Lately I’ve been doing a lot of speaking and teaching for the building construction industry, and one of the most common questions I get at schools, trade shows, and in e-mails is this: How do I figure my profit percentage! Or, including the hidden meaning, How do I know I’m getting enough profit?

Of course, that’s a loaded question and, depending on particulars, my answer may vary. But my answer is always based on the
Your profit should provide funds for growing your company.

same premise: Your profit should be enough to cover the cost of doing business as well as provide additional funds for growing your company.

For our purposes, we’ll define the “cost of doing business” as the amount of revenue you need to cover all office and field overhead not accounted for in job costs. This number is relatively straightforward to discern, assuming you keep good records, own a computer, and are willing to put in the effort. The “additional funds for growing your company” number is a bit more nebulous and often depends on your life and professional goals. It’s also a number that may be best reached with the invaluable assistance of a financial planner and/or your banker. We can, however, delve into the former—calculating your office overhead—right now.

Calculating Office Overload

Let’s break the process down. The figure on page 66 shows a basic Overhead Calculations sheet, one you can use as a model to devise your own office overhead document. It’s a simple example, the numbers are fictitious, and you will almost certainly find yourself adjusting and/or expanding the sheet to fit your unique situation. It’s simply meant to provide a “jumping off” point for the office overhead calculation process and offer an idea of what information will be needed for data.

Some input for the sheet can be found and/or researched through past company records and entered as (comparatively) “hard” numbers. Other entered costs may be projected in nature and will require further research, the assistance of professionals, or perhaps online sources. And that’s OK, assuming the sources are
reputable. The only golden rule when projecting numbers is to do your homework and be realistic with forecasts. This is no time to fool yourself. The results you generate, if accurate and realistic, will aid you in your revenue goals and ultimately assist you in deciding how much profit is “enough.”

You’ll notice on some line items, I’ve entered the word “job cost.” This is simply to remind you to be cognizant of those items that you may be able to account for in actual job costs, whether it be the whole cost or a percentage. Items such as vehicle fuel/maintenance and small tool expense often fall into these categories. The decision on whether to make an item a job cost or to include it as an office overhead cost is strictly personal and is based somewhat on how much of that cost can be worked into your job cost while still remaining competitive. This decision, of course, isn’t as easy as it sounds, and often comes only after years of operation. Indeed, there are well-established companies that still grapple with this question (I talk to them all the time!). Basically it goes like this: If your local market will allow you to recoup the cost of “grey” items (those items that could fall into either job cost or office overhead) within your normal job costing, by all means work those items into job cost and thereby lower your office overhead total.

The Profit Percentage

Once you’ve calculated your office overhead and reached your years’ totals, take that percentage (as a product of your gross revenue, assuming you’ve made the proper tax adjustments on your sheet) and add it to the percentage you’ve pre-
viously calculated for growth. Let’s say we came up with a growth percentage of 2.8 percent. For the year 2001, add 2.8 percent to the 5.79 percent shown at the bottom of our sheet. This gives you 8.59 percent or, rounded off, 8.6 percent.

Next, you’ll want to also make (what I call) a “real life” adjustment to the new percentage. This adjustment is to cover the almost certain volatility of the construction business. In short, you know not every job is going to go smoothly. We have our ups and our downs, and some jobs will be profitable while others won’t. This is no time to view the world with rose-colored glasses. You may indeed choose to add (and it’s completely a personal choice based on your experiences and market) another 1 percent to 5 percent to cover the unknown.

For our purposes, let’s say we adjusted our number up to 12 percent. This is the percentage that you should be averaging throughout the year. The key word here is average. Some jobs (smaller jobs, normally) will garner much higher percentages while others (often larger) will subsist on smaller percentages (but heftier revenue). The point is, by the end of the business year, 12 percent would be your minimum average percentage. At least
You may choose to add 1 to 5 percent to cover the unknown. Now you have a benchmark on which to base profit percentage decisions.

A better visual picture might be this: Take the 12 percent and multiply it by your total gross volume (in our example, $6 million); you’ll get a result of $720,000. This is your target dollar value for the year, the amount left after all office overhead and job costs have been accounted. You need to make $720,000 to cover the cost of operations plus setting aside money for growth.

I hope this helps. Of course this is a simple example because there’s only so much we can cover in one article. The intent is to get you steered in the proper direction. For further assistance, you need go no further than your own accountant, banker and company records. Also, there is a wealth of information available online, including sample overhead cost calculations, business tips and forum groups to get you going. Good luck!

About the Author
S.S. Saucerman recently retired as a full-time commercial construction estimator/project manager for a Midwest general contractor after 26 years in the building construction industry to pursue writing, speaking and industry consulting full-time. Since 1976, his career includes building material sales/estimating, architectural drafting, home building/design, commercial construction estimating and project management. He also taught part-time in the Building Construction Technology program at Rock Valley College in Rockford, Ill., for 11 years.