All our Help Wanted ads should say the following: ‘Are you nuts? Do you doubt your sanity? Do you like to live in a fantasy world, or maybe you are just simple-minded? If you meet these requirements, then come work in construction. We need people like you.”

Over my career, I have become convinced that this industry has a great amount of lunacy in it. I haven’t come to this realization easily either. Why would I? What would I tell my kids?

Unfortunately, the proof is in our everyday actions. For example, many of us price labor and material at a certain dollar amount per unit of measure. That is despite the fact that this same material is installed in many different and unique conditions. We average the costs and assume that the world of buildings will always fall within that average. In fact, that technique is the very foundation of our estimating process.

We do the same thing for wages. We pay one amount for each type of worker, yet we know that people are very different; they are different in ages, skill levels, commitment level or professionalism, physical condition, physical ability, etc. The reality is that each worker should be judged by the above and paid consistent with his/her abilities.

Also, for any given worker, we pay the same amount for each hour of the day, yet we know that productivity decreases significantly in the afternoon when compared to the morning hours. The reality is that we should pay this person an increased amount for morning hours and less in the afternoon.

Why do we do these things? Because we must keep it simple, either in our attempt to not clutter our world with the facts, or that we just aren’t smart enough to handle the facts. Sadly, our attempt to keep things simple, or to just not address reality, affects the way we apply overhead and profit as well.

Here is what we usually do: We estimate a project, and without too much regard for when the project will occur, we place a percentage on the costs for overhead/profit. Some of us get fancy and use 1 percent for overhead and a different percentage for profit.

Overhead is a cost. Overhead is not a percent of costs of a project; it is a fixed amount of money that a company will spend that is not directly related to the costs of the product the business sells. It includes such items as rent, electricity, office supplies, management costs, accounting costs, legal costs, etc. Any somewhat intelligent manager should be able to predict these costs. This total amount must be paid, or the business will cease to exist.

Profit is the money available only after overhead has been paid. Why is this important? The answer is that by hiding the truth, we have distorted the process we should be using. As a business, we shouldn’t use percentages, and we shouldn’t use the terms overhead and profit as names for these percents. What we should be doing is using amounts. We should bid a project knowing what time of the year we expect to perform the work. We should combine that project with our workload for the calendar year. Only then will we be able to accurately determine if the money made above the costs will be needed for overhead or become profit.

Picture the “fund-raising thermometer” used by your local charity. As money is collected, the red area is raised until the total dollars desired has been achieved, then the rest is over and above. That is the real way we, as managers of a construction company should evaluate how much additional money we must include in our bid. Why is that important? Because by focusing on percentages, we are focusing on the wrong thing and not taking work simply because it doesn’t fit the percentage—and not that it will fill our overhead needs, or that it will actually be entirely profit.

Of course there are a lot of additional factors, but we’ll save those for later. After all, you have had a little too much reality for today. Right?

Comments? Send your e-mails to porinchak@awci.org, or fax to (703) 534-8307.