THEBENCHMARK

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Get high profits with design/build

Part two of a multi-part series.

Let's look at the design/build segment's results of the 2008 Benchmark Survey to identify the reasons for higher profits in design/build firms.

High-profit design/build firms use selling systems and lower labor rates to generate a better bottom line. They are more effective in their "front-end" systems (sales, estimating and design).

High-profit firms are also more consistent at selling a premium price while producing construction plans that reduce wasted labor and materials. Fewer labor hours translate into fewer equipment hours and expenses (see chart).

In a $2-million firm, average-profit firms achieve about 5% net profit before taxes, while the high-profit firms net about 12%. The high-profit firms achieve a gross margin 4% higher than the average firm in the survey. If we assume each firm installs the same job and has the same costs, the high-profit firms get a differential of 8%. This doesn't necessarily mean they always *sell* the job at an 8% higher price, they might also *design* the job in a way that is more efficient to install. This accounts for the $80,000 difference in gross profits.

Less overhead

In addition, high-profit firms also have a $60,000 cost advantage in their overhead expenses. Because they use less labor to install the same amount of revenue, they incur lower indirect labor expenses and lower equipment costs.

The bottom line is that high-profit companies turn the same revenue, with better selling and design processes. They have focused on lead generation, rapid design and estimating to reduce turnaround time to the customer. In addition, they produce phased material lists, production plans and labor budgets that assist project managers in bringing jobs in slightly under labor budgets.

Recommendations

1. Streamline your sales and estimating processes. Make them faster.

2. Make your production hand-off more robust. Provide labor budgets and material lists by job phase. Provide material lists in a purchasing format. For example: Nobody buys 25 sq. yds. or 25 cu. ft. of anything; they buy rolls, bags or truckloads of material.

3. Implement an effective pre-construction process. The goal here is to allow the sales rep to go back to selling, instead of managing every job.

	Average		High Profit	
Revenues	$2,000,000		$2,000,000	
Gross margin	$920,000	46%	$1,000,000	50%
Overhead	$820,000	41%	$760,000	38%
Net profit	$100,000	5%	$240,000	12%
Assume				
Average Hourly Wage	$13		$13	
Materials Cost	28%		26%	
Result				
Materials	$560,000		$520,000	
Labor	$520,000		$480,000	
Equipment	16.7%		14.5%	
Equipment expense	$334,000		$290,000	
Insurance	5%		4.2%	
Insurance expense	$100,000		$84,000	
Labor hours	40,000		36,923	
Price/cost return	$1.85		$2.00	
Gross profit difference	$80,000			
Overhead difference	$60,000			
Total cost difference	$140,000			
How it's done	**Annual cost**			
Price/efficiency	$80,000			
Equipment	$44,000			
Indirects/insurances	$16,000			
	$140,000			