Small-Job Versus Large-Job Markup (Part II)

By Charles Mahaffey

Each job, regardless of the size, will have a number of steps involved from beginning to end ... What I want you to see is the impact that the small job has on the direct overhead cost. The steps and associated costs for a small project are identified and outlined below:

Have an estimator (or someone) pick up the plans ............... $50.00
Visit the job site to verify existing conditions .................. 200.00
Takeoff and estimate the job .................................. 175.00
Write the proposal ............................................. 25.00
Set up budget for job .......................................... 25.00
Prepare (and place) material order ............................... 25.00
Deliver toolbox and scaffold (driver time and vehicle cost) 200.00
Superintendent visits the job in progress (assume two visits) 200.00
Pick up toolbox and scaffold to return to warehouse (end of the job) 200.00
Prepare and send out the invoice ................................ 50.00

Total .......................................................... $1,150.00

But there are other (indirect) overhead costs that need to be applied. Payroll preparation, cost accounting, general accounting, office lease, utilities, phone and depreciation are some of the other items that would make up the overhead cost of your company.

A budget for a $20,000 drywall job might look like this:

Labor (including cleanup) ........................................ $7,000
Labor burden (T & l) .............................................. 2,100
Material (including sales tax) .................................... 8,142
Cost ................................................................. 17,242
16% markup ........................................................ 2,758

Contract Amount .................................................. $20,000

With an approximate (direct) overhead cost of $1,150, the above 10 steps are almost 6 percent of the contract amount.

Let’s look at a $100,000 drywall project. We will use the 10 steps (as above) to identify the direct overhead cost, but this job will have a longer duration, maybe six weeks, where the small job would be one and a half to two weeks.

Have someone pick up the plans ................................. $50.00
Verify existing conditions of the job ........................... 200.00
Takeoff and estimate the project ............................... 275.00
Write proposal ..................................................... 25.00
Set up budget for job ............................................. 50.00
Prepare (and place) material order ............................... 50.00
Deliver toolbox and scaffold ..................................... 300.00
Superintendent visits the job in progress (assume one per week for six weeks) 600.00
Pick up toolbox and scaffolds to return to warehouse (end of job) 300.00
Prepare and send out two invoices .............................. 100.00

Total .............................................................. $1,950.00

A budget for a $100,000 drywall job might look like this:

Labor (including cleanup) ........................................ $35,000
Labor burden (T & l) .............................................. 10,500
Material (including sales tax) .................................... 40,707
Cost ................................................................. 86,207
16% markup ........................................................ 13,793

Contract Amount .................................................. $100,000

With an approximate (direct) overhead cost of $1,800, the above 10 steps are almost 2 percent of this contract amount.

A job that is even larger will take on some added cost of project
Payroll preparation, cost accounting, general accounting, office lease, utilities, phone and depreciation are some of the items that would make up your company’s overhead cost.

management, which the previous examples did not require. For this example, we will use $1 million as a contract amount.

Pick up the plans from the contractor ................. .50.00
Takeoff and estimate the project ....................... 900.00
Write the proposal ........................................ .25.00
Set up budget for job ..................................... .150.00
Take field measurements
   (check out accessibility for deliveries) ............... .250.00
Prepare (and place) material order ..................... .150.00
Deliver toolboxes and scaffolds
   (assume job is several floors) ....................... .400.00
Superintendent visits the job in progress

Project manager
   (assume one full day per week for 25 weeks) ...... 6,000.00
Pick up toolboxes and scaffolds to return to warehouse
   (end of job) ........................................... .400.00
Prepare and send out six invoices
   (more detailed for larger job) ...................... .450.00
Total ...................................................... $13,775.00

On a $1 million project, the direct overhead cost as shown is $13,775 and is equal to just over 1 percent of this contract amount.

The budget for a $1 million project might look like this:

Labor (including cleanup) ............................... .350,000
Labor burden (T & I) ..................................... .105,000
Material (including sales tax) ......................... .407,000
Cost ............................................................. .862,000
16 percent markup ......................................... .138,000
Contract Amount .......................................... $1,000,000

From these three illustrations, you can see that the (direct) overhead for the small job is much greater (by percentage) than the larger job. As the size of the job decreases, the percentage you use in your estimate for markup must go up.

About the Author
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