

Knowing your numbers - Growing Your Sales & Profit

quick introduction



- Jo Mulgrew, Group Operations Director
- 20+ years in construction software
- Father general builder
- Personally renovated 3 properties for profit

Some of the obstacles building firms are facing today



- Long lead times on many materials
- Inflation - rising costs of materials, labour and equipment
- Shortage of labour
- Covid compliance

The issues builders regularly report to us



- Not enough hours in the day
- Tight margins
- Losing control
- Disappearing under paperwork
- Constant firefighting

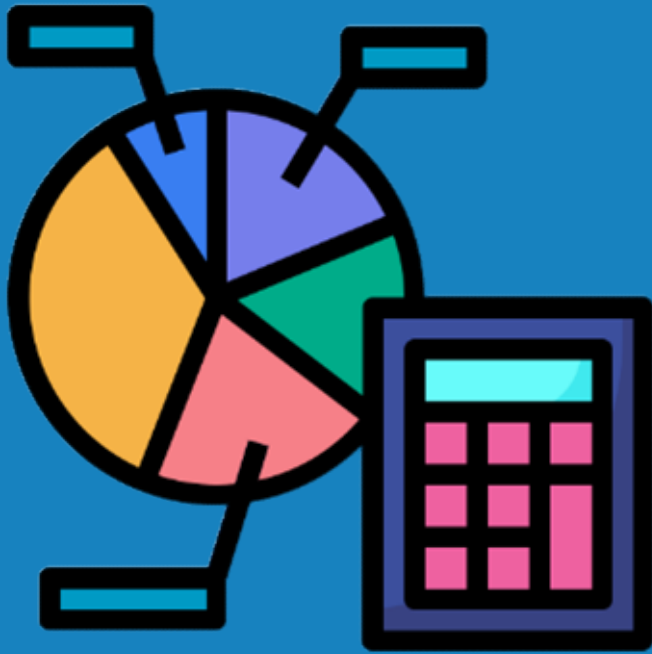
So why are so many owners working hard without the rewards?



Because they're running their companies focusing on the building – rather than the business side.

And that just won't work long term...

You need to be running a business not a building site



- Have a tight grip on finances
- Smart admin processes
- A plan for the future
- A good grasp of technology

A business is made up of...



- A Business Plan
- Finances
- Legal matters
- Health and safety
- Customer Service
- Personnel management
- Marketing

...with some construction on the side!

A healthy business starts with a plan



- Consider where you want to be in 1...5 years
- Develop a business forecast for at least the next 12 months

Then look at your costs



- Accurately calculate the job
- Don't rely on square metre prices
- Don't rely on well worn spreadsheets

Then look at your costs



- Price work to cover construction costs
- Plus business overheads
- Plus inflation
- THEN add your profit margin
- And make it a good one

We'll start with the profit margin percentage...

The wrong percentage method...

Most builders do something like this to calculate the price of a job

- L (labour)
- + P (plant)
- + M (materials)
- + Mark up %
- = Quote

Here's an example...

Take a project where it costs £121,739

- Let's add a 10% mark-up
- 10% of £121,739 is £12,173
- $£121,173 + £12,173 = £133,913$ quote

Unfortunately calculating profit this way means you make less than you thought

Why is L, P, M + % mark-up wrong?

- $£12,173 / £133,913 = 9\%$
- Why am I making less than 10% profit when I add on 10% to the quote?
- Unfortunately it's an easy maths mistake to make

The *PROPER* way to calculate profit is a little more complicated

correct calc for gross profit

Formula: Profit x 100 divided by sales price

Profit £		X 100%	=	%	Profit
<hr/>					
Sales Price					
£	13,513	X 100%	=	10%	Profit
<hr/>					
£	135,252				

correct calc for gross profit

Formula: Profit x 100 divided by sales price

To get to 10% gross profit margin you need to add on 11.1% to your cost price...

- 11.1% of £121,739 = £13,513 mark-up
- £121,739 + £13,513 = new quote of £135,252
- £13,513 / £135,252 x 100 = quote with 10% margin
- You've made £1339 more with the 11.1% calculation

correct calc for gross profit

Profit £		X 100%	= %	Profit
<hr/>				
Sales Price				
£	13,513	X 100%	= 10%	Profit
<hr/>				
£	135,252			

**Next, allowing for business
overheads in your profit margin
calculation...**

Remember; if you have no work on at all, your business still has costs.

- Wages, Van, Petrol, Liability Insurance, Accountancy Fees, Replacing Tools and Equipment, any Loan Repayments etc.
- You need to work out a whole year's cost for these
- Then divide total overheads up over 48 weeks to get a weekly overhead and allocate it to the costs of the job

Remember; if you have no work on at all, your business still has costs.

- If a job takes 6 months, you need to add in half of your annual overheads
- Then put your mark-up on top of all of this to give your quote figure
- A typical Building Business will have overheads equal to around 15% of their turnover

So let's rerun the profit calculation including these extra Overhead Costs. We'll use a flat 15% overhead in this example.

- Job costs £121,739 x 15% overhead = £18,261
- £121,739 + £18,261 overhead = £140,000 new job cost

- £140,000 - new cost price figure with 15% OH
- £133,913 - job cost + '10%' mark-up without OH
- = -£6087 actual loss!
- If you don't allow for the overheads in your customer's quote you still have to find the money from somewhere.

So what do we do?

The formula

Job cost	£ 121,739	
Overhead	£ 18,261	15%
Cost	£ 140,000	
Mark-up	£ 15,540	11.1%
Sales Price	£ 155,540	
Margin	10%	Mark-up/Sales Price

Don't think turnover - it's all about mark up

	Base Price	Mark-up 15%	Mark-up 20%
Job cost + OH	£140,000	£140,000	£140,000
Profit Mark-up	11%	15%	20%
Mark-up £	£15,540	£21,000	£28,000
Sales Price	£155,540	£161,000	£168,000
Margin	10%	13%	17%

For no more work you've made £28,000 profit and your overall profit has gone up to nearly 17%

Are you subsidising the customer?



You might be if;

- You have low overheads
- You're on the tools
- You work from home
- Family helps with the paperwork

Important...



- Bigger or more established building firms have higher overheads...maybe 20-30%
- They are charging more to cover this and they are still in business...

Perfect time for change...



- Quote now with proper overheads and inflation
- Use the high level of enquiries to your advantage
- Be choosy with the jobs you take on

So are you quoting correctly?



You're charging the right price when you've included the costs for;

- Not being on the tools
- Having 1 or more paid employees
- Putting money aside for pensions
- Having cash in the bank

So are you quoting correctly?



- Look at the last three jobs you did
- Then add in all these extra numbers
- See if you'd have made a larger profit
- Fortunately technology can help

**Using technology to
improve your
profitability.**

Good estimating software comes with tools for...



- Latest material prices
- Wastage
- Wear and tear
- Overheads
- Inflation
- Profit margin

Inflation is the enemy of financial SUCCESS



- Highest in a generation
- Neutralises your profit
- Today's prices are instantly out of date
- Job start-date prices are what matter

Profit also comes from the effective management of the job



- Square metre rates and spreadsheets don't provide you with management data
- Good estimating software helps manage the job too!

Profit also comes from the effective management of the job



- Right place, right time
- Organised
- No miscalculations
- No panic buying
- No navel gazing
- No hire extensions

organisation is key



- Cost Reports
- Stage payments
- Material order schedule
- Plant schedule
- Labour & Subcontract schedules
- Profit & Cashflow Forecasts

organisation is key



- Good estimating software also automatically generates you a build programme

'Real time' digital Build Programme



- Sequence of tasks
- Plugged in to lead times
- Materials on site
- Plant on site
- Labour on site

Is the job profitable enough?



- Software does the heavy lifting
- Huge time saved on each quote
- Informed decision-making

Want to know more?



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- Ask for a demonstration of EstimatorXpress



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