



**9 Numbers Every Contractor Needs To Know
To Always Make A Profit!**



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Presented By:

George Hedley CSP LPBC

Certified Speaking Professional
Licensed Professional Business Coach

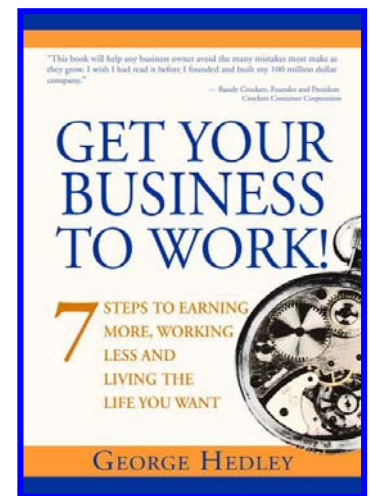
George Hedley founded & built his commercial construction from \$0 to \$50 million dollars in only 7 years! As recognition, George was named "Entrepreneur of the Year" by Venture magazine and Ernst & Young.

Mr. Hedley's expertise is based on his experience owning, leading and managing a profitable construction and real estate development company. He has served as President of 3 industry trade associations and is the author of "The Business Success Blueprint" series; "On-Purpose...On-Target!"; "Everything Contractors Know About Making A Profit" and the bestseller: "Get Your Business To Work!"

George owns **HARDHAT Presentations** and presents speeches, seminars and workshops to companies and associations. He is available to **speak** at your organization. His **BIZ-Building Programs** include topics on: Building Sales, Profits, Leaders, Field Productivity, Estimating and Getting Your Business To Work!

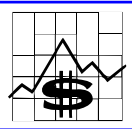
As a Licensed Professional Business Coach, George's **Hardhat BIZCOACH** program will work with you personally and help your company grow and profit. Construction business owners and managers are invited to attend his 2 day **Profit-Builder Circle Academy** boot-camp or become a member of an ongoing executive mastermind peer **BIZ-GROUP** that meets regularly with other BIZ owners. He is also available to facilitate your **Strategic Planning** retreat or serve on your **Board of Directors**.

George's business is built on **referrals** from people like you. To receive more information, give a referral, learn how he can help your company grow and profit, or sign up for his free monthly management e-newsletter, email or visit his website.



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Other Services Available



Stop trying to run your BIZ alone!
Qualified construction company owners are invited to join an ongoing **mastermind** peer **BIZ-GROUP** that meets twice a year with George and 10 or more like-minded owners. Learn from other successful executives, get input and advice, share best practices, develop lasting relationships and have fun.

BIZ-COACH Mentorship With George!

You can't win without a great coach!
George has a limited number of BIZ-Coaching mentorship spots open for BIZ-Owners who want to get their BIZ to work, grow & profit!

- **BIZ-Builder Blueprint Strategy Session**
- **BIZ-Development Strategy Session**
- **BIZ-Systems Workshop**
- **BIZ-Profit & Wealth Strategy Session**
- **Strategic Planning Retreat**

Hardhat BIZSCHOOL COURSES AVAILABLE

Get Your Business To Work!

- *The BIZ-\$UCCESS BLUEPRINT For Contractors & Entrepreneurs*
 1. Seek BIZ-Opportunities To Grow & Make A Profit
 2. Make Tough Decisions To Get Your BIZ To Work
 3. Draft Your BIZ-\$uccess Blueprint
 4. Targets, Goals, Tasks, Accountabilities & Responsibilities
 5. BIZ-Systems: Profitability, Numbers, Sales & Progress

9 Numbers Every Contractor Needs To Know To Always Make A Profit!

1. How To Calculate Accurate Job Costs
2. Construction Accounting Made Simple
3. Determine Overhead, Contracts & Profit Goals
4. The 12 Step Formula To Always Make A Profit
5. Financials, Collections, Controls & Bonding

Grow Your Construction Business!

- How To Find New Customers & Win More Contracts

1. Find Profitable Customers, Markets, Projects, Opportunities & Services
2. Develop A Winning Estimating, Bid & Proposal Strategy To Win More Contracts
3. Presentation Strategies To Overcome The Low Bid Process
4. Draft Your BIZ-DEV Strategic Growth Plan & Target Profitable Customers
5. Implement A Pro-Active Marketing & Sales BIZ-Development Action Plan

Construction Field, Project Management & Productivity Systems That Work!

1. Implement A Winning Field & Project Management Pro-Active Playbook
2. Install Written Construction BIZ-Systems That Work
3. Pro-Active Project Management, Supervision, Meetings, Contracts & Payments
4. Project Paperwork, Scheduling, Procurement, Documentation & Change Orders
5. Maximize Field Productivity, Production, Tracking & Must-Do Field Systems

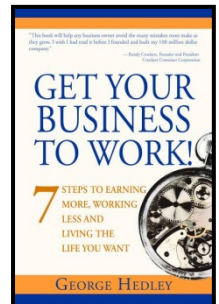
More Courses – Coming Soon!

BIZCOACH BIZ-Builder Programs

- Ongoing personal strategy sessions & group coaching
- Regular webinars, boot-camps & your issues solved
- Mastermind peer **BIZGROUPS** for construction BIZ-Owners

George Hedley Professional Speaker

George is one of the top professional speakers in the USA!
He is available to speak at your association convention, company meeting or conference as the keynote speaker or workshop presenter on topics including building profits, sales, or people. Call to discuss your next meeting.



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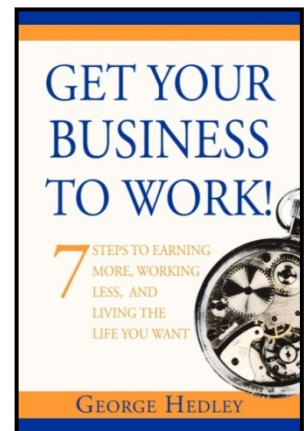
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9 Numbers Every Contractor Needs To Know To Always Make A Profit!

Classes

- 1. How To Calculate Accurate Job Costs**
- 2. Construction Accounting Made Simple**
- 3. How To Determine Your Overhead, Contracts & Profit Goals**
- 4. The 12 Step Formula To Always Make A Profit**
- 5. Financials, Collections, Controls & Bonding**



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3





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How's Business?

- Making A Profit?
- How Much Do You Want To Make?

Do You Know Your 9 Numbers?

- Job Costs / Cost History
- Labor + Burden Costs
- Equipment Costs
- Crew Costs
- Overhead Costs
- Mark-Up %
- Gross Profit %
- Profit Goals
- Sales

Are They Accurate / Up to Date / Reliable / Timely / Competitive / Professional?

Rule #1 - Invest In A PRO If You Want to Grow!

- Professional Accounting Manager
- Fully Integrated Professional Accounting Software

Accurate Sidewalk Slab Bids?

<u>Estimate #1</u>	<u>Quantity</u>	<u>Rate</u>	<u>Total Cost</u>
#1 Grade & Base Sub-Slab	2,000 SF	\$ 1.50 / SF	= \$ 3,000
#2 Form New Walks	2,000 SF	\$ 1.00 / SF	= \$ 2,000
#3 Pour & Finish Walks	2,000 SF	\$ 2.50 / SF	= \$ 5,000
TOTAL BID		\$ _____ / SF	\$ _____

<u>Estimate #2</u>	<u>Quantity</u>	<u>Rate</u>	<u>Total Cost</u>
Crew Rate	4 Days	\$ 1,000 / Day	= \$ 4,000
Equipment & Tools	4 Days	\$ 100.00 / Day	= \$ 400
Materials	36 CY	\$ 80.00 / CY	= \$ 2,880
Subcontractors	Pump		= \$ 400
SUB-TOTAL			= \$ 7,680
Overhead & Profit Mark-Up		@ 25.0%	= \$ 1,920
TOTAL BID		\$ _____ / SF	\$ _____

<u>Estimate #3</u>	<u>Quantity</u>	<u>\$ / Unit</u>	<u>Total Cost</u>
Labor 4 Men 4 Days	128 MH	\$ 37.25 / Hour	= \$ 4,768
Equipment & Tools	32 Hours	\$ 31.00 / Hour	= \$ 992
Materials	36 CY	\$ 80.00 / CY	= \$ 2,880
Subcontractors	Pump		= \$ 400
General Conditions	4 Days	\$80 / Day	= \$ 320
SUB-TOTAL			= \$ 9,360
Overhead & Profit Mark-Up		@ 25.0%	= \$ 2,340
TOTAL BID		\$ _____ / SF	\$ _____



Variance _____ %

Most Accurate?

How Often Do You
Check You \$\$\$ Gauge?

When Do You Know
How You Are Doing?



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Know Your Accurate Job Costs

- Always Track Job Cost Labor In _____ Hours / Work Task
- Knowledge Is Power!
- Keys To Accurate Job Costs:
 - Simple System
 - Keep Tasks Recordable
 - Turn In Timecards DAILY
 - Record Equipment DAILY
 - Recap Hours / Task WEEKLY
 - Update Cost History After Every Job Completed
- Verify, Record, Track
& Turn-In Work Quantities Performed Daily

- Recap & Review WEEKLY With Foreman



Cost History Library

Job Name: The Perfect Project		RECAP			
	UNIT	Quantity TOTAL	Total MH	MH / UNIT	
Foundations					
1001	Layout	C.Y.	600	30	.050
1002	Forming	L.F.	3,000	60	.020
1003	Excavation	C.Y.	600	20	.033
1004	Fine Grade	C.Y.	600	20	.033
1005	Set Embeds	Ea.	30	30	1.000
1006	Pour Concrete	C.Y.	600	15	.025
1007	Strip Forms	L.F.	3,000	15	.025
1008	Clean-up	C.Y.	600	12	.020
Concrete Slab					
2001	Layout	S.F.	20,000	120	.006
2002	Fine Grade	S.F.	20,000	120	.006
2003	Forming	L.F.	2,000	80	.040
2004	Install Sand	C.Y.	250	75	.300
2005	Install Memb.	S.F.	20,000	100	.005
2006	Pour Concrete	C.Y.	370	40	.110
2007	Finishing	S.F.	20,000	64	.003
2008	Curing	S.F.	20,000	16	.001
2009	Strip Forms	L.F.	2,000	40	.020
2010	Cleanup	S.F.	20,000	24	.001

Weekly Time Card - Job Cost Tracking

Name: Joe Carpenter Rate: \$20.00 Job: The Perfect Project

	Mon	Tue	Wed	Thur	Fri	Sat	Total
Job Cost Codes:	7/11	7/12	7/13	7/14	7/15	7/16	Total

COMPANY EMPLOYEES

Concrete General Items

0101	Supervision						
0102	Project Management						
0103	Estimating						
0105	General Cleanup			4			4
0105	Move-In						
0106	Move Off						

Concrete Foundations

1001	Layout	4					4
1002	Forming	2	4				6
1003	Excavation			2			2
1004	Fine Grade	2					2
1005	Set Embeds			2	4		6
1006	Pour Concrete					4	4
1007	Strip Forms					4	4
1008	Clean-up						

Concrete Slab

2001	Layout			2			2
2002	Fine Grade		4				4
2003	Forming			2			2
2004	Install Sand						
2005	Install Membrane						
2006	Pour Concrete						
2007	Finishing						
2008	Curing						
2009	Strip Forms						
2010	Cleanup						

TOTAL HOURS This JOB 8 8 8 8 8 8 40

COMPANY EQUIPMENT

Pickup Truck	8	8	8	8	8	40
Flatbed Truck	4			8		12
Skip Loader				8		8
Generator	8	8	8			24
Screed						
Storage Bin	8	8	8	8	8	40
Job Trailer	8	8	8	8	8	40

RENTAL EQUIPMENT

Toilets	X	X	X	X	X	
Crane						
Man Lift				X	X	
Backhoe						
Other:						

MATERIALS

SUBCONTRACTORS

Signed: Employee _____ Signed Foreman: _____



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Accurate Labor & Equipment Costs

Labor Cost Foreman

BASE PAY Per Hour \$30.00

Taxes - FICA	8.0%	\$ 2.40
- SUTA/FUTA	3.2%	\$.96
W.C. Insurance	10.0%	\$ 3.00
Health Insurance	5.7%	\$ 1.71
Dental Insurance	0.0%	\$ 0.00
Life Insurance	0.0%	\$ 0.00
Liability Insurance	0.0%	\$ 0.00
Vacation	1.8%	\$.54
Holidays - 8 Paid Days	3.2%	\$.96
Union Dues	0.0%	\$ 0.00
Un-Billable	1.5%	\$.45
Small Tools	1.0%	\$.30
Overtime	2.5%	\$.75
Training @ 1 Hr / Wk	2.5%	\$.75
Safety	0.5%	\$.15
P / PS / 401K	1.0%	\$.30

TOTAL BURDEN 40.9% \$ 12.27

TOTAL COST \$ 42.27 / Hr.

Crew Labor Cost (Bid Rate MH / JOB Estimate)

Build Your Crews for Each Estimate:

Foreman	\$ 42.27
Journeyman	\$ 34.18
Journeyman	\$ 34.18
Apprentice	\$ 24.54
Apprentice	\$ 24.54

5 Person Crew / Hour \$ 159.71 / Hr

SUPT. @ 20% @ \$48.19/Hr = \$ 9.64 / Hr

Subtotal Crew Cost \$ 169.35 / Hr

DOWNTIME FACTOR + 10%

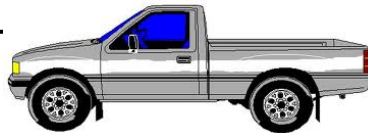
Total Actual Crew Cost \$ 186.28 / Hr

Crew Size 5

Average Crew COST (Bid Rate) = \$37.25 / Hr

Equipment Cost

PICKUP TRUCK - Assume Life Of 4 YEARS



Purchase Cost	\$ 40,000
Interest & Finance	\$ 10,000
Insurance	\$ 8,000
Maintenance & Tires @ \$2,500 / Year	\$ 10,000
Gas - 25,000 Miles/Yr x 4 Yrs @ 15 MPG @ \$3.00/Gal.	\$ 20,000

TOTAL COST Over 4 Years \$ 88,000

BILLABLE Hours Per Year = 2,000 Hrs

Equipment LIFE X = 4 Yrs

Total BILLABLE Hours Over Equipment Life = 8,000 Hrs

COST / Hour @ 2,000 Billable Hrs / Yr \$ 11.00 / Hr.

COST / Hour @ 1,500 Billable Hrs / Yr \$ _____ / Hr.

COST / Hour @ 1,000 Billable Hrs / Yr \$ _____ / Hr.

Crew Total Cost Per Day

Field Crew Labor \$ 186.28 / Hour

Pickup Truck \$ 11.00 / Hour

Small Tools \$ 5.00 / Hour

Misc. Equipment \$ 15.00 / Hour

Misc. Costs \$ 10.00 / Hour

Total Cost \$ 227.28 / Hour

Total Cost \$ 1,826.24 / Day

PLUS OH & P Mark-Up _____ %

Total COST \$ _____ / HOUR

Total COST \$ _____ / DAY



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Estimating Methods

- Mark-Up Method
- Mystery Method
- Blind Man Method
- Man-Hour Method

4 Steps To Accurate Estimating:



1. ID & Take-Off Quantities
2. Consult Cost History Library
3. Adjust Unit Prices To Match Project Bidding
4. Estimate Accurate Job Costs



Accurate Man-Hour Method Estimating

Slab Finishing LABOR

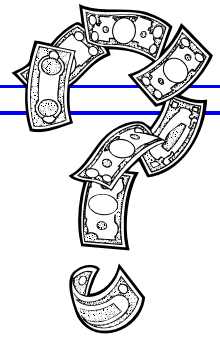
Take-Off	<u>20,000 S.F.</u>
Cost History Library	_____ M.H./S.F.
= Total Man Hours	_____ M.H.
X Crew LABOR Cost Per Hour	\$ _____ / HR.
= Total <u>LABOR</u> Cost	\$ _____



Convert Man Hours To \$ / S.F. (Mystery Method)

Total <u>LABOR</u> Cost	\$ _____
Total S.F.	_____ S.F.
=	\$ _____ / S.F.



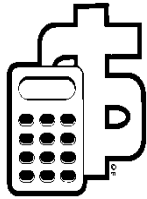


Always Make A Profit!

- How Much Profit Should You Expect To Make?
- How Much Profit Do You _____!

What Is PROFIT?

- Financial GAIN or RETURN from the use of CAPITAL or EQUITY in a BIZ.
 - The Sum Remaining after all costs, DIRECT & INDIRECT are Deducted from Total Income.
 - Every BIZ is ENTITLED To Make A PROFIT (Return On Investment)
- Construction Business Is A 4 Letter Word _____
- PROFIT Is REWARD For Taking BIZ _____
- Profit Is NOT : - Owner's Compensation!
- \$\$\$ In Bank Or Enough \$\$\$ to cover Payroll, Truck Payments & 2 six packs!



CAPITAL = *Wealth, Money, Net Worth Or Equity*
- How Much Do I Need?

DIRECT COSTS = *Direct Job Costs*
Job, field, production or product costs.
Cost of doing the work, project or job.

INDIRECT COSTS = *Overhead Costs*
Home office overhead. Fixed expenses of running a business.
General & Administrative expenses including:
- Office, Utilities, Bidding, Marketing, Accounting, Staff, Administration, YOU!

OVERHEAD Mark-Up Compensates For The Cost Of _____ Business!

PROFIT Mark-Up Compensates For Taking Business _____!

It's Not How Much You Make, It's How Much Your _____ Makes!

- The Goal Of Business Is To ALWAYS MAKE A PROFIT!

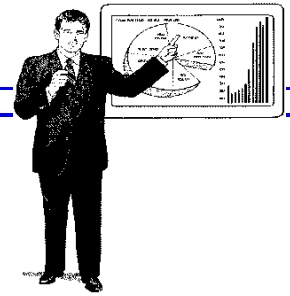
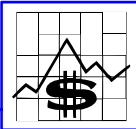


- Think Like A CEO:
 1. Will It Increase the VALUE of my Company
 2. Quarterly EARNINGS (Profit)
 3. Grow REVENUE



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Setting Profit Targets

■ What Return?

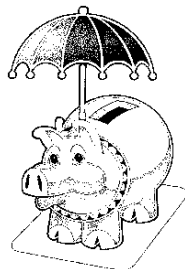
- Volume Vs. Profit
- A Business Without A PROFIT Is Not A Business - It's A Job That Doesn't Pay Much!

Construction Accounting Made Simple



- **SALES** = Total Revenue Collected, Earned Or Due - *Including Retention*
- **COST OF SALES** = Job Costs = ACTUAL Direct Field Costs Of Doing Jobs
 - Field Production & Supervision Labor & Benefits
 - Field Equipment Used On Jobsites
 - Construction Materials & Products Installed
 - Subcontracts & Field Services
- **OVERHEAD** = Your "NUT" = Actual Cost Of DOING Business = Fixed Cost!
 - Indirect Fixed Cost Of Operating Business - Cost To Keep Doors Open Without Any Work, Office, Shop & Yard
 - General & Administrative Costs - Management / Sales / Marketing / Accounting / Estimating / Administration / Owner
- **GROSS PROFIT** = MARGIN = OVERHEAD + PROFIT As % Of SALES
- **MARK-UP** = OVERHEAD + PROFIT As % Of COSTS
- **NET PROFIT** = Reward For Taking BIZ RISK
- **ASSETS** = Total BIZ Resources - Cash, Notes, AR, Stocks, Inventory, Equipment, Fixtures, Real Estate
- **LIABILITIES** = Total Outstanding Obligations OWED - Debts, Loans, Mortgages & Payables
- **EQUITY** = RETAINED EARNINGS Or NET WORTH = CAPITAL
 - Initial Investment Plus What You Started Fiscal Year With & Cash Reserves

Estimate Is Arriving At ACCURATE Job Costs
 Estimating Is Calculating ACTUAL Job Costs
 Bid Is ACCURATE Job Costs + OH + P



• WORKING CAPITAL = NET QUICK

- Current Assets - Assets Plus Everything you can sell or collect in 30 days
- Current Liabilities - Everything you owe this month
- = Working Capital - How Much Working Capital Do You Need?

• **RETURN** = ROI = ROE = $\frac{\text{Annual Net Profit}}{\text{Equity @ Beginning Of Fiscal Year}}$

• **CASH** = \$\$\$ In Your _____ !



Profit Success Factors

	Minimum	Excellent
ROOH = Return On OVERHEAD	_____ %	_____ %
ROE = Return On EQUITY or ROI	_____ %	_____ %



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Annual Income Statement

Costs	\$ 8,500,000
Overhead	\$ 1,000,000
Profit	<u>\$ 500,000</u>
Volume	\$ 10,000,000

Mark-Up _____%

Gross Profit Margin _____%

How Much PROFIT Should You Make?



The Right TOTAL Mark-Up? - What You Can _____.

The Right OH Mark-Up? - What You _____.

The Right PROFIT Mark-Up? - What You _____.

Mark-Up VS. Gross Profit Margin

Mark-Up = OH & P / _____

Gross Profit Margin = OH & P / _____

17.64% Mark-Up = ??? % Gross Profit

Mark-Up % = _____ % Gross Profit

1 + Mark-Up = _____

.1764 = _____

1.1764 = 15.00% % Gross Profit



How Do You Determine Your Overhead & Profit Mark-Up?

MARK-UP Is _____ Than GROSS PROFIT

**Super Secret Formula
Convert Mark-Up
To
Gross Profit %**

Bid Calculation

Job Costs	\$ 100,000
OH & P Mark-Up	17.64%
Mark-Up OH & P	<u>\$ 17,640</u>
Total Bid	\$ 117,640
Gross Profit Margin	15.00%

GROSS PROFIT MARGIN % = OH + P / SALES = 15.00 %

MARK-UP = OH + P / COSTS = 17.64 %

BREAK-EVEN = Recover 100% of Annual OVERHEAD = \$ 1,000,000

Annual \$SALES to Break-Even = $\frac{\text{OH } \$1,000,000}{\text{GP Margin \% } 15.0\%}$ = \$ _____

Make A PROFIT = Earn 100% of OVERHEAD & PROFIT = \$ 1,500,000

Annual \$SALES to Hit OH + P Goal = $\frac{\text{OH + P } \$1,500,000}{\text{GP Margin \% } 15.0\%}$ = \$ _____



Our Average OH & P Mark-Up _____% Our Break-Even Sales \$ _____

Our Average Gross Profit Margin _____% Our Sales Goal: \$ _____

Our Overhead Nut: \$ _____ Our Net Profit Goal: \$ _____



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Keep Your Overhead Low

- Job Charge:**
- Project Management
 - Supervision
 - Labor Burden
 - Workers Comp. Insurance
 - Field Equipment & Trucks
 - Gas & maintenance
 - Tools
 - Liability Insurance
 - General Conditions



Overhead Costs



- Office
- Administration
- Estimator
- Bid Expenses
- Sales Costs
- Bookkeeping / Accounting
- Company Management
- Cost of Doing Business

GENERAL CONDITIONS

- Supt. / P.M. / Car / Truck
- Cleanup / Trash Bins
- City Business License
- Permits / Fees / Bonds
- Testing / Inspections
- Liability Insurance
- Move-On & Off
- Job Office / Storage Bins
- Power Poles / Toilets
- Field Office Supplies / Job Sign
- Temporary Utilities / Generator
- Power / Lights / Phone / Fax Water
- Temporary Protection / Barricades
- Fence & Guard Service
- Misc. Small Tools / Cords
- Ladders / Hoses / Pumps
- Forklift / Compressor / Hoisting



ACCURATE General Conditions

1	DESCRIPTION	Quantity	Unit	Unit Price	Building Cost
0101	Supervision	6.0	Mo.	7,481.25	44,888
0102	Project Management	7.0	Mo.	3,108.88	21,762
0103	General Labor	2.0	Mo.	3,016.44	6,033
0105	Transportation	6.0	Mo.	650.00	3,900
0110	Surveying	120,000	S.F.	0.08	9,600
0112	Tests & Inspections				
	Soils Compaction Testing	120,000	S.F.	0.06	7,200
	Concrete Testing	1.0	Ea.	1,500.00	1,500
	Welding Inspection	1.0	Est.	1,250.00	1,250
	Roofing Inspection	1.0	Ea.		Exclude
0120	Temp. Facilities & Utilities	6.0	Mo.	125.00	750
	Office	6.0	Mo.	250.00	1,500
	Toilets	6.0	Mo.	185.00	1,110
	Set-up	1	Est.	500.00	500
	Fax Machine	1.0	Est.	200.00	200
	Misc. Field Supplies	6.0	Mo.	200.00	1,200
	Temporary Constr. Lights	1	est	400.00	400
	Water Meter Bill	6.0	Mo.	45.00	270
	Power Poles	1	Ea.	500.00	500
	Phone - Setup	1.0	Est.	500.00	500
	Phone - Jobsite	6.0	Mo.	475.00	2,850
	Cell Phone	6.0	Mo.	100.00	600
	Fax Phone Line / Supplies	6.0	Mo.	50.00	300
					0
0140	Temporary Protection	6.0	Mo.	125.00	750
	Barricades	1	est	225.00	225
	Temporary Fence	700.0	L.F.	1.45	1,015
	Gates	3.0	Ea.	35.00	105
	Fire Access Roads	0.0	Ea.		Exclude
	Security Night Lighting				Exclude
					0
0150	Clean-up	50,000	s.f.	0.06	3,000
	Final Clean-up	50,000	s.f.	0.06	3,000
	T.I. Clean-up	25,000	s.f.	0.20	5,000
	Trash Bins	7	Ea.	375.00	2,500
	Dust Control	24	Hrs.	55.00	1,320
0160	Building Permits & Fees				Exclude
	Offsite Improvement Bonds				Exclude
0161	Water Meters				Exclude
0162	Utility Company Charges, Meters & Fees				Exclude
0165	Blue Prints - Construction	40	Ea.	75.00	3,000
0171	Course of Constr. Insurance - Owner's				Exclude
					0
0190	Architecture				Exclude
0191	Engineering				Exclude
	Civil / Grading				Exclude
	Soils Report				Exclude
	Plumbing				Exclude
	Mechanical				Exclude
	Electrical				Exclude
	Landscape				Exclude

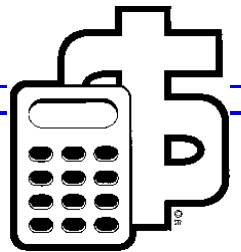


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Know Your Numbers!

BID-HIT RATIO Total # Jobs Bid To # Hit

Bid Date	Job Bidding	Bid \$\$\$\$\$	% Markup	# Competitors	Sub Bid Coverage	Results
4/2	A	50,000	25.0%	6	2.5	5th
4/7	B	60,000	22.0%	3	3.2	3rd
4/12	C	40,000	28.5%	4	2.9	4th
4/22	D	90,000	20.0%	5	4.2	1st
4/27	E	80,000	21.5%	4	3.8	2nd

APRIL \$320,000 / 5 = \$64,000 Ave.

5 : 1

BID-HIT RATIO By Customer

Cust.	# Bids	# Hits	Bid/Hit
Cust 1	12	4	3 : 1
Cust 2	15	5	3 : 1
Cust 3	8	1	8 : 1
Cust 4	21	3	7 : 1
Others	69	12	6 : 1

Total 125 25 5 : 1

Track Bid-Hit By:

- Total Jobs
- Customer Type
- Project Type
- Contract Type
- Location
- Size
- Competitors



CONSOLIDATED COST REPORT - CCR

Monthly Job Cost Report

PM FILL-OUT

CONTRACTOR PROJECT		HARDHAT BUILDERS THE PERFECT PROJECT		MONTH:		TO BE COMPLETED MONTHLY		Job Cost				
COST CODE	DESCRIPTION	SUBCONTRACTOR	ORIGINAL BUDGET	CHANGE ORDERS	REVISED BUDGET	ORIGINAL SUB CONTRACT	SUB CHANGE ORDERS	REVISED SUB CONTRACT	NON COMMITTED COST TO DATE	NON COMMITTED COST TO COMPLETE	ESTIMATED FINAL COST	VARIANCE
101	SUPERVISION	HARDHAT BUILDERS	20,000	400	20,400				10,000	10,000	20,000	(400)
102	PROJECT MGMT	HARDHAT BUILDERS	10,000		10,000				5,000	5,200	10,200	200
120	TEMPORARY	HARDHAT BUILDERS	10,000		10,000				5,000	4,700	9,700	(300)
220	EARTHWORK	SMITH GRADING	50,000	21,500	71,500	49,000	21,500	70,500		250	70,750	(750)
340	CONCRETE LABOR	HARDHAT BUILDERS	50,000		50,000				30,000	21,000	51,000	1,000
340	CONCRETE MATL	HARDHAT BUILDERS	80,000		80,000				50,000	29,000	79,000	(1,000)
340	CONCRETE EQUIPT	HARDHAT BUILDERS	20,000		20,000				10,000	10,500	20,500	500
510	STEEL	EZ STEEL CO	130,000		130,000	125,000		125,000	1,000	1,250	127,250	(2,750)
750	ROOFING	HOT ROOFING CO	40,000		40,000	40,000		40,000		-	40,000	-
910	PLASTER	AC PLASTERING	70,000	800	70,800	66,000	800	66,800			66,800	(4,000)
1540	PLUMBING	UG PLUMBING CO	45,000		45,000	43,000		43,000			43,000	(2,000)
1600	ELECTRICAL	ACE ELECTRIC	90,000	175	90,175	88,000	175	88,175		200	88,375	(1,800)
			615,000	22,875	637,875	411,000	22,475	433,475	111,000	82,100	626,575	(11,300)
2002	INSURANCE		10,000	250	10,250						10,250	-
2000	PROFIT		61,000	2,287	63,287						74,587	11,300
	TOTALS		686,000	25,412	711,412	411,000	22,475	433,475	111,000	82,100	711,412	-

WORK IN PROGRESS - WIP Schedule

ENTIRE COMPANY

MONTH ENDING:

OVER BILLED UNDER BILLED

JOB NAME	ORIGINAL CONTRACT AMOUNT	EXECUTED CHANGE ORDERS	CURRENT		ESTIMATED		JOB COSTS		TOTAL EARNED		BILLED		ESTIMATED		CONTRACT		GROSS	
			TOTAL CONTRACT AMOUNT	ESTIMATED FINAL JOB COST	ESTIMATED FINAL OH & P	TOTAL TO DATE	% COMPLETE	OH & P TO DATE	TOTAL REVENUE	TOTAL INCLUDING RETENTION	BILLED IN ADVANCE	UN-BILLED WORK IN PROGRESS	JOB COST TO COMPLETE	BACKLOG BALANCE	GROSS MARGIN %	CURRENT GROSS MARGIN %	3 - 6 BACKLOG	
PERFECT PROJECT	686,000	25,412	711,412	636,825	74,587	576,010	90.45%	67,464	643,474	675,000	31,526		60,815	36,412	8.89%	10.48%	7,123	
PROJECT # 2	400,000	50,000	450,000	420,000	30,000	210,000	50.00%	15,000	225,000	240,000	15,000		210,000	210,000	7.50%	6.67%	15,000	
PROJECT #3	575,000	25,000	600,000	510,000	90,000	400,000	78.43%	70,588	470,588	450,000		20,588	110,000	150,000	15.00%	15.00%	19,412	
PROJECT #4	725,000	75,000	800,000	750,000	50,000	200,000	26.67%	13,333	213,333	175,000		38,333	550,000	625,000	7.00%	6.25%	36,667	
TOTALS	\$2,386,000	\$ 175,412	\$2,561,412	\$2,316,825	\$ 244,587	\$1,386,010	59.82%	\$ 166,386	\$1,552,396	\$ 1,540,000	\$ 46,526	\$ 58,922	\$ 930,815	\$1,021,412	9.60%	9.55%	\$ 78,201	

Over/Under Billed Balances The P & L

Backlog



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COMPLETED CONTRACTS SCHEDULE Completed Projects

Start Date	Job Name	PM	Supt	Fore	Est	Contract \$\$	Mark-Up BID %	Mark-Up FINAL %	Gross Profit FINAL	Actual TOTAL OH & PROFIT
2/12	Project A	JP	BD	HG	LN	\$ 200,000	20.0%	18.0%	15.2%	\$ 30,400
4/17	Project B	PS	CT	MK	AJ	\$ 500,000	14.0%	14.0%	12.2%	\$ 61,000
6/21	Project C	FV	WR	PL	LN	\$ 400,000	16.0%	15.0%	13.0%	\$ 52,000
8/13	Project D	JP	PF	SD	AJ	\$ 300,000	18.0%	19.0%	11.5%	\$ 34,500
9/14	Project E	PS	MN	CF	LN	\$ 600,000	17.0%	15.0%	16.0%	\$ 96,000

Total \$ 2,000,000 **17.64%** **15.9%** **13.7%** \$ 273,900

7/11 **Jobs From Hell** \$ 200,000 20.0% 0.0% 0.0% \$ 000

**10%
Bad Jobs**

FINAL TOTAL \$ 2,200,000 **14.2%** **12.4%** \$ 273,900

Average Job Size \$ 400,000

MARK-UP REALITY ADJUSTMENT

**S
L
O
P
P
Y**

FACTOR: _____ % Bad Jobs

Add **10% SLOPPY FACTOR** To Final Total Mark-Up You Want

- **Bid Mark-Up Rate Needed To Hit 17.64% Goal =** _____ %



Our Average Final Mark-Up % Gross Profit % Trend?

- Project Type
- Project Size
- Project Location
- Contract Type
- Customer Type

Average Mark-Up We Expect To Make Next 12 Months: _____ %



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14





Annual PROFIT GOALS

Worksheet

Our Annual NET PROFIT Goals

Minimum

Excellent

RETURN On EQUITY *Net Profit / Equity*

15% ROE

25% ROE

Our Company EQUITY \$ _____

Our Net Profit Goal Range

\$ _____

\$ _____

RETURN On OVERHEAD *Net Profit / Overhead*

Subcontractor

20% ROOH

40% ROOH

General Contractor

25% ROOH

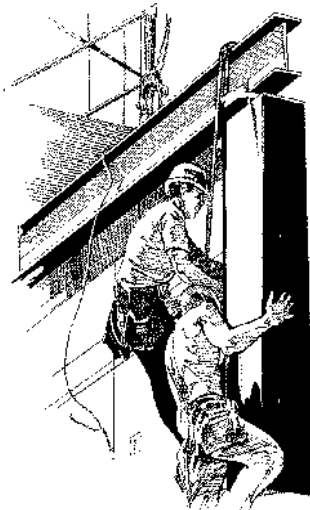
50% ROOH

Our Company OVERHEAD \$ _____

Our Net Profit Goal Range

\$ _____

\$ _____



Same Mark-Up?

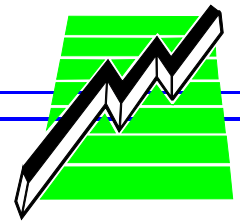
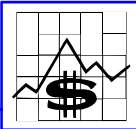


	JOB #1	JOB #2
Labor	\$ 50,000	\$ 10,000
Materials	\$ 50,000	\$ 90,000
Equipment	\$ 10,000	\$ 10,000
Subcontractors	\$ 10,000	\$ 10,000
SUBTOTAL	\$ 120,000	\$ 120,000
Overhead Markup @ 17%	\$ 20,400	\$ 20,400
Profit Markup @ 8%	\$ 9,600	\$ 9,600
TOTAL BID	\$ 150,000	\$ 150,000
Schedule	4 Months	1 Month
OH & P Per Month	\$ 7,500	\$ 30,000



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12 Step Formula To Always Make A PROFIT! RETURN On OVERHEAD

BIZ PLAN

SALES PLAN

My Company

1. Projected Indirect Fixed OVERHEAD Expenses	\$ 1,000,000	\$ _____
2. Return On OVERHEAD Goal (What You Want)	X 50%	X _____%
3. Projected Annual NET PROFIT (Before Taxes) (1 X 2) =	\$ 500,000	\$ _____
4. Projected GROSS PROFIT Margin (OH + P) (1 + 3)	\$ 1,500,000	\$ _____
<i>Average Anticipated MARK-UP On Cost %</i>	<i>17.64%</i>	_____%
5. Average GROSS PROFIT Margin % (OH + P / Sales)	15.00%	_____%
6. Projected Sales VOLUME Required (4 / 5)	\$ 10,000,000	\$ _____

7. Average Projected JOB SIZE	\$ 400,000	\$ _____
8. Projected # JOBS (6 / 7)	25	_____
9. BID - HIT RATIO Projected	5 : 1	_____
10. # BIDS Required (9 X 8)	125	_____
11. BID VOLUME Required (10 X 7)	\$ 50,000,000	\$ _____
12. # BIDS / MONTH Required	10.5 Bids/Mo.	_____ Bids/Mo.



Bid Volume / Month

\$4,166,666/Mo. \$ _____/Mo.

@ \$400,000/Job @ \$ _____/Job

@ 17.64% Mark-Up @ _____% Mark-Up

BREAK-EVEN SALES VOLUME

(OH / GP%) (1/5) \$ 6,666,666 \$ _____



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13 Step Formula To Always Make A PROFIT!

RETURN On EQUITY

My Company

1. EQUITY	\$ 1,300,000	\$ _____
2. Return On EQUITY Goal	X 15%	X _____%
3. Projected Annual NET PROFIT (Before Taxes) (1 X 2) =	\$ 195,000	\$ _____
4. Projected Indirect Fixed OVERHEAD Expenses	\$ 1,000,000	\$ _____
5. Projected GROSS PROFIT Margin (OH + P) (3 + 4)	\$ 1,195,000	\$ _____
<i>Average Anticipated MARK-UP On Cost %</i>	17.64%	_____%
6. Average GROSS PROFIT Margin % (OH + P / Sales)	15.00%	_____%
7. Projected Sales VOLUME Required (5 / 6)	\$ 7,966,666	\$ _____
<hr/>		
8. Average Projected JOB SIZE	\$ 400,000	\$ _____
9. Projected # JOBS (7 / 8)	20	_____
10. BID - HIT RATIO Projected	5 : 1	_____
11. # BIDS Required (9 X 10)	100	_____
12. BID VOLUME Required (11 X 8)	\$ 40,000,000	\$ _____
13. # BIDS / MONTH Required	8.3 Bids/Mo.	_____ Bids/Mo.
 Bid Volume / Month	\$ 3,333,333/Mo.	\$ _____/Mo.
	@ \$400,000/Job	@ \$ _____/Job
	@ 17.64% Mark-Up	@ _____% Mark-Up

BREAK-EVEN SALES VOLUME

(OH / GP%) (4 / 6) \$ 6,666,666 \$ _____



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BIZ PLAN

SALES PLAN



9 Numbers Every Contractor Needs To Know
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Variable MARK-UP Rates Calculation

Annual Goals

OVERHEAD	\$ 1,000,000
Net PROFIT Goal (ROOH) @ 50%	\$ 500,000
GROSS PROFIT MARGIN (OH + P)	\$ 1,500,000**
Average Mark-Up %	17.64%
Average Gross Profit Margin % (OH & P)	15.00%
Sales VOLUME Goal	\$ 10,000,000

Total JOB COSTS \$ 8,500,000***

RISK FACTORS

- #1
- #2
- #3
- #4

How Many Mark-Up Rates?

Variable Mark-Up Calculation - *Self Perform Work*

DUAL MARK-UP RATES

	% Cost of Total Job Costs		Total OH + P MARK-UP %	TOTAL OH + P MARK-UP \$
	Typical Job %	JOB COSTS		
LABOR	33%	\$ 2,805,000	@ 33.2 %	\$ 930,500
EQUIPT	67%	\$ 5,695,000	@ 10.0%	\$ 569,500
MATL				
SUBS				
TOTAL	100%	\$ 8,500,000***	17.64%	\$ 1,500,000**

Average Projected Total Mark-Up %

Total Mark-Up \$ Goal

Recover 100% OH+P From LABOR Only!

Variable Mark-Up Calculation - *Cost Plus / T & M / CO's*

Recover 100% OH + P From LABOR

	Typical Job %		Total OH + P MARK-UP %	TOTAL OH + P Mark-UP %
	Typical Job %	JOB COSTS		
LABOR	100%	\$ 2,805,000	@ 53.5 %	\$ 1,500,000
EQUIPT	0%	\$ 000	@ 0.0%	\$ 000
MATL				
SUBS				
TOTAL	100%	\$ 2,805,000***	%	\$ 1,500,000**

Average Projected Total Mark-Up %

Total Mark-Up \$ Goal



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9 Numbers Every Contractor Needs To Know
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Variable Mark-Up Worksheet My Company

Annual Projected OVERHEAD \$ _____

Annual Net PROFIT Goal (ROOH) % _____%

Annual Net PROFIT Goal \$\$\$ \$ _____

GROSS PROFIT (OH + P) Margin \$ _____

Projected Average MARK-UP % _____%

Projected Average GROSS PROFIT Margin % _____%

Annual Sales VOLUME Goal \$ _____

Total Annual JOB COSTS \$ _____

RISK FACTORS

#1
#2
#3
#4
How Many Mark-Up Rates?

Variable Mark-Up Worksheet My Company

	% Cost of Total Job Costs		Total OH + P MARK-UP %	TOTAL OH + P MARK-UP \$
	Typical Job %	JOB COSTS		
LABOR	_____ %	\$ _____	@ _____ %	\$ _____
EQUIPT	_____ %	\$ _____	@ _____ %	\$ _____
MATL	_____ %	\$ _____	@ _____ %	\$ _____
SUBS	_____ %	\$ _____	@ _____ %	\$ _____
TOTAL	100%	\$ _____	@ _____ %	\$ _____

Variable Mark-Up BID TEMPLATE

Work Item	Labor	Material	Equipment	Subcontracts	Total
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
SUB-TOTAL	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
MARK-UP	_____ %	_____ %	_____ %	_____ %	_____ %
TOTAL BID	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____



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Dual Mark-Up Rates - Bid Template

Code	Work Description	Labor	Materials	Equipment	Subcontractors	TOTAL
0100	General Conditions					
0101	- Superintendent	30,000				30,000
0102	- Project Manager	10,000				10,000
0105	- Truck			10,000		10,000
0150	- Clean Up	10,000		5,000		15,000
0340	Concrete - Foundations	30,000	30,000	10,000		70,000
0340	Concrete - Slab	20,000	30,000	15,000		65,000
0620	Carpentry	30,000	100,000	20,000		150,000
0925	Drywall & Finishes Subs				100,000	100,000
1600	P M E Subcontractors				200,000	200,000
SUB-TOTAL		130,000	160,000	60,000	300,000	\$ 650,000
OH & P Mark-Up Rates		33.2%	10.0%	10.0%	10.0%	14.6% Average
OH + P MARK-UP		43,160	16,000	6,000	30,000	95,160
SUB-TOTAL						\$ 745,160
Liability Insurance @ 2%						\$ 14,903
TOTAL BID						\$ 760,063



Project Master BUDGET & GOALS

Contractor: HardHat Builders		Project: The Perfect Project		GOAL
Cost Code	Work Item	Subcontractor	Bid/Contract Budget	PROJECT BUDGET
0101	Supervision	HardHat Builders	\$ 30,000	\$ 28,000
0102	Project Management	HardHat Builders	\$ 10,000	\$ 9,000
0120	Truck & Cleanup	HardHat Builders	\$ 25,000	\$ 23,000
0340	Concrete	HardHat Builders	\$ 135,000	\$ 130,000
0620	Carpentry	HardHat Builders	\$ 150,000	\$ 140,000
0750	Structural	ABCDEFG	\$ 100,000	\$ 110,000
0910	P M E	XYZ	\$ 200,000	\$ 195,000
SUB-TOTAL			\$ 650,000	\$ 635,000
OVERHEAD & PROFIT			\$ 95,160	\$ 110,160
Insurance			\$ 14,903	\$ 14,903
TOTAL CONTRACT			\$ 760,063	\$ 760,063



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Recover 100% of Overhead + Profit On LABOR

Annual Overhead:	\$ 1,000,000
Annual Net Profit Goal:	\$ 500,000
Annual Overhead & Profit Goal	\$ 1,500,000
Projected Total Annual LABOR	\$ 2,805,000



$$\frac{\text{OH \& P } \$1,500,000}{\text{LABOR } \$2,805,000} = \underline{53.4 \% \text{ Mark-Up On Labor Only}}$$

Average Labor Rate Cost = \$37.25 Including Burden

Labor Selling Rate = \$57.36 / Hour

Recover 100% of OH + P On Daily CREW Rates

ANNUAL BILLING RATES – 5 Man Crews @ \$227.28 / Hr.

Annual Overhead Nut:	\$ 500,000
Annual Net Profit Goal:	\$ 100,000
Annual Overhead & Profit Goal	\$ 600,000

\$ 500,000
\$ 100,000
\$ 600,000



Number Of Crews:

ONE

TWO

FOUR

Crew & Equipment Cost / Hour	\$ 227 / Hour		
Crew & Equipment Cost / Day	\$ 1,827 / Day	\$ 3,654 / Day	\$ 7,308 / Day
Estimated Billable Crew Days / Year	150 Days	150 Days	150 Days
Annual Overhead & Profit Cost / Day	\$ 4,000 / Day	\$ 4,000 / Day	\$ 4,000 / Day
TOTAL Crew Billing Per Day Needed	\$ 5,827 / Day	\$ 7,654 / Day	\$11,308 / Day
CREW BILLING RATE / CREW	\$ 5,827 / Day	\$ 3,827 / Day	\$ 2,827 / Day
CREW BILLING RATE	\$ 728 / Hour	\$ 478 / Hour	\$ 353 / Hour

ANNUAL BILLING RATES – 2 Man Crews @ \$125 / Hr.

Annual Overhead Nut:	\$ 300,000
Annual Net Profit Goal:	\$ 75,000
Annual Overhead & Profit Goal	\$ 375,000

\$ 300,000
\$ 75,000
\$ 375,000



Number Of Crews:

ONE

TWO

FOUR

Crew & Equipment Cost / Hour	\$ 125 / Hour		
Crew & Equipment Cost / Day	\$ 1,000 / Day	\$ 2,000 / Day	\$ 4,000 / Day
Estimated Billable Crew Days / Year	150 Days	150 Days	150 Days
Annual Overhead & Profit Cost / Day	\$ 2,500 / Day	\$ 2,500 / Day	\$ 2,500 / Day
TOTAL Crew Billing Per Day Needed	\$ 3,500 / Day	\$ 4,500 / Day	\$ 6,500 / Day
CREW BILLING RATE / CREW	\$ 3,500 / Day	\$ 2,250 / Day	\$ 1,626 / Day
CREW BILLING RATE	\$ 437 / Hour	\$ 281 / Hour	\$ 203 / Hour

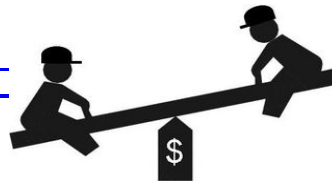


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**9 Numbers Every Contractor Needs To Know
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*Company (Smaller Co.)
Income Statement*

Job Costs \$ 2,400,000
Overhead \$ 500,000
Profit \$ 100,000
Volume \$ 3,000,000

OH & P Mark-Up _____%

Gross Profit Margin _____%

MCR _____

Mark-Up Vs. Margin

Mark-Up % = % of \$\$\$ Added To Direct Job Costs To Cover Overhead + Profit
= OH + P / COSTS = 25.0 %

Gross Profit % = MARGIN

= OH + P / SALES = 20.0 % (Margin)

MARGIN % = Difference Between Direct Job Costs & Sales Price Divided by Sales Price = Gross Profit Margin %

Margin Conversion Rate (MCR) = 1.0 - Margin% = 1.0 - .20 =

.80 MCR

SALES PRICE = **Estimated Job Cost / MCR** = \$1,000 / .80 = \$1,250

Determine Your Annual Goals



	Example	My Company
Annual Overhead	\$ 500,000	\$ _____
Annual Net Profit Goal @ <u>20%</u> ROOH	\$ 100,000	\$ _____
Total Overhead + Profit Goal	\$ 600,000	\$ _____
Overhead + Profit MARK-UP %	25%	_____%
Gross Profit % (MARGIN)		_____%
= Mark-Up % / 1 + Mark-Up % = .25 / 1.25	20%	_____%
Total Annual SALES Required To Hit Goals		
= OH & P Goal / Gross Profit % (Margin)		
= \$600,000 / .20	\$ 3,000,000	\$ _____
Total Annual JOB COSTS	\$ 2,400,000	\$ _____

Job Estimating Template



*Bid RECAP Using **MARK-UP** Using **MCR Formula***

Labor	\$ 2,000	\$ 2,000
Equipment	\$ 400	\$ 400
Materials	\$ 2,000	\$ 2,000
Subcontractors	\$ 200	\$ 200
General Conditions	\$ 400	\$ 400
Total JOB COST	\$ 5,000	\$ 5,000 / MCR = \$5,000 / .80
OH + P MARK-UP @ <u>25%</u>	\$ 1,250	
TOTAL BID	\$ 6,250	\$ 6,250

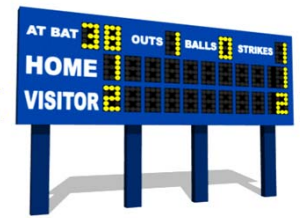


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9 Numbers Every Contractor Needs To Know
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INCOME STATEMENT Profit & Loss

Statement of Income & Retained Earnings For Year Ending _____

		<u>% SALES</u>
Constr. Contract REVENUE / Sales	\$ 10,000,000	100.0%
<i>(Gross Billings Including Retention Adjusted for Over-Under Billings)</i>		
Direct JOB COSTS - Costs of Sales	- \$ 8,500,000	85.0%

GROSS PROFIT Margin On Contacts	\$ 1,500,000	15.0%
Indirect OVERHEAD G & A Expense	- \$ 1,000,000	10.0%

Net INCOME (Profit From Operations)	\$ 500,000	5.0%
Other Income: Interest, Discount, Misc.	\$ 0	

Net INCOME / Profit (Before Taxes)	\$ 500,000	5.0%
Income Taxes	- \$ 100,000	1.0%

Net PROFIT / Income Earned	\$ 400,000	4.0%
Retained Earnings - Previous	+ \$ 1,300,000	

Retained Earnings - Ending	\$ 1,700,000	

Profit Success Factors Minimum Excellent

1. Return On OVERHEAD	_____ %	_____ %
2. Return On EQUITY	_____ %	_____ %
3. Return On SALES	_____ %	_____ %

Return On EQUITY *Pre Tax*

Net Income	\$500,000		
-----	=	-----	= 38%
Retained Earnings	\$1,300,000		

Return On OVERHEAD *Pre Tax*

Net Income	\$500,000		
-----	=	-----	= 50%
Overhead	\$1,000,000		



BALANCE SHEET

Financial Statement

For Fiscal Year Ending _____

CURRENT ASSETS

Cash In Bank	\$ 250,000
Accounts Receivable	
• Regular	\$ 1,500,000
• Retention	\$ 500,000
Un-Billed Work In Progress	200,000**
Total Current Assets	\$ 2,200,000

Long Term Assets

Property & Equipment	\$ 400,000
Other Non Current Assets	\$ 0
Total Long Term Assets	\$ 400,000

TOTAL ASSETS \$ 2,600,000

CURRENT LIABILITIES

Accounts Payable	
• Current	\$ 1,150,000
• Retention	\$ 400,000
Receivables - Billed In Advance	\$ 250,000**
Total Current Liabilities	\$ 1,800,000

Long Term Debt

• Line of Credit Drawn	\$ 100,000
• Equipment	\$ 300,000
Total Long Term Liabilities	\$ 400,000

TOTAL LIABILITIES \$ 2,200,000

STOCKHOLDER'S EQUITY / Capital

Initial Capital, Cash, Common Stock	\$ 200,000
Retained Earning From Income Stmt	\$ 1,700,000

Total EQUITY (Net Worth) \$ 1,900,000

WORKING CAPITAL

Current Assets	\$ 2,200,000
- <u>Current Liabilities</u>	- \$ 1,800,000
= Working Capital	\$ 400,000

Our Sales Goal: \$ _____ Our Average OH & P Mark-Up % _____ %
 Our Overhead Nut: \$ _____ Our Average Gross Profit % _____ %
 Our Net Profit Goal: \$ _____ Our Break-Even Sales \$ _____



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Fast Pay System!

File Preliminary Notice



Always Follow The Legal Requirements To Maintain Your Rights

Sign Contract



- Verify Contract Payment Procedures.
- Verify Notices, Terms & Deadlines.
- Verify Terms With Customer.
- Verify Project Funding Available.
- Verify Lender's Requirements.

You Will Only Get Paid If:

- Your Customer HAS the \$\$\$.
- You are OWED the \$\$\$.
- You INVOICE Per Your Contract.



INVOICE Progress Payments

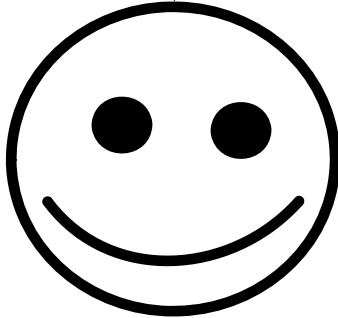
On-Time With Proper Releases & All Required Documentation

Follow-up!

Every 7 Days. Be Persistent. Talk To Right Person. Put It In Writing. Track Receivables.

INVOICE Change Orders & Extras

Invoice On Separate Billing Unless Change Order Is Executed



Notify Intent To Stop Work If Not Paid

Always Notify In Writing. Give Deadline.

Notify Intent To Lien Job If Not Paid

Always Notify In Writing. Give Deadline.

Stop Work

Or Proceed Under Protest Or Per Contract



Lien Job

Never - Never - Never Give Up Lien Rights

Suggestion To Get Faster:

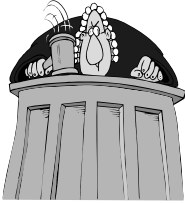
- Offer Juicy Discounts For Faster Pay.
- Execute Gross Contract with discount for payment within 10 days without retention.

File Lawsuit

Always File Timely Lawsuit To Protect Rights & Collect Amount Owed

Win Judgement!

Hope To Get Paid!

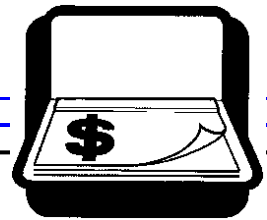


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**9 Numbers Every Contractor Needs To Know
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Cash-Flow Projections

Project	Contracts	Gross Profit	Odds	Net G.P.	Jan.	Feb.	March	April	May
Jobs Under Construction									
Perfect Job	\$ 711,412	\$ 74,587	100%	\$ 74,587	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
Project #2	\$ 450,000	\$ 30,000	100%	\$ 30,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Project #3	\$ 600,000	\$ 90,000	100%	\$ 90,000		\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500
Project #4	\$ 800,000	\$ 50,000	100%	\$ 50,000			\$ 6,500	\$ 6,500	\$ 6,500
Projected Cash Flow		\$ 244,587		\$ 244,587	\$ 12,500	\$ 22,000	\$ 28,500	\$ 28,500	\$ 28,500
Potential Jobs									
Potential #1	\$ 500,000	\$ 40,000	90%	\$ 36,000		\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600
Potential #2	\$ 600,000	\$ 50,000	66%	\$ 33,333			\$ 3,000	\$ 3,000	\$ 3,000
Potential #3	\$ 700,000	\$ 70,000	50%	\$ 35,000				\$ 3,500	\$ 3,500
Potential #4	\$ 800,000	\$ 60,000	25%	\$ 15,000				\$ 1,500	\$ 1,500
Potential Cash Flow		\$ 220,000		\$ 119,333		\$ 3,600	\$ 6,600	\$ 11,600	\$ 11,600
TOTAL Projected Cash-Flow				\$ 363,920	\$ 12,500	\$ 25,300	\$ 35,100	\$ 40,100	\$ 40,100
LESS OVERHEAD				-\$ 300,000	-\$ 25,000	-\$ 25,000	-\$ 25,000	-\$ 25,000	-\$ 25,000
Projected Net PROFIT				\$ 63,920	-\$ 12,500	\$ 300	\$ 10,100	\$ 15,100	\$ 15,100
PROFIT Goal				\$ 150,000	\$ 12,500	\$ 12,500	\$ 12,500	\$ 12,500	\$ 12,500
Over / Under OH & PROFIT Goal				-\$ 86,080	-\$ 25,000	-\$ 12,200	-\$ 2,400	+\$ 3,400	+\$ 3,400

Weekly Accounts Receivable Aging

Accounts	Current Due	30 Days	60 Days	90 Days	Retention
Project #1	\$ 70,500	\$ 55,000			
Project #2	\$ 45,000	\$ 50,000			
Project #3	\$ 65,000				
Project #4	\$ 75,000	\$ 60,000	\$ 30,000		
Old Project					\$ 57,500
Total Due	\$ 255,500	\$ 165,000	\$ 30,000	\$ 0	\$ 57,500



Deposit Log

Date	Account	Job	Amount
11/10/	ABCD	Big Job	\$ 99,000
11/15/	Acme Devel.	Perfect Job	\$ 40,000
11/22/	XYZ Co.	Great Job	\$ 77,000
11/25/	PDQ Co.	Bad Job	\$ 34,000
11/27/	GSH III	Best Job	\$ 99,000

Weekly Cash Report

Date: _____

CASH Balances

- Checking	\$ 30,000
- Payroll Account	\$ 10,000
- Savings	\$ 10,000
- Liquid Investments	\$ 0
TOTAL CASH Available	\$ 50,000



LESS

Current Accounts Payable Due:

- Payroll	\$ 20,000
- Overhead Payables	\$ 7,500

PLUS

- Potential Receivables	- \$ 0
-------------------------	--------

NET CASH AVAILABLE \$ 22,500

DEBT

- Line of Credit Available	\$ 200,000
- Line of Credit Drawn	\$ 200,000
- Other Loans:	\$ 100,000

SAVINGS & INVESTMENTS

- Liquid	\$ 0
- Other:	\$ 0

PAYROLL

	# People	
- Office	6	\$ 6,000
- Field	15	\$ 14,000



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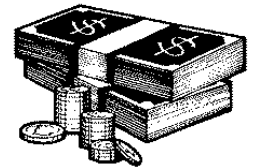


Financial Controls

1. Never issue company credit cards
2. Never issue company cell phones
3. Send bank statements to owner's home
4. Owner sign all contracts & subcontracts
5. Two signatures & approvals on:
 - All checks
 - Subcontracts, purchase orders, & change orders



- Any credit card payment
- Automatic payroll deposits
- Reimbursables & expense accounts
- Overtime & vacation approvals
- Payroll preparation, approvals & deposits
- Project payables and job costs



6. Keep perfect personnel, sick time & vacation records
7. Follow your employee manual to the letter
8. No exceptions to employee manual, labor code or laws
9. No special exceptions for long time employees
10. Trust your people, but follow your rules





Who Is Your Spending Consultant?

- Bonding Agent
- CPA
- Banker
- Insurance Agent
- Attorney
- Technology
- Association

BONDING

Surety is Not Insurance - *It's a Form of Credit.*

Surety Bond = *A Guarantee of Your Bid, Performance & Payment.*

Types of Bonds:

- Bid Bond *Guarantees the bidder will enter into the contract price bid and can & will provide a performance & payment bond.*
- Performance Bond *Protects the Owner from financial loss if the contractor fails to build the project per the contract.*
- Payment Bond *Guarantees that the Contractor will pay all Labor & Material associated with the job.*



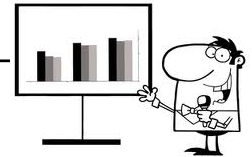
Cost of Bonds: 0.5% - 3.0 % Based on: *Financial Strength - Reputation - Track Record*

Bonding Capacity

- Net Quick = *Current Assets - Current Liabilities*
- Backlog
- Total Capacity
- Single Project
- Rule of Thumb: *10 to 20 X Net Quick or Working Capital*

Bonding Package

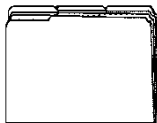
1. Resume of Company
2. Organizational Chart
3. Resume of Key Management & Staff
4. Strategic Business Plan
5. Balance Sheet - *CPA Audit / Review*
6. Income Statement - *CPA Audit / Review*
7. Contracts In Progress Schedule
8. Completed Contracts Schedule
9. Cash Flow Statement
10. Back Log & Projected Contracts
11. Budget
12. References



The Key to Obtain Bonds

- The Bonding Company's CONFIDENCE in You!

1. How to Gain Confidence:
 - *Present as much information as possible*
 - *Keep your promises*
 - *Present a professional package*
 - *Display a well managed operation*
 - *Be profitable year after year*
 - *Deal fairly with everyone*
 - *Perform your obligations*



2. Keep Bonding Relationship Strong - *Send updated information - Monthly/Quarterly/Annually*
3. Your 1st Bond Is the Hardest to Get. - *Offer collateral*
4. Find a Bonding Agent That Specializes in Construction Bonds.



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9 Numbers Every Contractor Needs To Know
To Always Make A Profit!

\$\$\$ ACTION PLAN

DOUBLE-IT!

Numbers I Need To Know	Last Year Target	Next Year Target	2 Years	3 To 5 Years
SALES - Grow @ ____% / Year - Job Costs				
= Gross Profit - OVERHEAD  				
= NET PROFIT				
ASSETS Liabilities & Debts EQUITY - Grow @ ____% / Year Working Capital				
Owner's Compensation Investments, Wealth & Assets - Cash Flow From Investments				
Overhead + Profit MARK-UP % GROSS PROFIT MARGIN % Return On EQUITY % Return On OVERHEAD % 				
BREAK-EVEN \$\$ SALES To BREAK-EVEN Completed Contracts Schedule Contracts In Progress Schedule Average Final OH & P MARK-UP - By Contract Type - By Project Type - By Project Size - By Project Location				
Accounts Receivables Accounts Payables Cash 				
Total # JOBS Average JOB SIZE BID-HIT RATIO - By Job Type - By Job Size - By # Competitors - By Customer - By Average Size Job				
LABOR Cost LABOR BURDEN Rate EQUIPMENT Cost CREW Cost				
Volume - Per PM / Supt / Fore  Profit - Per PM / Supt / Fore				

BUSINESS SUCCESS

DOM



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Margins, Markup & Making Money! By George Hedley

I just spoke at a national convention of specialty contractors. I left shocked at the number of business owners who don't know how to price their work. My guess is that over seventy-five percent of all contractors don't know the right mark-up to use for overhead and profit. They just bid to get the work at whatever the customer will pay. These contractors continue to charge too little for the work they do and ruin it for the business owners who know how to run and manage their companies like professionals.

These contractors leave a lot of money on the table every year. They don't know the difference between markup and margin or how much to add to their bids to break-even or make a profit at the end of the year. The difference between mark-up and margin is a simple concept to grasp and will make you more money than you are currently making, if you follow these steps.

Mark-Up %

= Percentage of money added to direct costs to cover overhead & profit.

Margin %

= Difference between direct costs & sales price divided by the sales price.

Job Bid (Example #1)

		<u>% Of Sales</u>
Direct Job Cost	\$1,000	77%
Mark-Up @ 30%	\$ 300	<u>23%</u> (Margin)
Job Sales Price	\$1,300	100%

Mark-Up % = Mark-Up / Cost = \$300 / \$1,000 = 30%
Margin % = Mark-Up / Sales = \$300 / \$1,300 = 23%

In the example above you are not making 30%. You are only making 23% on your sales. To earn 30% margin on your sales, you would have to markup your cost 42.8%. Let me show you how to calculate the margin needed to make what you want. To determine your selling price and make the overhead and profit margin you want, you must DIVIDE your direct costs by the 'Margin Conversion Rate' (MCR).

Sales Price = Direct Job Costs / MCR

Using the example above, to make 30% margin on the job (not mark-up), convert 30% margin using the 'Margin Conversion Rate' (MCR) formula:

MCR = 1.0 - Margin%
MCR = 1.0 - .30 = .70

To make the overhead and profit margin you want, determine the final sales price by dividing your direct job costs by the MCR as follows:

Sales Price = Cost / MCR = \$1,000 / .70 = \$1,428



Job Bid (Example #2)

		<u>% Of Sales</u>
Direct Job Cost	\$1,000	70%
Mark-Up @ 42.8%	\$ 428	<u>30%</u> (Margin)
Job Sales Price	\$1,428	100%



In example # 2, margin is 30%. If you are selling your jobs using markup versus the margin method, you could be losing lots of money. Next, let's figure out how to determine the margin you need to hit your overhead and profit goals.

Determine your Overhead

It all starts with what it costs you to keep your business open. The annual fixed indirect cost of running your company is called overhead. Overhead comprises of every cost needed to keep your doors open for the entire year with or without any work under construction. It includes your office or warehouse expenses, phones, utilities, office supplies, postage, computers, website, office equipment, office staff, administration costs, bookkeeping, sales, marketing, advertising, estimating, accounting, legal, banking, company insurance, and closed job expenses. Don't forget to include in overhead a regular salary plus vehicle expenses for the owner or President who manages the company.

Notice what is **NOT included** in your annual overhead cost: field labor, field labor insurance, field labor benefits, field trucks, field equipment, gas and maintenance for field vehicles, job insurance, job supervision, and project management. These field costs are a part of your total job cost as they are not needed unless you have jobs to build.

An exception needing to be included in your overhead is the non-billable portions of your project management, field supervision, field labor, and field vehicles you pay for while they are not working on a job. For example, if you have to keep paying a superintendent during the winter months, you'll need to add that portion of his salary to your overhead. And if you can't bill-out for your vehicles every day, you'll need to include the downtime days in your overhead cost.

Determine Your Break-Even

When all your jobs for the year bring in enough money to cover all of your direct job costs plus enough to cover your annual overhead costs, you break-even even without a profit. To make a profit, you must add your overhead costs plus a profit margin to your bids. Your overhead margin is easy to calculate. It is the total sum of your annual overhead costs divided by the sales you anticipate for the year.

Overhead Margin = Annual Overhead Expenses / Annual Sales

To calculate your break-even overhead margin to use on your bids to break-even, you'll have to estimate the annual sales you'll be able to collect for the entire year. In example #3 below, you have estimated three different levels of annual sales: \$1,000,000, \$2,000,000 and \$3,000,000. For each sales level you estimate, you'll have a different Overhead Margin needed to add to your bids to allow you to break-even.



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Margins, Markup & Making Money! Page 2 of 3

Break-Even Analysis (Example #3)

Annual Overhead Expenses	\$ 500,000	\$ 500,000	\$ 500,000
Estimated Annual Sales	\$1,000,000	\$2,000,000	\$3,000,000
Overhead Margin To Break-Even	50%	25%	16.66%

Job Bid - To Break-Even (Example # 4)

Direct Job Cost	\$ 1,000	\$ 1,000	\$ 1,000
Margin Conversion Rate			
MCR = 1.0 - Margin%	.50	.75	.8333
Job Sales Price			
(Cost / MCR)	\$ 2,000	\$ 1,333	\$ 1,200

Determine Your Profit

The profit you want to earn is just that. It is the amount of money you want to make at the end of the year based on the risk you take and the return you want for being a business owner. I recommend contractors have an annual **minimum** net profit target return of **20% on their annual overhead (ROOH)**. Determine your annual overhead expenses and then multiply by 20% to determine your annual minimum net profit goal (pre-tax). Then for the hard part. Try your best to again estimate your annual sales you'll generate over the next year as shown in example #5.

Minimum Profit (Example #5)

Estimated Annual Sales	\$1,000,000	\$2,000,000	\$3,000,000
Annual Overhead	\$ 500,000	\$ 500,000	\$ 500,000
Annual Profit Target			
20% ROOH	\$ 100,000	\$ 100,000	\$ 100,000
Total Overhead & Profit	\$ 600,000	\$ 600,000	\$ 600,000
Overhead & Profit Margin	60%	30%	20%
Annual Job Costs	\$ 400,000	\$1,400,000	\$2,400,000
Margin Conversion Rate			
MCR= 1.0 - Margin%	.40	.70	.80

In the example #5 above, to calculate your final selling price on jobs to earn a minimum of \$100,000 for the year, divide your estimated job costs by the MCR to determine your final selling prices.

Job Bid - Overhead Plus Minimum Profit (Example #6)

Direct Job Cost	\$ 1,000	\$ 1,000	\$ 1,000
Margin Conversion Rate			
MCR = 1.0 - Margin%	.40	.70	.80
Job Sales Price			
(Cost / MCR)	\$ 2,500	\$ 1,428	\$ 1,250

Set Higher Profit Goals

An annual net profit return on overhead goal (ROOH) of 20% is too low for the risk most contractors take. I recommend you consider a higher profit target of at least 40% return on your annual overhead. Again, first determine your annual overhead expenses and then estimate your annual sales projected. Next multiply your annual overhead by 40% to determine a higher net profit goal for the year as shown in example #7.



Higher Profit (Example #7)

Estimated Annual Sales	\$1,000,000	\$2,000,000	\$3,000,000
Annual Overhead	\$ 500,000	\$ 500,000	\$ 500,000
Annual Profit Target			
40% ROOH	\$ 200,000	\$ 200,000	\$ 200,000
Total Overhead & Profit	\$ 700,000	\$ 700,000	\$ 700,000
Overhead & Profit Margin	70%	35%	23%
Annual Job Costs	\$ 300,000	\$1,400,000	\$2,400,000
Margin Conversion Rate			
MCR= 1.0 - Margin%	.30	.65	.77

In the example above, to calculate your final selling price so you will earn a minimum of \$200,000 overhead and profit for the year, divide your total estimated job costs by the MCR to determine your final selling prices as shown in example #8 below.

Job Bid - Overhead Plus Higher Profit (Example #8)

Direct Job Cost	\$ 1,000	\$ 1,000	\$ 1,000
Margin Conversion Rate			
MCR = 1.0 - Margin%	.30	.65	.23
Sales Price			
(Cost / MCR)	\$ 3,333	\$ 1,538	\$ 4,347

Estimating Jobs To Make A Profit

To determine your final selling price on jobs you bid, use a job estimating template to determine your breakeven sales price, your minimum profit sales price, and your higher sales price.

Job Estimating Template (Example #9)

Projected Annual Budget

Annual Estimated Sales	\$2,000,000
Annual Company Overhead	\$ 500,000
Break-Even MCR (example 4)	.75
Minimum Profit MCR (example 5)	.70
Higher Profit MCR (example 7)	.65

Bid RECAP

	1,000 Square Feet
Labor	\$ 2,000
Equipment	\$ 400
Materials	\$ 2,000
Subcontractors	\$ 200
General Conditions	\$ 400
Total Job Cost	\$ 5,000

Final Sales Price	MCR	Sales Price	Cost / SF
@ Break-Even MCR	.75	\$ 6,666	\$ 6.66 / SF
@ Minimum Profit MCR	.70	\$ 7,142	\$ 7.14 / SF
@ Higher Profit MCR	.65	\$ 7,692	\$ 7.69 / SF



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Margins, Markup & Making Money! Page 3 of 3

Converting Annual Targets To Weekly Goals

Next, it would be great to know how much work you need to perform every week to hit your annual goals. Using example 9 above, you need to cover at least \$500,000 of annual overhead to break-even. If you can work productively for 50 weeks per year, you need to make at least \$10,000 more than your job costs a week to pay for your annual overhead. In most parts of the country, an average of only forty productive weeks per year is the average for contractors. If you only can work for 40 weeks a year, you need to make at least \$12,500 more than your job costs a week to pay for your annual overhead.

Convert Targets To Weekly & Daily Goals (Example # 10)

Break-Even Overhead	= \$500,000 / Year
Productive Weeks	X <u>40</u> Weeks
Overhead Recovery Needed	= \$ 12,500 / Week
Break-Even Overhead	= \$ 2,500 / Day

Minimum Profit Goal	= \$100,000 / Year
Annual Overhead & Profit	= \$600,000 / Year
Productive Weeks	X <u>40</u> Weeks
Overhead & Profit Needed	= \$ 15,000 / Week
Minimum OH & P	= \$ 3,000 / Day

Higher Profit Goal	= \$200,000 / Year
Annual Overhead & Profit	= \$700,000 / Year
Productive Weeks	X <u>40</u> Weeks
Overhead & Profit Needed	= \$ 17,500 / Week
Higher OH & P	= \$ 3,500 / Day

Taking Overhead and Profit to the Crew Level

Let's say your company has three regular crews each comprised of 5 men with trucks. Your crew cost might look like this:

Typical Crew Cost – 40 Weeks / Year (Example #11)

Labor – 5 Men @ \$30/Hour	\$ 150 / Hour
Down Time @ 10%	\$ 15 / Hour
Truck	\$ 15 / Hour
Small Tools & Equipment	\$ 10 / Hour
Miscellaneous Supplies	<u>\$ 10 / Hour</u>
Total Crew Cost	\$ 200 / Hour
3 Crews	x <u>3</u>
Total 3 Crews Cost	\$ 600 / Hour
Total 3 Crews Cost	\$4,800 / Day

To determine how much you need to bill each day, 40 weeks per year, **ADD** the following costs to your crew daily rates shown in example 11:

<u>Break-Even</u> Overhead	\$2,500 / Day (\$104 / Hour / Crew)
<u>Minimum</u> Overhead & Profit	\$3,000 / Day (\$125/ Hour / Crew)
<u>Higher</u> Overhead & Profit	\$3,500 / Day (\$145/ Hour / Crew)

To break-even in the example above, each of the three crews will have to be billed out \$200 / hour to cover their cost plus \$104 / hour to cover your company overhead = \$304 / hour, plus what you want to earn for profit. If you want to make the higher profit amount, your crew billing rate is \$200 + \$145 = \$345 / hour.

Understanding what it takes to make the money you want is not a simple task. It takes time and concentration to figure out your numbers. And then it takes discipline to actually ask and get the proper amounts you need to make a profit at the end of the year. Take the time to get to know how to make a profit and then you might actually make it become a reality!

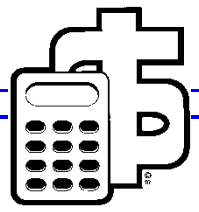
ABOUT THE AUTHOR

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9 Necessary Numbers You Need To Know!

by George Hedley

When I ask construction business owners and managers: 'Why they're in business?' they usually answer: 'To make a profit.' Then I ask: 'How much profit do you make?' most don't really know. This tells me a majority of construction business owners and managers don't focus on what counts most: their numbers. Business owners and managers spend their time getting jobs built and then hope the bottom-line numbers work out. Often, these hard working people don't like to be bothered with the numbers and pass them off to a bookkeeper or spouse to handle, manage and worry about.

I have been a general contractor since 1977, worked with hundreds of subcontractors and presented keynote speeches and seminars to tens of thousands of construction business owners and managers. The sad truth is only one out of twenty business owners will ever become financially independent. And even worse, one out of eight construction businesses fail every year. Why? The top three reasons for failure include not enough profit, too little equity and slow collections. See the pattern? Minding the storehouse, watching the numbers, or lack of it!

Only 1 out of 5 will thrive!

You don't want a business that struggles, doesn't make enough money, or fails. I'm sure your goal isn't just to stay busy and create enough revenue to pay your bills. But this is normal in the construction business as owners focus on the wrong things everyday. If you watch 95 out of 100 general contractors, builders or subcontractors, and follow their progress for 10 to 20 years, you'll hear the same story over and over:

- They work too hard for their effort and risk.
- They never make big money.
- They never have any money leftover to invest.
- They never get out of debt.
- They can't stop working because they need the money to live on.

Out of every 100 construction business owners at age 65:

- Only 1 will be independently wealthy.
- 4 will be financially secure.
- 24 will still be working because they have to.
- 31 will be dead.
- 40 will be dead broke and need social security to make ends meet.

It seems as if business owners hope their efforts will eventually make them wealthy or give them financial freedom. But the odds they hit a jackpot, win the lottery, or inherit a fortune to create wealth are better than continuing to run their businesses the way they currently do. Construction business owners deserve better. But it takes a plan and focus on the necessary numbers that keep you headed in the right direction. The following is a list of nine necessary financial numbers you must know, track and review on an ongoing weekly and monthly basis. Even if you hate numbers!

1. Know your profit numbers!

Are you hitting your profit goals? Do you even know what your profit target is or should be? How do you determine your net profit mark-up? I conducted a survey of over 2,500 construction business owners and managers and discovered less than 40% of all companies had specific written net profit targets they shoot for. According to the Construction Financial Management Association (cfma.org), the average pre-tax net profit between 1.4 and 2.4% for general contractors is and 2.2 to 3.5% for subcontractors. To me this stinks and is not enough profit for the risk contractors take.

Contractors and subcontractors get in the rut of providing the same services as their competition to the same customers year after year. Contractors generally offer the minimum per plans and specifications and do the same scope of work as their competitors. This forces them to compete on price against other competent contractors and thus diminishes their opportunity to make a good or above average profit margin. How often do offer extra services or provide added value to your customer or project which increases your net profit margin 50%? What is your game plan for maximizing your bottom-line and getting more than the average competitive markup?

Every year, sit down with your management team and decide how much gross and net profit you want to make. To determine the number you want to hit, look at your equity or net worth in your company. Look at your projected overhead for the upcoming year. Look at the risk you take to operate your business. Then determine how much net profit you want to make in total dollars and track your progress monthly.

2. Know your equity numbers!

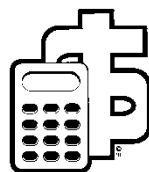
Equity or net worth is the actual value of your company, not including the intrinsic value. It's the sum of your total assets minus your total liabilities. It's found on the bottom of your balance sheet or financial statement. One of every construction business owner's top priorities is to grow the net worth of their company. If the company doesn't grow in value, the company can't go out and do more work, increase their bonding capacity, or grow in size. Over 80% of all construction business owners don't know what their company is worth.

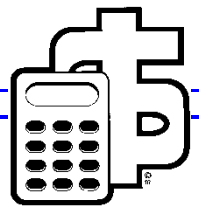
Only after you know what the investment in your company is, can you then determine your return on investment goals for net profit. I recommend construction companies shoot for a minimum net profit of at least 15% return on total equity or investment. Additionally I recommend companies aim at a 25% return on equity as an excellent profit target. For example to determine your net profit goal:

Company Equity	\$400,000
Net Profit Goal @ 25%	\$100,000

3. Know your overhead numbers!

Making a net profit starts with knowing how much money you need to earn and collect to cover your fixed cost of doing business, also known as overhead. In my survey I also discovered only 30% of contractors actually know their overhead budget for the year. This is unacceptable to think business owners don't know or care what it takes to keep their company open! At the beginning of every year calculate your annual overhead expenses you anticipate spending to keep you company open and running. This number is a must know. Then track it every month to make sure your actual expenses do not exceed your overhead budget.





9 Necessary Numbers You Need To Know!

Continued page 2 of 3

Another profit target I recommend contractors to aim for is return on total annual overhead. At the beginning of each year determine your annual overhead expenses you'll spend. Overhead expenses are an investment in your future, in hopes of getting a return. Subcontractors should shoot for a pre-tax net profit return on their annual overhead expenses of 20% to 40% and general contractors should shoot for 25% to 50%. For example to determine your return on overhead expenses goal:

Annual Projected Overhead	\$500,000
Net Profit Goal @ 40%	\$200,000

4. Know your sales numbers!

True or false? Only 23% of construction company owners know or track their annual sales or volume goals? Do you know your sales numbers or targets? How often do you track them and what do you do every month to keep them on target? (The answer is true.)

In the financial examples above, the company owner knows they must make a minimum of \$500,000 to recover their overhead expenses plus shoot for \$100,000 to \$200,000 net profit. This is their gross profit (overhead and profit) goal. From these numbers they can then determine how much work they need to perform at the mark-up and gross profit rate they can get in their marketplace to hit the numbers they want to achieve. Divide your total gross profit goal by the gross profit percentage you can get in the marketplace you compete to determine the volume you need in order to hit your numbers. (Note: gross profit and markup are not the same number!) An example how to calculate the sales you need at the gross profit you can get:

Overhead	\$ 500,000
Net Profit Goal @ 40%	\$ 200,000
Gross Profit (OH & P) Goal	\$ 700,000
Average OH & P Markup	25%
Average Gross Profit	20%
Total Sales Volume Needed	\$3,500,000

Now you know how much total sales you need at an attainable markup rate to achieve your numbers. Next track your sales numbers monthly to make sure you are on target to hit your annual sales, overhead and profit goals. Unfortunately, only the top 19% of contractors and subcontractors set specific overhead, profit, and sales targets for the year and then track their progress monthly. As a result, only the top contractors can make necessary adjustments to their estimating and bidding strategy, customer selection, project management and field operations as the need arises.

5. Know your job cost numbers!

Before you can bid a job, you've got to know exactly what it will cost to build. The purpose of every estimate is to create an accurate budget of what the job will cost. 81% of all contractors do not know exactly what their accurate labor and burden rate or fringes cost for each of their field employees. This creates inaccurate bids and estimates for the biggest part of any job - labor. In addition, most don't really know what their equipment costs them annually to own or how much they should charge per hour when it is used on the job.

Stop everything and sit down with your accounting manager and get an accurate accounting of what every employee and piece of equipment you own costs your annually. For your labor cost include all taxes, insurance, worker's compensation costs, health insurance, vacation, union dues, overtime, small tools, training, pension, profit sharing, and any other benefits you provide. For your equipment cost, for each piece of equipment include the purchase cost, finance and interest, payments, insurance, maintenance, tires, gas, and repairs. Now you really know what it costs for labor and equipment.

Next you must have an accounting system and software and to track your actual job costs. It should create accurate reports of what each part of your field operation and work performed costs to install by cost code or work task. From these printouts, you can verify the numbers you use for estimating new projects are accurate. If you don't know what it costs to build, it is next to impossible to ever make any money!

6. Know your contract numbers!

Top construction business owners know their contract numbers. These include closed jobs and current jobs in progress. They review how well they did on past jobs and how well they're doing on current jobs. To manage your numbers, you should have a report listing out all of your completed and current projects using the example below every month:

Completed Contracts Report

Job Name	ABC Project
Start date	June 1
Project Manager	Dave
Superintendent	Bill
Foreman	Sam
Contract amount	\$1,000,000
Bid Gross Profit Mark-Up	\$ 200,000
Actual Gross Profit	\$ 150,000

Current Projects (Work In Progress) Report

Job Name	XYZ Project
Contract Amount	\$2,000,000
Bid Gross Profit	\$ 300,000
Estimated Final Cost	\$1,650,000
Estimated Final Gross Profit	\$ 350,000
Variance	\$ 50,000
Costs To Date	\$ 825,000
Percent Complete	50%
Profit To Date	\$ 175,000
Amount Earned To Date	\$1,000,000
Amount Billed	\$ 900,000
Estimate Cost To Complete	\$ 825,000
Contract Balance	\$1,100,000

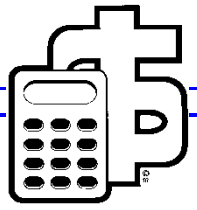
7. Know your receivable numbers!

You can't make any money unless you collect what you're owed. Doing work is fun, but putting money in the bank is even more fun! I know it isn't your favorite job to call deadbeat customers and ask for money. Stay focused on collecting what's owed by getting an updated weekly account receivable aging report every Monday to review.



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Nine Necessary Numbers You Need To Know!

Continued page 3 of 3

Weekly Account Receivable Aging Report

<u>Accounts</u>	<u>Total Due</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Retention</u>
Project #1	\$ 70,000	\$35,000		\$15,000
Project #2	\$ 45,000	\$50,000		\$25,000
Project #3	\$ 65,000			\$55,000
Total Due	\$180,000	\$85,000	\$0	\$95,000

8. Know your liability numbers!

To keep your eye on the ball, you've got to know what your liabilities and debt include. Create a report listing out all of your debts, liabilities and large balloon or one time payments due in the near future.

Liability & Debt Report

	<u>Amount</u>	<u>Payments</u>	<u>Terms</u>	<u>Due Date</u>
Line of Credit				
Line of Credit Drawn				
Other Credit Loans:				
Equipment Loans				
Future Tax Payments				
Real Estate Loans				

9. Know your cash numbers!

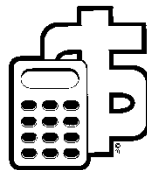
Cash is king and the life blood of your business. You need to know what you've got to work with in order to make good decisions. Get a report of your cash position every week and include the following items:

Weekly Cash Report

Bank Deposits	
Cash In Bank	- Checking
	- Payroll Account
	- Savings
Weekly Payroll Cost	
Weekly Equipment Cost	
Weekly Overhead Costs	
Investments	- Liquid
	- Long Term

Know your nine numbers!

Doing great work doesn't really matter unless you make it your priority to always make a profit. Don't delegate or ignore the most important part of your business. Follow these nine necessary numbers and stay on track towards becoming one of the top contractors in your market. Every week take at least one hour to review these financial figures with your key management team and accounting manager. This small investment of time will give you a much better return than going out to the jobsite one more time to remind your foreman what to do.



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You Can't Make Enough Profit! By George Hedley

I'll make a small wager with you. Give me a day to look at how you manage your construction business and I'll bet I can find at least \$10,000 you've lost, wasted or didn't charge enough for over the last few months. If I can't find anything, I owe you a steak dinner. But whatever I find, I get to keep half. OK? When can I start?

I have a list of things to help you increase your net profit at the end of your fiscal year. Interested? You are probably losing more money than you think in places you don't pay much attention to. Most construction business owners and managers are so busy getting their jobs finished they don't sweat the small stuff. The last detail you want to be bothered with are small financial matters, counting nickels and looking for dimes. But most construction businesses only make a small and totally unacceptable profit margin between one to three percent pre-tax net profit after all job costs, overhead and fixed expenses are deducted. These little things you want to forget or never look at can add up to an additional one or two percent at the end of the year. This is real money.

I speak at many construction conventions every year. I always get contractors coming up to me who boast and profess they make a lot more than three percent. Then I ask them: 'If you are so profitable, why are you always broke, needing your next check to make payroll, hopelessly in debt, have no savings account, no real assets and here at this conference looking for answers on how to make a profit?' Then to make them feel great about their real profit margin, I ask these tough and probing questions:

- *What's your fixed cost of doing business?*
- *What is your annual overhead budget?*
- *How do you determine your mark-up rate?*
- *What's your actual labor burden rate for each of your employees?*
- *What's your annual cost for every piece of equipment you own?*
- *Which project type do you make the most money on?*
- *Which superintendent or foreman makes you the most money?*
- *Which customer do you make the most money on?*
- *How do you determine your change order mark-up rate?*
- *How much money did your money make last year?*

Who mind's your store?

Ninety-five percent of your competitors have no clue or answers to any of these basic business questions. Do you? Most often, answers to these important questions and financial business decisions are left up to a bookkeeper (or spouse) who doesn't really know how a construction business can maximize their bottom-line if managed properly. You can't make enough profit in the construction business for the risk you take. The competition won't let you. They don't know what it costs to build their jobs. So they bid work cheap to keep their crews busy and to create cash-flow to cover their boat and pickup truck payments. How can you compete with this? It's impossible unless you pay close attention to your financials, manage your costs and watch the little things that add up to big dollars over time.



A contractor called me from Michigan several weeks ago. He told me the economy was real bad and work is slow. He said he can't get any new work at his old mark-up rate and has since lowered it another five percent. But he still can't get any work. What should he do? I asked him the first three questions listed above. He had no clue. So I semi-politely said: "How can I help you if you don't have any idea what it costs to keep your business open." He said he would call me back with the answer. Guess what? I haven't heard from him again.

You don't make money building things. You don't make money doing great work. You make money by knowing what it actually costs to run your company and what to charge for labor, equipment, materials, subcontractors, overhead and profit. So here's a list of things to boost your too slim bottom-line profit margin.

Ten Tips To Peak Your Profits

1. Watch Overhead Costs

First and foremost, you must know what it costs to keep your doors open without any work under construction. This is your break-even minimum you must cover before you make a profit. Make it a priority to sit down with your professional accounting manager and get a handle on this most important amount. Then trim the fat. Look at every overhead check you signed last year. Where are you wasting money? Look especially at your insurance costs, expense account items, office supplies, subscriptions, phone bills, postage, shipping costs, employee expense accounts, utilities, cell phone bills, computer and internet costs, copy machine costs, accounting and legal services, and your own credit card charges.

When I took a hard look at our overhead costs a few years ago, I found people were abusing the 'company' accounts and ordering more things than we needed. Consider outsourcing payroll services, craft training, project scheduling, marketing services, safety programs and equipment maintenance. By outsourcing, you'll free your staff to take care of the important things that make you money. And, most likely you can eliminate at least one full time employee.

2. Accurate Labor Burden Rate

Most construction companies don't use accurate labor burden rates when calculating their crew bid rates. Every year the tax rates and workers compensation rates change. Plus as your employees become older and their family situations change, their insurance rates also change. Have your accounting manager figure out exactly what the accurate rate is for every employee. You'll find that your burden rate for each employee can vary by as much as 20% or more. When using accurate rates for labor plus burden, your bottom-line will improve.

3. Re-Price Material Costs

I'm sure you're busy running your company, keeping customers happy and your crews busy. This doesn't allow you enough time to get good material quotes for every job when bidding projects. You get stuck using the same suppliers on most job. Guess what, when this happens, your prices creep up over time. And when you need more material on jobs, you just call your good old friend at the supplier or distributor and get more material shipped out without taking the time to get another price from a different supplier. How much money do you think you're losing every year on just this one big factor affecting your bottom-line?



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You Can't Make Enough Profit!

Continued page 2 of 2

4. Calculate Equipment Costs

Contractors like to buy and own lots of equipment. They are addicted to yellow metal! When you own equipment you feel big and powerful. Plus you can brag how much you own. BUT – are you making enough money on your equipment to make it worth your while? Calculate the exact cost for every piece of construction equipment you own. For each piece of equipment, add the purchase price, interest, maintenance, gas and oil, service, tires, repairs, insurance, storage rent, and mobilization costs you really spend over the life of the equipment. Divide this total cost by the total number of hours you hope to bill for the equipment over that duration. This is your real cost of ownership per hour not including overhead and profit. Next compare this cost with the cost of renting it on a job by job basis. Get rid of all the equipment that doesn't pencil and actually costs you more money to own than you'll get back from your jobs. Use the money you save and go buy some rental property which will actually go up in value!

5. Stop Subcontractor Charges

Review your subcontracts and look at what your subcontractors charge for change orders. Usually they tend to charge more than allowed by contract. They also tend to round up on small extras. This adds up to lots of money wasted by project managers who don't want to play hard ball. Do an audit of all subcontractor change orders over the last twelve months. When I did this, I found a few extras that didn't even end up on our jobs like patio cover lumber, house re-paints, extra carpeting, fireplaces, a Jacuzzi and a trip to Hawaii! Who's lifestyle are you paying for?

6. Minimize General Condition Costs

On almost every job, contractors run over on their general condition budgets. Ask your estimator the last time they checked the actual cost of temporary facilities. They tend to use old numbers on estimates because they're too busy bidding new work. Just temporary toilet facilities can vary by \$100 to \$300 per month depending on how many times per week they are serviced. Also look at how many bids you got on temporary services such as fencing, power, water, trailers and final clean-up services. Too busy to inspect? Give up your next vacation and you'll probably cover what you lost on general conditions on your last job!

7. Maximize Change Order Pricing

How do you calculate your change order markup? Do you always use the same rate? Some contracts clearly state the allowable rate while others don't. Why not try 15% or 20% for overhead and then 15% for your profit markup instead of the traditional 15% total? To maximize change order pricing, always include supervision, trucks, general conditions, small tools, rental equipment and administrative time. Don't forget to add up all extra costs, then subtotal it, then add your overhead rate, then subtotal it again and then markup the total for the final charge. This double markup will increase your bottom-line on changes by 1 to 3%. Also look at your last ten jobs to see what your project managers are giving away. This can add up to lots of cash at the end of the year as well.

8. Rank Your Team

Do you know which estimator, project manager, superintendent and foreman makes you the most money? Rank each key management team member by gross dollars and net dollars earned, actual profit versus bid profit, and customer satisfaction. Rank them by who hits their project labor, material, equipment and general condition budgets. Focus on how better players make it happen and what low ranked players don't do well. Give poor players a chance to improve or get rid of them. Instead of spending all your time with weak people, spend time with your best team players who make you the most money.

9. Aggressively Manage Money

Most contractors run a lot of money through their checking account every year. What are you earning on your bank balance? By meeting with your banker, you can design a program to earn interest or invest your bank balance on a daily basis. There are many ways to invest your cash on short term 1, 3, 7 and 14 day programs. For every \$1,000,000 in sales volume, you should be able to generate at least \$20,000 to \$40,000 in interest or investment income annually. This will take about five minutes a day. Not a bad return on your accounting manager's time!

10. Give Yourself A Raise!

Most construction business owners don't pay themselves what they're worth. What could you get paid running another similar company as their president or general manager? Make sure you pay yourself first every month at least twenty five percent more than what you could get on the open market. The extra pay is for the hassle, sleepless nights and risk of owning your business. This raise will give you a feeling of value and get you focused on bigger things. You are the owner! Not a hourly worker. Stop doing everyone's job for them. Let go of the small stuff, get good people to help you and enjoy the benefits of business ownership. When you think bigger, you'll look for better opportunities to grow your business.

Oh, if you won't take me up on the bet I offered at the beginning of this article, why not spend the next eight hours and take a look at how tight you manage you business. I'll bet you'll find at least \$10,000 to \$50,000 extra you can make over the next few months. Happy hunting!

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*9 Numbers Every Contractor Needs To Know
To Always Make A Profit!*

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