Margin vs. Markup

WHAT YOU NEED TO KNOW WHEN BIDDING

If you have trouble estimating the necessary markup to cover job costs and still turn a profit, you're not alone. A lot of contractors don't know how to properly estimate the markup they'll need to cover job costs plus overhead and still turn their projected profit margins. Understanding the difference between margin and markup is critical for contractors and business owners. That knowledge can strengthen your bidding process and result in more profit and less risk.

Calculating Margin and Markup

Markup is the sales price, minus the job costs. Margin is the sales price minus the job costs and minus overhead allocation.

Here's an example: Your total forecasted sales for the year are $1 million and your annual expected overhead costs at that level is $80,000. That's an 8 percent cost of overhead. In other words, you need to tack on more than 8 percent to the cost of the job just to break even.

Many companies don't take such a close look. Your business may be spending too much on overhead, or in times of growth, may not set aside enough to cover the cost of rent or to pay your own salary.

Calculating Markup

Bid Amount – Job Costs
= Markup / Bid Amount
= **% Markup**

Calculating Margin

Bid Amount – Job Costs – Overhead
= Net Profit / Bid Amount
= **% Margin**

3 Bidding Mistakes That Are Killing Your Profit Margin

Project bidding is a major challenge for commercial construction subcontractors. One bad bid could take years to financially recover from. The key is to properly run the numbers, being as specific as possible with your job costing, overhead costs and the project's payment schedule. After all, there's a big gap between thinking your company is making 20 percent net profit on a job when it is actually 12 percent or lower.

Here are 3 bidding mistakes that are putting your profit margin on the line:

Pitfall #1: Profit Is Caught Up in Retainage

If you build in a 10% profit margin and your general contractor is withholding 10% retainage, stop kidding yourself. Waiting to pull a profit from retainage leaves you at a huge risk of a cash flow shortage until the job is completed and your retainage is paid out, which can take a long time.

Pitfall #2: Not Accounting for Overhead Expenses or the Cost of Capital

Whether you use a factoring company, bank line of credit, SBA loan, merchant cash advance, or mobilization funding, the cost of outside funds must be built into the project costs of your job (or depending on the type of capital, into the overhead calculations), rather than digging into the project's profit margin.

Pitfall #3: Lowballing a Bid to Land a Dream Job

Thinking of submitting an artificially low bid in order to land the big job later? Don't. If anything goes wrong, that ambitious new project could mean financial ruin for your company, late paychecks for your employees, delayed payments to your vendors and sleepless nights for you, the business owner.

Ready to Get Paid?

We understand the funding needs of subcontractors because we built our business around the commercial construction industry. We do things a little differently — less paperwork, more one-on-one conversations.

MOBILIZATION FUNDING, LLC

Give us a call or apply online!

1.866.442.7759 • mobilizationfunding.com