



HOW TO PRICE 4 PROFIT[®]

THE #1 GUIDE FOR UNDERSTANDING
CONSTRUCTION FINANCIALS AND
INCREASING MARGINS



DEAR CUSTOM HOME BUILDER,

The Association of Professional Builders only works with custom home builders.

Everything you're reading today has been tested and proven to work for residential building companies just like yours.

The success of our members backs up everything we teach. Over the years, we have trained thousands of custom home building companies across Australia, New Zealand, Canada and the United States on our systems and processes.

In this guide to construction financials, you'll discover the secrets to understanding your financials and increasing the margins in your building company.

WHAT WILL YOU LEARN?



UNDERSTANDING YOUR FIXED EXPENSES



UNDERSTANDING YOUR MARGIN



MARKUP VS MARGIN



BENCHMARK YOUR BUILDING COMPANY



UNDERSTANDING YOUR FIXED EXPENSES



Fixed Expenses VS Cost Of Sale



Cost Of Sale is anything that can be directly contributed to a specific job - the cost to complete a project. Things like materials, labour, insurance and licence fees.



Fixed Expenses are the costs that keep your building company running. Think rent, payroll, marketing, software - the things that keep your doors open that aren't directly related to completing a job. And don't forget your own salary! This is really important because none of the financials we cover in this guide will add up and you won't know when to increase your margins if you don't include your own market wages in your Fixed Expenses.

Review Your Fixed Expenses

Once you've identified all of your building company's fixed expenses, you need to do a thorough review. Go through your fixed expenses line by line. Are the numbers accurate? Is payroll being recorded correctly? An important tip to remember here is that if you want your building company to continue to grow, marketing and advertising need to be part of your fixed expenses.

**AS A BENCHMARK, YOU SHOULD BE INVESTING
1-3% OF YOUR ANNUAL REVENUE
INTO MARKETING AND ADVERTISING**

You're probably thinking that's a pretty big range in the grand scheme of things but put it this way. If your building company is fully functioning and you're happy with your margins, lean towards 1%. But if you're aiming to increase your margins and/or grow your revenue, you should be investing more.

Your Fixed Expenses can fluctuate over time so it's important to review them on a regular basis, ideally monthly or at least quarterly. Take a zero-based thinking approach to your Fixed Expenses each time you review them so you can continue to eliminate wasted spend and, in turn, increase the margins on your contracts.

UNDERSTANDING YOUR MARGIN

Gross Margin VS Net Margin

Next, it's important to understand the difference between Gross and Net Margins

PUT SIMPLY, YOUR GROSS MARGIN IS THE PERCENTAGE OF PROFIT IN YOUR REVENUE AFTER DEDUCTING THE COST OF SALES.

YOUR NET MARGIN IS THE PERCENTAGE OF THE ACTUAL PROFIT OF YOUR BUILDING COMPANY AFTER ALL EXPENSES ARE DEDUCTED.

The important numbers here are your Net Margin. It's exciting to see the dollar figures, but the real proof of success (or lack thereof) is in your Net Margin. An APB Member, Toby, said that his 'ah-ha' moment came when he realised the importance of percentages over dollar amounts. He recognised that those percentages, and making them increase, are what proves that you're running a successful building company. In Toby's words 'They protect your profit, so you've got good cash flow on a regular basis and you're able to predict and grow'.

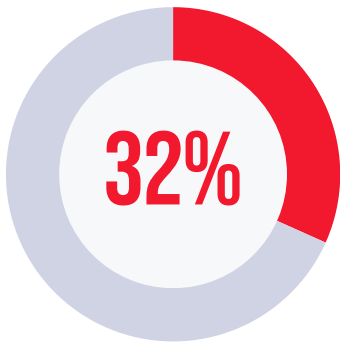
If you don't have a Net Margin that is above the minimum benchmark, you have a job, not a business. You're simply setting yourself up for failure because without a healthy Net Margin, you don't have the cash flow to keep paying for the things that keep your doors open.

Basically, Net Margin is building the home, paying all your expenses, including payroll, marketing, rent and your own salary and still having cash left over. That's why it's important to include your own salary within your Fixed Expenses because if you're taking your own payment out of your net profit, it's not a net profit.



MARKUP VS MARGIN

If you're not sure of the difference between Markup and Margin, you're not alone.

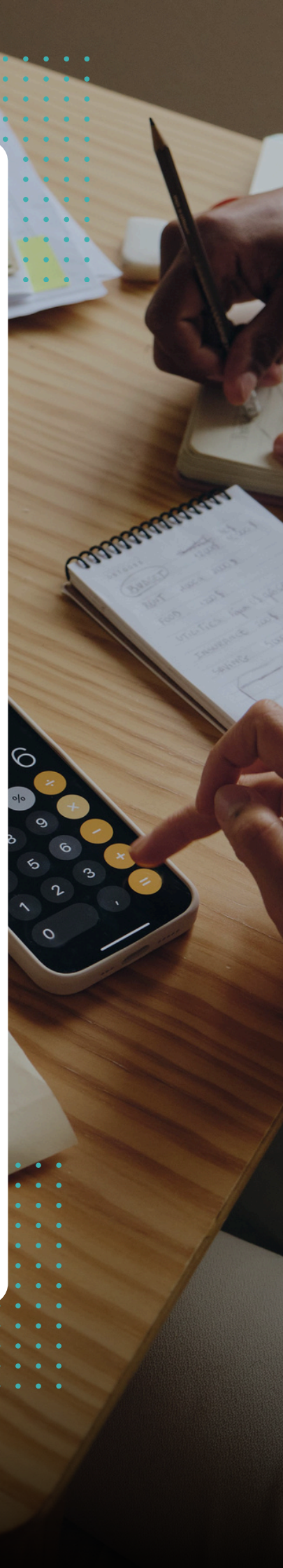


**OF BUILDERS ARE NOT CLEAR
ON THE DIFFERENCE BETWEEN
THESE 2 IMPORTANT FIGURES.**

By confusing the two, you will lose a lot of money!
Here are the facts.

Your margin is the percentage of profit on the selling price of a project. While your markup is the percentage added to the cost of sale. For example, if you have a **\$500,000** contract that costs **\$400,000** to build and includes **\$100,000** of profit, the margin on that contract is **20% (\$100,000)** of the selling price (**\$500,000**). Therefore, the markup is 25%, which is added to the cost of sales (**25% of \$400,000 cost of sales = \$100,000 markup = \$500,000 contract**).

Knowing the difference between Gross and Net Margin and using them correctly to calculate your Markup is extremely important if you want your building company to grow.





BENCHMARK YOUR BUILDING COMPANY AGAINST INDUSTRY STANDARDS



If your building company is not hitting industry benchmarks then you'll likely find yourself hitting a glass ceiling when it comes to growing your income. Growth is not linear, it fluctuates. This is why it is so important to understand the numbers in your building company. When you have a clear picture of your building company's financial position and the industry-specific benchmarks, you have the opportunity to scale up, increase your margins and course-correct if you need to get back on track.

Fixed Expenses should be 15% of your revenue

If your fixed expenses are less than 15% of your revenue, you have room to scale up by hiring more staff, investing in advertising, etc. On the other hand, if your fixed expenses are higher, you simply don't have the turnover needed to keep your building company running and profitable. You need to focus on increasing your revenue and cutting costs. Start by 'cutting the fat' from your fixed expenses.

Gross Margin should be a minimum of 25% for new homes and 35% for remodeling.

Bear in mind that these benchmarks are a minimum! Exceeding this benchmark is only a good thing. It's necessary to have a higher margin for remodelling, renovation and extension projects because these types of projects require more supervision and on-site decision-making, which results in the building company being harder to scale.



Net Margin should be between 10-15%.

Anything below 10% is a set up for failure.

If your Net Margin is below 10%, you might as well work for someone else because there's too much risk in this industry to operate a building company with a low Net Margin. We consider a 10% Net Margin as the new 'breakeven' for builders. Your Net Margin will jump around from month to month but the number one priority is to make sure it's always double digits - never go below 10%!

Workflow should be between 6 - 12 months.

Workflow is not your Work In Progress figure, it's the uninvoiced contract balance. If your workflow is less than 6 months revenue then you need to work on your sales and marketing. If it's more than 12 months, you have the demand so now's the time to start increasing your margins.

Always ensure you have more cash than your Work In Progress Liability.

WIPAA[®] (Work In Progress Accounting Adjustment) is not the amount of work in your pipeline. Your WIPAA[®] is otherwise known as 'other people's money'. Once you've calculated your WIPAA[®] you must ensure you always have enough cash to cover it at all times. If you are building or renovating homes and are using subcontractors, your WIPAA[®] is typically a liability - in the rare case that it's an asset, you likely have a bigger problem on your hands.

ARE YOU LOOKING TO GROW YOUR BUILDING COMPANY?

**IT'S TIME TO STOP SPINNING THE WHEELS IN YOUR BUSINESS AND
GET A CLEAR ROADMAP TO START GENERATING MORE SALES, PROFIT
AND FREEDOM IN YOUR LIFE.**



Discover...

- ✓ Monthly business coaching covering business operations, marketing, sales and more
- ✓ 50+ Action Plans providing you with the blueprint for scaling up your building company
- ✓ One-on-one private onboarding session and expert advice on how to get started
- ✓ Downloadable templates, calculators, cheat sheets and checklists
- ✓ Networking opportunities and events
- ✓ And much MUCH more!

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MEMBERSHIP HAS TO OFFER:**

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