

Celebrating Over 43 Years

2008 EDITION

BLUEBOOK[®]

RESIDENTIAL & LIGHT COMMERCIAL

COST GUIDE

FOR CLEANING, RECONSTRUCTION & REPAIRS



INSURANCE • RECONSTRUCTION • DISASTER • REPAIR • REMODELING
RESTORATION • BUILDING • MORTGAGE BANKING • RELATED SERVICES



Visit us at: www.Bluebook.net
The place for Residential Cost Data


BLUEBOOK
INTERNATIONAL

THE 10 AND 10 MYTH:

BY MERL VANDERVORT, CR. CGR

Over the past 20 years, the definition of insurance restoration contractor has changed drastically. What was once a small remodeling or janitorial service company with little or no overhead, has evolved into a specialized, hi-tech industry. Today's professional restorer must have a much higher degree of knowledge and expertise. The demands of our industry requires a far greater investment and a substantial overhead.

The contracting industry has the highest failure rate of any industry in the United States. An astonishing 80 percent of all contractors go out of business within the first five years. The overwhelming reason is due to the fact that most contractors start their business knowing a lot about their trade but very little about numbers. This helps explain why the company down the street is always willing to do the job cheaper.

Most experienced property claims adjusters admit that they realize that a legitimate contractor can no longer work on "10 and 10" markup. In fact, most would agree that a contractor needs to make between 35 and 40 percent gross profit in order to stay in business. However, very few understand the mathematics involved to achieve a 40 percent gross profit. Before completely understanding the math, it is imperative that we understand four basic business principles: burden, job cost, overhead and markup.

The burden is the additional cost to an employer above the employee's hourly or salaried wage. This cost directly pertains to that employee. For example, if a carpenter makes \$16.00 per hour, what is the actual hourly cost to his employer?

Hourly wage.....	\$16.00
FICA	\$ 4.01
Unemployment.....	.32
Workman's Compensation.....	\$ 1.92
General Liability	\$ 1.28
Medical Insurance.....	.74
Vacation/Holiday79
Vehicle Allowance.....	.36
TOTAL WAGE + BURDEN.....	\$25.42

Although the Bluebook agrees with Vandervort in principle we found that the Workers Compensation percentage is low as stated above. He also allows .36 of the workers wage for vehicle allowance which is not tax or insurance. According to several reliable sources an employer must add at least an additional 50% of the hourly wage to the hourly wage to attain the raw cost. Example: Hourly wage = \$16.00. Add 50% more to determine the cost to the employer. $\$16.00 \times 50\% = 8.00$ taxes and insurance. Hourly wage plus taxes and insurance = \$24.00 Cost to employer.)

Now a \$16.00 an hour carpenter actually costs the employer \$25.42 per hour and that doesn't include any overhead or profit.

BALANCING THE OVERHEAD

Job cost includes all cost, except overhead, directly involved in the completion of a project. It would include things like employee labor and burden, all materials, subcontractors, permits, fees, trash removal etc.. Overhead is all costs involved in operating a business above and beyond the cost of doing a job. The following is an annual overhead breakdown from a renovation company that has \$1 million in annual sales. Keep in mind that only four percent of remodeling/renovation contractors do over \$1 million in annual sales. See Chart 1.

THE 10 AND 10 MYTH (Continued)

CHART 1

Owner/Manager Salary	\$ 50,000
Sales Staff- Salary & commission.....	\$ 80,000
Production Manager salary	\$ 30,000
Secretary & Bookkeeper	\$ 40,000
Payroll burden.....	\$ 60,000
Office/Warehouse payment.....	\$ 24,000
Utilities & phone.....	\$ 20,000
Tools & Equipment upkeep	\$ 6,000
Four company vehicles leased or owned	\$ 20,000
Insurance - Building equipment & vehicles	\$ 8,000
Office equipment & supplies	\$ 7,000
Advertising & Marketing	\$ 50,000
Professional fees	\$ 6,000
Education & Training.....	\$ 6,000
Bad Debts.....	\$ 30,000
Interest, penalties, etc.....	\$ 8,000
 Total Overhead.....	 \$ 445,000

Let's suppose this company is extremely conservative and is able to reduce a few salaries; lower their utilities and rent; has only the bare minimum in equipment and vehicles; does little advertising; incurs no bad debt, and has never had to borrow money. Let's reduce their overhead by \$100,000 to \$345,000. If the total annual sales are \$1 million, then overhead is 34.5 percent of gross sales. As various contractors will do more or less than \$1 million in sales, their overhead will adjust accordingly' however, their percentage of overhead will not deviate from 30-40 percent. If this company strives to achieve a 40 percent gross profit and their overhead is 34.5 percent, then their net profit will be 5.5 percent.

THE CAT'S OUT OF THE BAG

Markup is probably the most well-guarded secret in the contracting business. I'm here to let the cat out of the bag. Markup does not equal gross profit. A professional contractor strives to achieve 40 percent above the cost of doing the sale. For example, if a contractor does a job that costs \$1,000 and only marks it up 40 percent, the total sale would be \$1400. The gross profit would be 28.5 percent. The fact is, in order to achieve a 40 percent gross profit, a contractor must have a total markup of 67 percent. The same job that costs \$1,000 should be marked up 67 percent to \$1670. If the gross profit is 40 percent, then the cost should be 60 percent. What is 60 percent of \$1670? $\$1670 \times .60 = \1002 . When a contractor agrees not to mark up various items accordingly, (such as roof or other single trade items) it forces him to increase the markup in other areas to accommodate the difference.

The practice of adding 10 and 10 to the bottom of an estimate is nothing more than a long-honored tradition that outlived its usefulness more than two decades ago. Rather than keeping up with the times, our industry has forced today's contractor to be creative and ingenious. Typically, a contractor adds approximately 39 percent to the unit costs then adds 10 and 10, thus achieving a 67 percent markup, a 40 percent gross profit, and if he or she is lucky, a 6 percent net profit.

Merl Vandervort, CR, CGR, is with K.C. Metro Renovators Inc., in Raytown, Mo.