Where's The Money?
A Careful Analysis Will Provide a Contractor With His Profit Making Centers

By Irv Chasen

Where should a contractor concentrate his efforts? What are the most profitable markets of a contracting business? On which jobs do contractors make the most money? As contractors, we have asked ourselves these questions many times. Where's the money?

Contractors perform jobs. These jobs hopefully will make up the profit picture. As we add the profits of each job together, we arrive at a profit structure for the whole year. Some of these jobs will experience small gains, others large profits, and some losses. Obviously, the larger the percentage of gross profits jobs have, the better off a contractor will be at the end of the year.

We would like to take this philosophy one step further. Generally speaking, the smaller the percentage job labor cost make up of a total jobs

<table>
<thead>
<tr>
<th>Material</th>
<th>$12,000</th>
<th>$3,000</th>
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<tbody>
<tr>
<td>Labor</td>
<td>3,000</td>
<td>12,000</td>
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Total Cost Before Overhead & Profit $15,000 $15,000

You will notice in Job A that labor makes up 20% of the job’s total direct cost and Job B has an 80% labor ratio to the total direct cost of the job. What does all this mean?

First off, Job A (material intensified) has much more profit potential than Job B, (the labor intensive job). The obvious reason for this is that Job A can perform in a fraction of the time it takes to do Job B. In other words, a contractor can perform several Job A’s in the same time period it would take to do one Job B. Obviously this makes Job A’s possible profitability quicker and easier.

Time means money. The more sales volume that can be done in the smallest amount of time, the greater the possible profit can be.

Most contractors make a profit on material through a mark-up. Obviously, the more material that is turned over in a given amount of time, the higher the possible gross profit will be.

Your most profitable markets as a contractor are the jobs where the greatest gross profit can be obtained per labor hour expended.

For example, a plumbing contract or installs a hot water heater with eight hours of labor and receives a 20% mark-up on the hot water heater. On another job, a mechanic spent all day unthawing pipes and sold virtually no material. Obviously, the contractor could have made more money on the hot water heater job. Idea — possibly he should advertise and promote more hot water tanks or other equipment installation.

Also, an electrical contractor spends all day looking for a short in a building’s wiring system. It takes $2 worth of material to correct the situation. On another job, the electrical contractors installed new light fixtures for an entire day and received a 20% mark-up on the fixtures. Again, he more than likely could have made more money on the material job. Idea — advertise and solicit more installation type of work.

Which of your jobs do you gross the most money on per hour of labor expended? Concentrate your efforts on obtaining more of this type of work. You may be able to increase your profits and sales volume without adding a single additional mechanic. In other words, you may be able to make more money with little addition in headaches. Remember, it’s the workmen, not the material, that creates most overhead and supervisory problems.