIZE | SALARY + BONUS | % OF REVENUE | RISK RATIO |
|---------------|----------------|--------------|------------|
| \$500K-\$2M | \$127,626 | 10.5% | 11.8 |
| \$2M-\$3M | 207,692 | 8.4% | 14.2 |
| \$3M-\$5M | 167,523 | 4.3% | 26.7 |
| \$5M-\$10M | 272,737 | 3.9% | 31.6 |
| >\$10M | 781,055 | 3.3% | 36.6 |
| Class of 2008 | 230,455 | 6.7% | 21.6 |
| Class of 2007 | 163,836 | 5.8% | 21.3 |

Risk Ratio (revenue ÷ salary) should be about 10 for smaller companies, and get progressively larger as revenue grows beyond \$5 million. More proof of the exceptional performance of these companies is the increased average compensation (except for the group at \$3M-\$5M, which has become the new no-man's land).





When you leave here today
and someone asks,
"What's up?"

You can reply,
"My income!"



For more information...

- ◆ See 'links' page on web site at www.techknowledgeonline.net
- ◆ Call Mike Gorman at 1-800-218-5149
- ◆ Email mike.gorman.email@gmail.com
- ◆ Participate in the 'worthy contractor' *yahoo* networking group.

Mike Gorman can help...

- ◆ Seminars, training, speaking to your group
- ◆ Access to books, forms, software, information
- ◆ Consulting and private training
- ◆ Free advice is just a phone call or email away.

If you would like to receive my free "tip sheet" for contractors, send your contact information including email address and fax number to mgbok@aol.com. You can join my on line networking group of '*worthy contractors*'.

None of us is as smart as all of us.

Mike's book on Remodeling Sales:

If I Sell You I Have a Job,
If I Serve You I Create a Career!

By Michael S. Gorman

Available from

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1-800-218-5149

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