— EBOOK

How to Reduce Costs and Improve Profitability as a Subcontractor

7 Secrets for a More Profitable Business

PROCORE

If you want to increase your business's profit margins, that usually means one of two things: either you reduce costs or work harder, longer hours. But why work harder when you can work smarter?

The average pre-tax net profit for subcontractors is only 2.2–3.5%. With such razor-thin margins, you can't afford to leave money on the table. Taking a critical eye to expenses like overhead, labour, materials, equipment, and general conditions helps you dial in your company's finances and prevent hard-earned money from slipping through the cracks.

Risk less and earn more with these 7 simple tips to boost your bottom line.

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Trim your overhead.

Before even thinking about how or where to boost profit margins, you have to keep the lights on. Review your overhead expenses, evaluating where you spend the most and where you can cut back. Take a look at costs you may not have looked at in a while like office supplies, shipping, printing, and utilities. If you have employee expense accounts, perform an audit to determine whether any expenses can be reduced or eliminated.

Depending on your staffing budget, it may also be economical to outsource responsibilities like payroll or marketing. This helps reduce overhead, increase productivity, and standardise processes.

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Know the true cost of labour.

The success or failure of every job has a direct impact on your profit margins. But managing your project's financial health starts long before setting foot on a jobsite. Before you even submit a tender for a project, you first need to know how much the job costs, especially for your biggest expense: labour.

When calculating tender rates, make sure to use accurate labour burden rates—that is, the actual cost of an employee excluding his/her salary. In other words, for every pound you pay an employee, how much will you pay just to employ that person? This includes costs like employee health insurance, annual leave, superannuation contributions, and profit sharing. Failure to include these "hidden" expenses could be a costly mistake that ultimately eats into profit margins.

Keep in mind that these costs do change over time. Many regulatory requirements update on a yearly basis, as do many employee insurance rates. Your accounting team should make sure to regularly update tax, insurance, and workers compensation rates in your system. That way, you'll know exactly how much your team costs, allowing you to submit tenders with more accurate cost estimates and prevent financial surprises from arising down the track.

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Shop around and compare.

If you were buying a new car, you would likely shop around at different dealers and compare offers at each. You might then sit down and evaluate which best matched the features you were looking for against price point. Buying materials for a job shouldn't be any different.

Have you used the same supplier or distributor you've used for years? While this may be the most convenient option, using the same suppliers time and time again—without re-pricing material costs—can leave you with outdated and sometimes inflated prices. Instead, get quotes from various suppliers when you submit a tender for a job (or when you need additional materials), and determine which one best fits your needs. You'll not only broaden your network of suppliers for future jobs, but it could also save you a large sum in the end.

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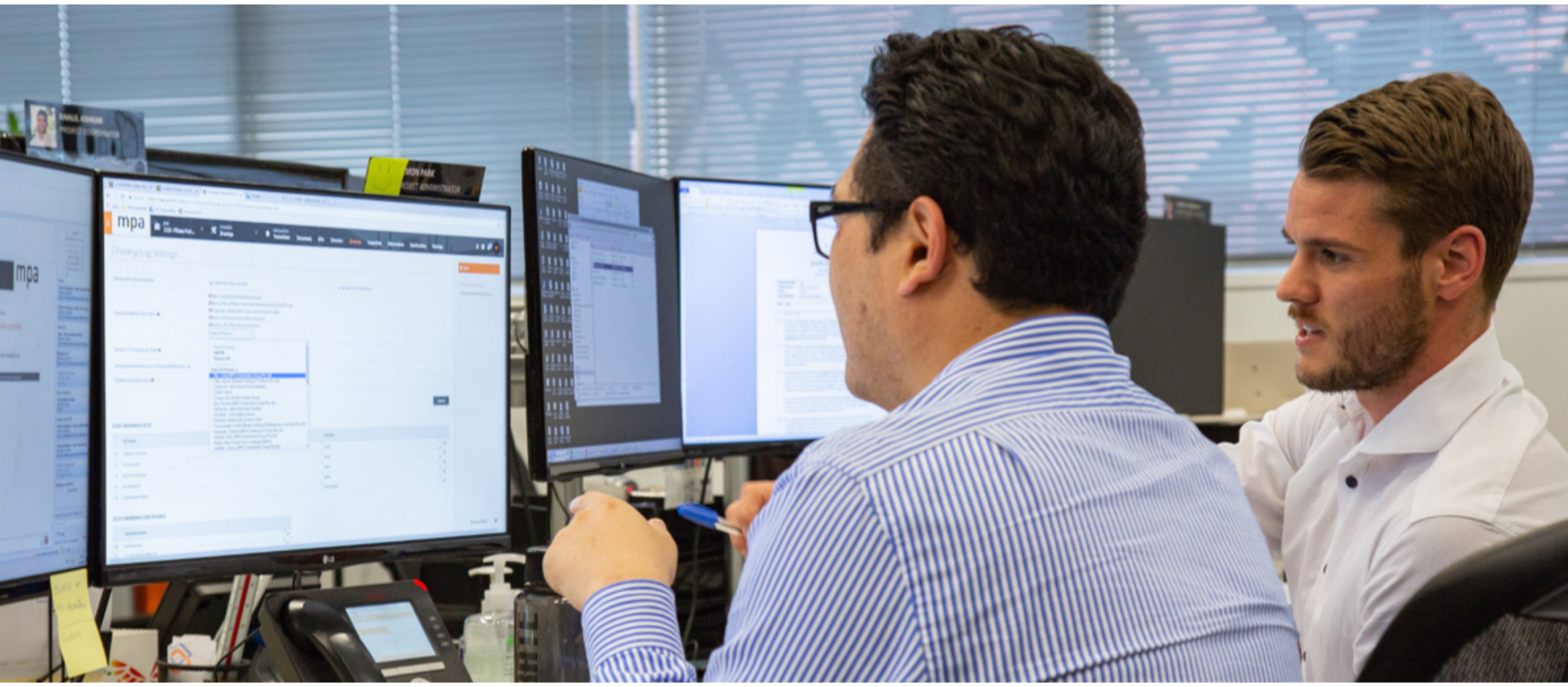
To rent or to buy... that is the question.

When was the last time you calculated what your equipment costs you to own? Have you compared that to how much it costs to rent?

If it's been a while, consider taking stock. For each piece of equipment, calculate how much it costs to own for the entire duration of its lifespan. This should include the original purchase price as well as any ongoing costs such as interest, insurance, petrol, service, and repairs. Do you keep it in storage for a few months out of the year? If so, make sure to factor that into your calculation as well.

Next, divide this cost by the total number of hours you plan to charge for the equipment within that time frame. This gives you the cost of ownership per hour. Compare this number with equipment rental prices, and evaluate which makes the most sense for your business. Keep in mind, this may mean selling unused or seldom-used equipment.



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Think outside the job.

Throughout the year, your jobs provide cash flow—the lifeblood of your business. But it's not the only way to help support a profitable business. With many subcontractors making heavy use of their checking accounts throughout the year, some also generate earnings on their balance.

Meet with your banker to see if you qualify for any programs that allow you to earn interest or invest your cash on a short-term basis. Not only can this add up throughout the year, but it requires little to no effort on your end. Plus, it helps create a financial cushion should any surprises arise.

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Sweat the small stuff.

While your focus is (and should be) the big ticket items, budgeting for general conditions is often left as an afterthought—a budget overrun that can be easily avoided. This is often a direct result of using outdated estimates.

Instead, make sure your estimator is using accurate and up-to-date costs for budget items like trailers or other temporary facilities. These expenses, left unchecked, can add up to a hefty sum by the end of the project.

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Add an extra team member (sort of).

Your team is busy as it is, and tracking the finances of a project (or multiple projects) can seem overwhelming. But making sure you stay profitable shouldn't feel like a burden. In fact, it should be the last of your worries.

Consider investing in construction management software that offers financial tools to help you manage items like budget, variations, and progress claims. Leading solutions will also offer accounting integrations to ensure all information syncs in real time. This will help offload time-consuming administrative work, giving teams hours (if not days) back, allowing them to spend time doing what they do best rather than chasing down data or compiling information.

Plus, they'll have easy-to-digest reports and insights, allowing them to see at any moment if they're on track to meet their year-end financial goals. It'll be like having your own personal assistant (or a few)—someone to take on the more monotonous tasks of running your business.

Remember that while it may seem like an upfront cost, it's an investment that will help make your team more productive and your business more streamlined. Plus, with a more efficient system to take on administrative work, you can reduce staffing costs. In the long run, it will save you both time and money, boosting your bottom line.

Ultimately, running a profitable business means knowing your costs—both big and small. You'll not only be able to accurately charge for a job before you begin, you'll also safeguard yourself against potential financial risk down the track. In doing so, you'll minimise risk, maximise profitability, and gain peace of mind.

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