

Lose the Guilt – Mark it Up!



Executive Summary

Contractors deserve to be profitable. It's necessary for business survival. A perceived exorbitant markup should not be fretted over. Mark it up!

The "disclaimer".

Profit is markup is fee here. Be advised this article assumes that profit and markup and fee are one in the same. There is definitely a difference: here's an explanation of profit versus markup: [QR]



Low bid wins.

At time of bid, under many procurement mechanisms, low bid wins. And part of the process in developing a bid is the fee, or markup. To be low bidder you may have had to drop fee to as small a number as possible. This "I got as low as possible on bid day" then becomes a catalyst for maximizing markup during the project.

Look at the Whole

Most contractors will make a global decision that, say, "I want to make 6.5% profit on this job overall." In a unit-priced bid, it is likely that the profit spread out over the fifty bid items will not be consistent. For example, if you markup the job overall at 6.5%, it is likely that every bid item on your project will not carry this 6.5% markup. Some bid items are done at or below cost while others may be at double the job fee, or 100% over, or even 200% over the job fee." These adjustments in unit prices are a function of cash flow (early items in the job are marked up higher in an attempt to get cash positive) or quantity discrepancy (items expected to go over their bid quantity are marked up while items expected to fall short of their bid quantity are bid closer to cost or even under cost).

Life isn't fair.

The hard truth about assigning fee is that most owners probably want a contractor to make a fee, but these owners really want the contractor to make the most *minimal* fee which will allow for survival. Well, surviving isn't thriving. And 99 out of 100 businesses would probably answer that "I'm in business to thrive, not just survive, so I'd welcome a healthier fee which allows stable cash flow and healthy cash accumulation for growing my company."

Scott Jennings, P.E., is the President of [SJ Construction Consulting, LLC](http://SJConstructionConsulting.com) (808) 271-5150, sj@sjcivil.com. He is former owner of a heavy/civil construction company and now provides cost estimating and training, litigation support, and efficiency advice to contractors. He is also the founder of [Runjob Software, Inc.](http://RunjobSoftware.com) Download our QR scanner app: runjobsoftware.com/mobile/

So, bottom line me please.

The bottom line is that as a contractor there are two main reasons that you shouldn't feel guilty when charging an excessive fee: (1) owners will usually do absolutely everything to minimize your fee when possible and (2) 1.4% to 2.4% is not thriving. Take every opportunity to increase fee and leave your guilt in the rear-view mirror.

According to the Construction Financial Management Association (www.cfma.org), the average pre-tax net profit for general contractors is between **1.4 and 2.4 percent** and for subcontractors between **2.2 to 3.5 percent**.

Above excerpt from: <https://www.constructionbusinessowner.com/business-management/9-numbers-you-need-keep-your-company-profitable#:~:text=According%20to%20the%20Construction%20Financial,between%202.2%20to%203.5%20percent.>

My Story

I recently was talking with a friend whose client was feeling guilty about marking up a line item on a bid "too much". The thought was that a \$20,000 markup on a subcontractor service was more money than was needed in order to assist the sub – the markup he *needed* to cover the cost of the subcontractor assistance was going to be about \$1,000. He thought that the fair number was only this \$1,000. This is especially nonsense because, again, bidding a job is about the global project markup – this anecdote has to do with the component of the global fee this specific bid item received. To lessen the fee here would reduce the overall project fee (unless you increased the fee on other bid items).



I also had a personal experience in my business (early on in my business...this behavior stopped after getting punched in the gut once or twice or a hundred times) in which I felt guilty for marking up some work too much. That sort of feeling goes away when you have to win jobs at 0% to 3% and then owners fix your markup structure on changed work during the job. Or you lose some entitlement battles and get paid

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zero for clearly (in your mind) extra work outside of the scope of the contract.

The bottom line (part two) – make money, and as much of it, when you can. There'll be plenty of time you'll have to "donate" your services. It's the handsome profits on other projects that must backfill the philanthropic actions you took because you "felt guilty" or made a business decision to work pro bono!

Work Safe!