Builder to Builder: JLC Business Survey

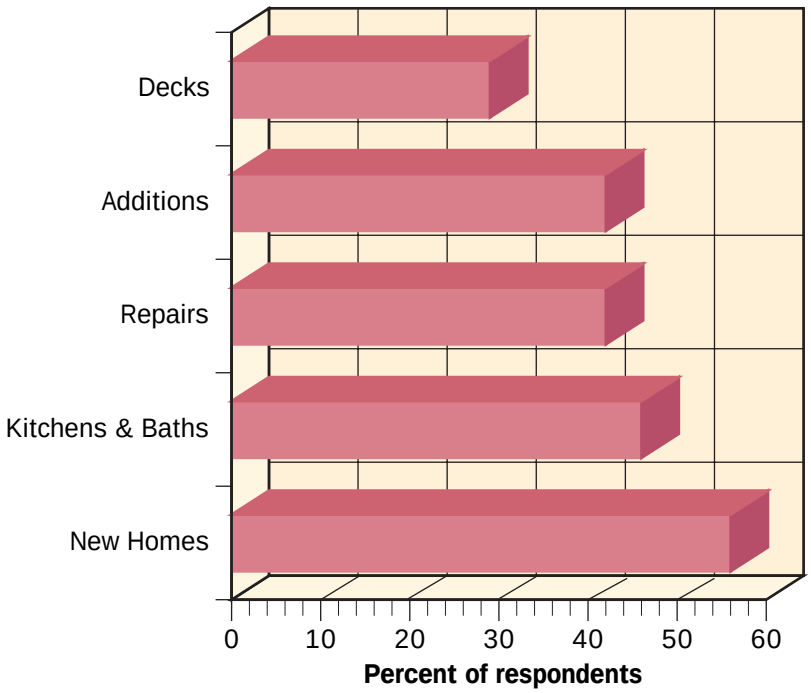
The results of our recent business survey are in. Many thanks to those of you who received it and took time to answer our questions (15% of recipients sent a reply).

We've analyzed the data and have published our findings below. Interpreting survey data, however, is a tricky business, so we've tried not to draw conclusions beyond the obvious. We hope our report will help you gain some insight into the way your own company works.

Type of Work & Annual Volume

Our first survey question aimed at identifying respondents according to the type of work they did (Chart A). Fifty-six percent of respondents did some new home construction, and of those 21% did so exclusively. The next most common category (46%) was kitchen and bath work, although this appears to be something of a specialty: K&B jobs made up more than half the work for only 15% of respondents.

A. Type of Work



Additions were also a part of the work load for a large number (42%) of respondents. Of those, 30% count on add-ons for more than half their work. Repairs figure into the job schedule for 42% of respondents as well, although the quantity of this type of work is much smaller. Repairs make up half the work for only 11% of respondents; and less than 10% of the work for 50% of respondents.

Annual volume. Companies of all sizes completed our survey (Chart B). Nearly half of respondents had an annual volume of less than $400,000, and most of those (a total of 31%) were less than $200,000. At the other end of the scale, 23% of respondents had an annual volume over $900,000; 5% did $4 million per year or more.

Estimate Hit Rate

The ratio of jobs estimated to jobs started proved telling (Chart C). For companies at both ends of the scale — $499,000 and under as well as $4 million and over — the ratio was nearly one to one. In other words, these companies built nearly every job they estimated. At annual volume between $500,000 and $4 million, however, builders were doing a lot more estimating to earn their money. Some were estimating as many as three times the number of jobs they started. Most companies in this range were estimating at least 30 jobs a year, some as many as 125. The exceptions were the six companies doing between $400,000 and $499,000 in volume; they estimated an average of 10 jobs and started 4. Their high volume can be attributed to the fact that, on average, the smallest job they started cost nearly $90,000; the largest, almost $270,000.

Design Sources

Construction drawings generally come from one of the four categories listed on our survey: architects, plan books, owners (who may use one of the first two sources), and in-house design by builders. In our survey group, plan books were used least — only 25% of respondents used them at all and of those, 33% used stock plans only one time out of ten. Owner-supplied plans were used somewhat more frequently — of the 39% of respondents who used owner's plans at all, 90% used them less than half the time.

Architecturally designed plans were most popular. Nearly 86% of all respondents used architectural plans, and a quarter of those used them more than half the time. In-house design was also common: Of the 75% of respondents who design in-house, 19% use their own designs all of the time, and almost three-quarters use them more than half the time.

Design and estimate fees. Builders are known for free design work, and our survey did nothing to change this perception (Chart D, next page). Most (41%) don't charge for design at all, and another 16% charge a fee but refund it if they land the job. One-third of respondents, however, charge and keep a design fee for in-house design work.

As for estimate fees, the vast majority (86%) of respondents don't charge for estimates, and another 7% refund the fee if they get the work. That leaves only 4% who charge and retain a fee for preparing estimates. There seemed to be no relationship between annual volume and charging for estimates. Considering that a total of 903 jobs were estimated by the respondents as a group, and only 517 were started, about 43% of the time spent estimating by this group was wasted.

Gross Profit

Unlike many vocations, construction work provides the satisfaction of working with your hands to create something that's beautiful and substantial and functional all at the same time. Craftsmanship is the main reason many carpenters, builders, and remodelers get into the business in the first place. But the reason they *stay* in business can be expressed in two words: gross profit.

Gross profit is usually expressed as a percentage of total sales and includes overhead and net profit. The formula is:

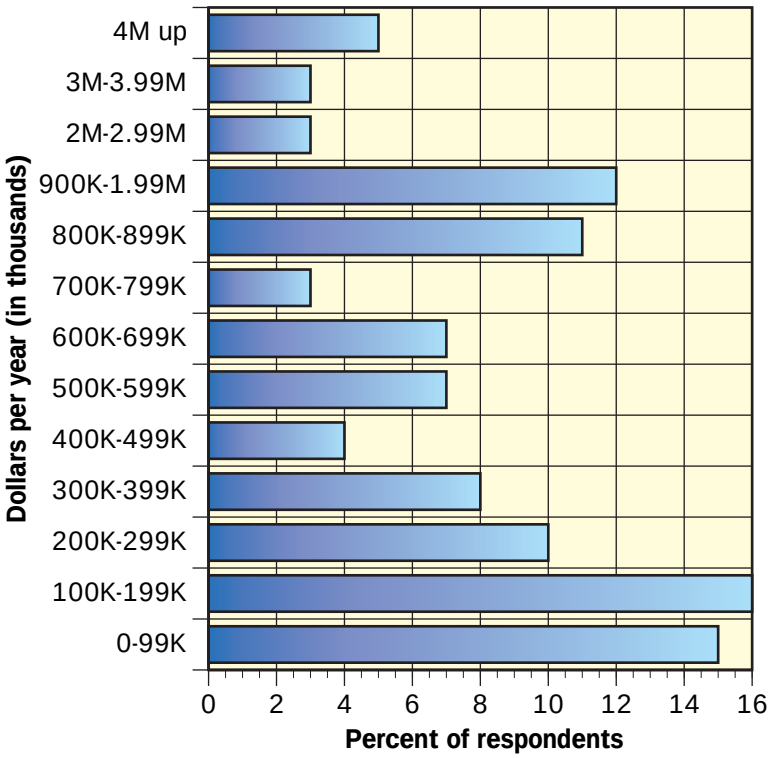
$$\frac{\text{Total Sales - Direct Costs}}{\text{Total Sales}} = \text{Gross Profit}$$

Despite the fact that *JLC* has run numerous articles explaining the importance of gross profit, a whopping 46% of our respondents didn't know what their GP percentage was. Whatever the reasons for this — not having the accounting data available, not understanding the concept of gross profit, or not knowing the formula to calculate gross profit — this lack of knowledge points up a serious problem. Without gross profit, builders end up working for wages; or worse, they may not even cover their direct costs (materials, subs, and labor).

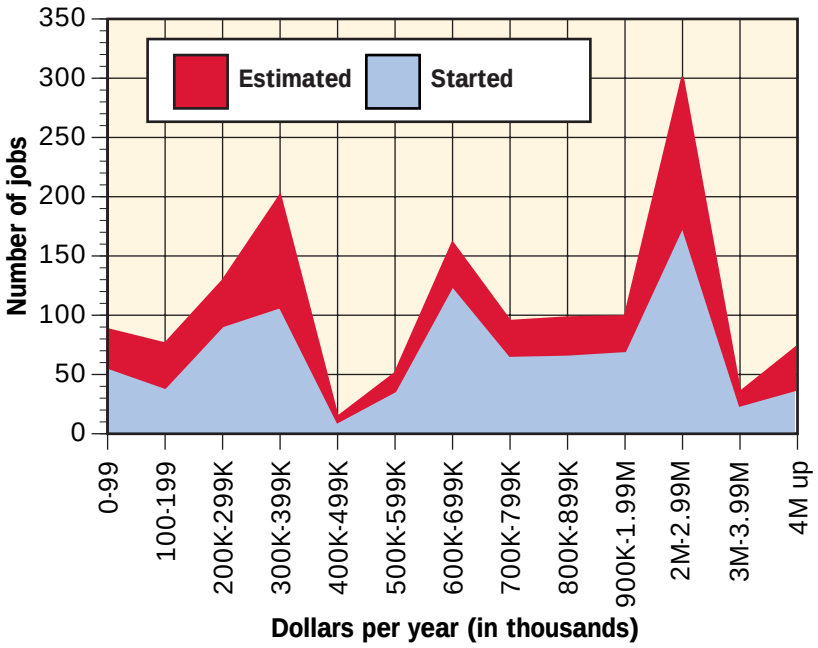
A healthy GP is 30%, and 22% of respondents earned this or better (Chart E, next page). Another 10% had a respectable GP of between 20% and 29%, and the remainder of those who knew their numbers had a GP of less than 20%. According to our survey, however, bigger companies do not necessarily perform better when it comes to GP. Half of the highest GP percentages (those between 40% and 50%) were among respondents who do less than $300,000 in annual volume. And many of the largest companies had GPs under 20%.

The two components that make up gross profit — overhead and net profit — are important as well. Industry estimates set average overhead at about 25% of total sales, but one-third of our respondents were well below this amount (the highest was 40%;

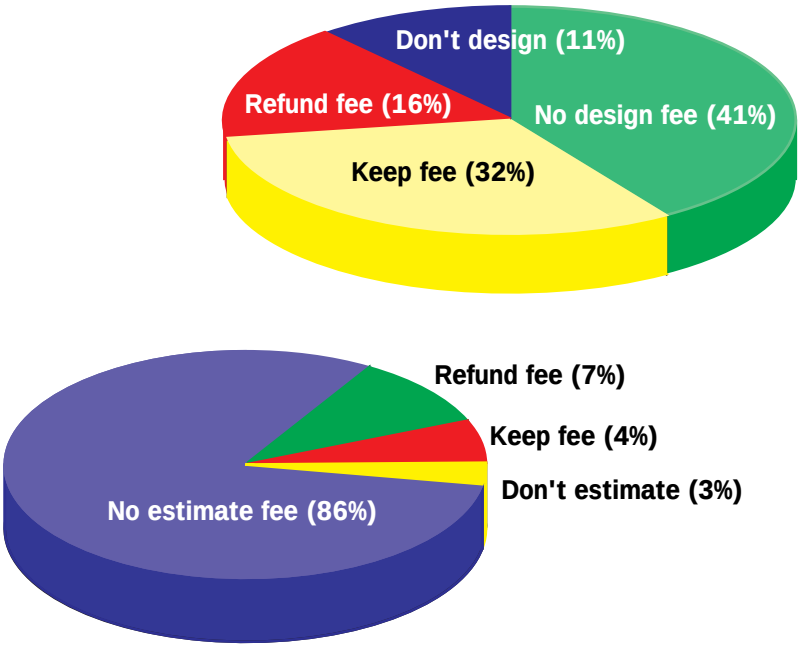
B. Annual Volume



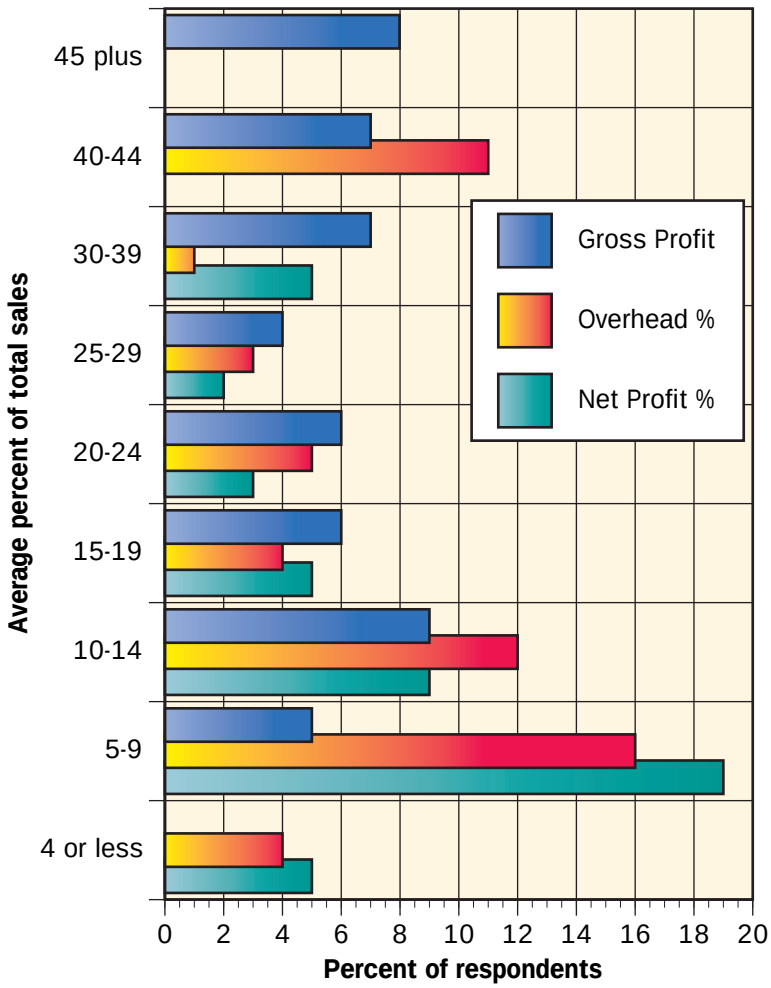
C. Jobs Estimated vs. Jobs Started



D. Preconstruction Fees



E. Gross Profit



the lowest, 4%). Overhead numbers might be skewed downward, however, by company owners who do some field work but include their total salary as direct costs.

Net profit — the amount "left over" after everyone has been paid (including the owner's salary) — should be about 10%, and half of our respondents who knew what their net profit was (24% of the total survey) exceeded this standard. The highest reported net profit was 38%, and many were above 20%. Again, these numbers could be skewed upwards by respondents who included their salary in net profit (instead of in overhead). Overall averages were gross profit 13%, overhead 8%, and net profit 7%.

Why did so many respondents not know their gross profit percentages? Looking at the survey figures, a good guess is that it's because two-thirds of them do their own bookkeeping. A few use part-time or full-time bookkeepers, and the balance use out-of-house accountants or tax preparers. (Surprisingly, there were some among the latter group who didn't know what their GP was, or who couldn't get access to the data to respond to our survey. What are you guys paying an accountant for anyway?)

Personnel

At some point, construction companies have so much work that the owner can't work in the field and handle business in the office at the same time (Chart F). The graphs show the distribution of field and office hours for all respondents, as well as for companies both above and below $500,000 in annual volume. Almost two-thirds (61%) of respondents spend 20 hours or more per week in the field, but the majority of these have an annual volume of less than $500,000. By contrast, of respondents with an annual volume of more than $500,000, the vast majority (87%) spend 10 hours or less in the field.

Field versus office. An old construction manager's rule of thumb says that for every person working in the office, two workers are needed in the field to support the overhead. Our survey bears this out — the average ratio of office to field workers was 2.14 to 4.78. After that, however, it's anybody's guess. Several companies had office-to-field ratios of 1 to 1; several had no one in the office and as many as 4 or 6 — and in one case, 13 — in the field. (Maybe faxes, pagers, and cellular phones have really changed the way builders do business.)

At one extreme, we found 8 office workers supporting 4 in the field; at the other, a lone office worker supported 25 people in the field.

Wages. The average high wage was $17.09 per hour; the average low, $9.09. The three highest wages paid were $45, $38, and $35; the three lowest, $4, $4.50, and $5.

As for overtime, 42% of respondents avoid it

altogether; another 42% "seldom" require overtime work; while 16% "often" have overtime work — up to 15 hours per week. For companies that required overtime work, the average was 5.36 hours per week, or about an hour per day.

Benefits

Nearly all respondents offer some kind of fringe benefits to their employees. At the top of the list were paid vacations: 40% provide paid vacations, at an average of about one week (7.29 days) per year. Paid holidays were also common (37% pay for some holidays), at an average of 6 days per year. Paid sick days were less popular — 14% of companies offered this benefit, at an average of 5.13 days per year.

Surprisingly, health and disability insurance — two of the more expensive benefits — were relatively common (Chart G). Twenty-five percent of respondents provided health insurance; and 16% provided disability insurance, more than those that provided vehicles (9%), vehicle allowances (11%), or tool allowances (8%). A smattering also provide bonuses, profit sharing, and retirement plans.

Tools

We were curious about how many employers provided certain kinds of tools to their work force. In almost every category, half of the respondents provided big-ticket items, and most required carpenters to use their own hands tools. Several companies, however, provided all tools, and many provided tools and equipment we didn't list, including compressors, safety gear, generators, cement mixers, wheelbarrows, ladders, and paint sprayers.

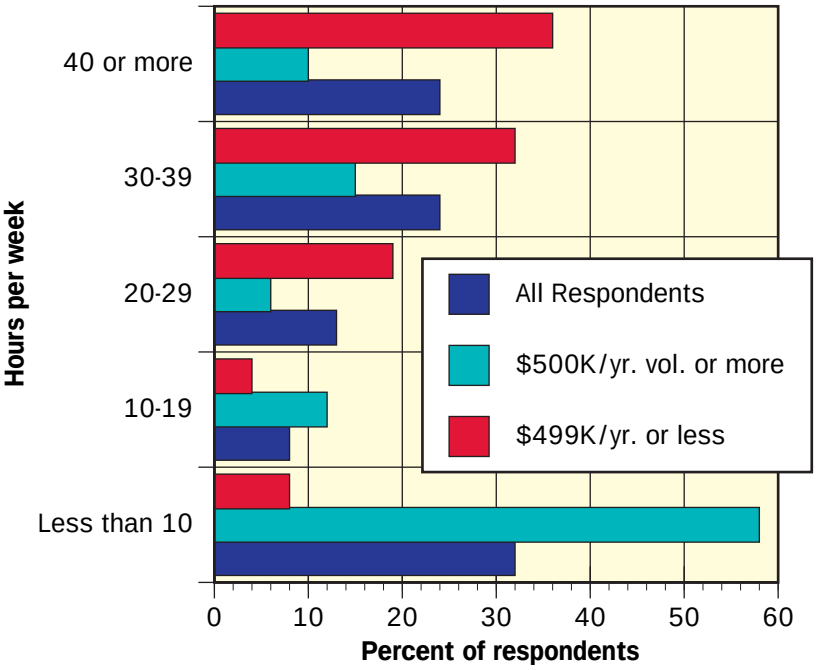
Subcontractors

We were also curious about how much and what kind of work our respondents subbed out. As expected, five trades — hvac, electrical, masonry, plumbing, and earth work — were subbed out by at least 70% of respondents (Chart H). On the other hand, most companies do all their own framing, exterior trim, and siding: These were subbed by 20% or less of respondents. This mix didn't appear to have any relationship to a company's volume or gross profit.

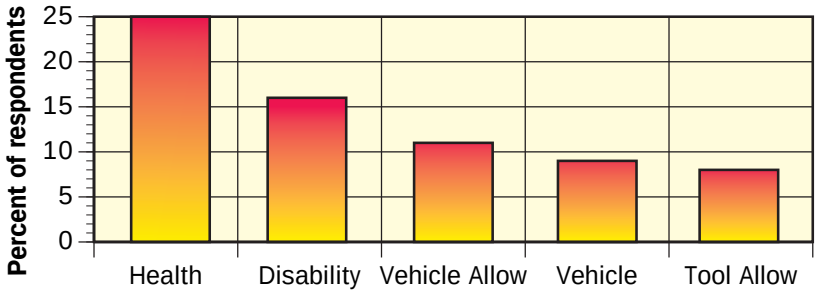
Respondents were evenly split between those who consistently used the same set of subs and those who shop around on each job. Of the latter, the average number of quotes requested is about 3. This number was pretty consistent — only one company asked for 10 quotes, and one for 5. Almost all others were in the range of 2 to 4.

The vast majority (80%) of respondents sign fixed-price contracts with subs, the rest work cost-plus. Again, these results were consistent among companies of all sizes. The ratio declined, however, among those who solicit quotes from just one sub for each trade: Half of these companies work on a fixed price, the other half cost-plus. ■

F. Owner Time in Field



G. Benefits



H. Subcontractors