

therefore struggle with doing enough work at the right price

### **DO YOU HAVE A NET PROFIT GOAL?**

If you are planning a trip, you start with a destination and then design a route to get to your goal. In business, you start with

handle the bookkeeping — but their new hire may not know

have a business owner and a semi-bookkeeper who aren't

As a construction business coach and consultant, I work with many different types of contractors: new, old, experienced, and hard workers. Most of them do not know their numbers and

reach an unknown target.

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» Breakeven — The amount of annual contract revenue and markup you need to break even

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administrative costs

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can achieve in your marketplace based on the type of work

»

divided by sales revenue

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as a percentage of job costs and sales

» Backlog — The amount of contract work you have left to complete

» Bid-hit-win ratio — The number of jobs you win versus the number of jobs you bid on

» Working capital — The available cash you have available to run your business and pay your bills

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» Liabilities — The amount of liabilities, loans, and debt you owe

» Accounts receivable — The amount of receivables billed and currently owed

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the year

» Job cost tracking — Project job cost budget versus actual cost; crew production hours budget versus actual hours spent; and material and equipment costs versus budgets.

## PROFIT STARTS WITH WINNING PROFITABLE WORK

The owner of a construction contracting company in Michigan called me for advice. He complained about his customers always asking for lower prices, and the many cheap competitors he bids against who don't charge enough.

Therefore, his sales were slowing down, his workload didn't allow him to make enough money, and his jobs typically

prices still aren't attracting enough new work or customers.

the break-even annual sales revenue you need at the markup

Do you know and keep track of how many crew hours it costs

He had no clue. He didn't know or track his annual overhead cost of doing business, job cost, or crew production rates.

while he took care of the contracting business, including estimating and bidding, contracts, scheduling crews, ordering materials, restocking, dealing with customers, and chasing money. Odds are his administrator didn't know the answers to those questions either, and neither of them had ever seriously

can I help if you don't have any idea what it costs to keep your

I asked him to calculate his annual overhead costs, bid budget crew hours versus completed job crew hours on a few typical jobs, bid markup versus completed job markup, and his bid-hit-win ratio. We then set a time for a follow-up session in

coaching session, and I never heard from him again. I'm sure he still doesn't know his numbers, works too many hours, and isn't

## DO YOU HAVE A HANDLE ON YOUR NUMBERS?

courses, webinars, working with a construction business coach, or joining the Construction Financial Management Association

they need to do to learn and understand:

- » Income statements
- » Balance sheets
- »
- » Over/under billings
- » Markup versus margin
- »
- » Cash versus accrual accounting
- » Labor burden rates
- »

To build a construction business, you must be focused on your bottom line numbers, know the amount of sales and markup you need, know your labor costs per unit of work, and always

and do the accounting, but the owner must be responsible for knowing the numbers every day, week, and month — not just


they didn't make what they wanted to make.

### **PROFIT IS THE SCORE CARD OF THE COMPANY OWNER**

questions, many construction business owners don't know how much money they make. This tells me most owners don't focus

net amount remaining and available at the end of the year or month to provide a dividend or distribution to the company owners, or to leave in the company for next year's growth. Net

management team effectiveness, written systems, project

line of credit, or increase your bonding capacity. Having no  
you with nothing to invest to grow your business, build a  
management team, train your employees, develop customer  
make, the more cash you have to spend on your future, and the  
margin at year end, your business will struggle, and you won't  
be able to move toward achieving your long-term goals of  
building a business that works. 



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### About the Author

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### About the Article

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