

HORIZON REVENUE PROJECTION

REVENUE PROJECTIONS (NEXT YEAR)

| | Predicted | | | Kitchen-Bath Focus | | | Addition Focus | | | Custom Home Focus | | |
|--------------|-----------|-------|-------|--------------------|-------|-----|----------------|-------|-----|-------------------|-------|-----|
| | Sale | COG | % | Sale | COG | % | Sale | COG | % | Sale | COG | % |
| Remodeling | | | | | | | | | | | | |
| Kitchens | 200 | 130 | 35% | 400 | 260 | 35% | 200 | 130 | 35% | 200 | 130 | 35% |
| Baths | 200 | 134 | 33% | 400 | 260 | 35% | 200 | 134 | 33% | 200 | 134 | 33% |
| Additions | 300 | 225 | 25% | 300 | 225 | 25% | 600 | 450 | 25% | 200 | 150 | 25% |
| Whole House | 115 | 71 | 38% | 115 | 81 | 30% | 215 | 150 | 30% | 115 | 81 | 30% |
| Total | 815 | 560 | 31% | 1,215 | 826 | 32% | 1,215 | 864 | 29% | 715 | 495 | 31% |
| Homebuilding | | | | | | | | | | | | |
| Custom | 500 | 410 | 1800% | 250 | 205 | 18% | 250 | 205 | 18% | 750 | 615 | 18% |
| Design | 75 | 50 | 5300% | 100 | 53 | 47% | 100 | 53 | 47% | 100 | 53 | 47% |
| Total | 1,390 | 1,020 | 2700% | 1,565 | 1,084 | 31% | 1,565 | 1,122 | 28% | 1,565 | 1,163 | 26% |
| Gross Profit | | 370 | | | 481 | | | 443 | | | 402 | |

**HORIZON DESIGN BUILD
INCOME STATEMENT (NEXT YEAR)**

| Revenue | Predicted | % | Breakeven | % | Best | % |
|---------------------------|--------------|--------------|--------------|-------------|--------------|-------------|
| Remodel | 815 | 58% | 605 | 57% | 1,185 | 66% |
| Custom Homes | 500 | 36% | 380 | 36% | 500 | 28% |
| Design | 75 | 5% | 65 | 6% | 100 | 6% |
| Misc. | 10 | 1% | 10 | 1% | 15 | 1% |
| Total | 1,400 | 100% | 1,060 | 100% | 1,800 | 100% |
| Cost of Goods Sold | | | | | | |
| Remodel | 560 | 40% | | | 830 | 46% |
| Custom Homes | 410 | 29% | | | 410 | 23% |
| Design | 40 | 3% | | | 53 | 3% |
| Indirect | 10 | 1% | | | 15 | 1% |
| Direct | 30 | 2% | | | 32 | 2% |
| Total | 1,050 | 75% | 800 | 75% | 1,340 | 74% |
| Gross Profit/Margin | 350 | 25% | 260 | 25% | 460 | 26% |
| Gross Margin Remodel | | 31% | | | | 30% |
| Gross Margin Custom | | 18% | | | | 18% |
| Gross Margin Design | | 47% | | | | 47% |
| Operating Expenses | | | | | | |
| Salary & Payroll Expenses | 170 | 12.1% | 170 | | 230 | 13% |
| Office | 24 | 1.7% | 24 | | 26 | 1.4% |
| Veh-Trav-Enter | 12 | 0.9% | 12 | | 20 | 1.1% |
| Taxes | 6 | 0.43% | 6 | | 5.5 | 0.31% |
| Insurance | 20 | 1.4% | 20 | | 30 | 1.7% |
| Comm/ITT | 2 | 0.143% | 2 | | 3 | 0.17% |
| Prof Fees | 6 | 0.43% | 6 | | 5.5 | 0.31% |
| Depreciation | 6 | 0.43% | 6 | | 9 | 0.50% |
| Other G&A | 2 | 0.1% | 2 | | 1 | 0% |
| Marketing-Adv | 12 | 0.9% | 12 | | 30 | 1.7% |
| Total | 260 | 18.6% | 260 | 25% | 360 | 20% |
| Net Profit | 90 | 6.4% | 0 | | 100 | 5.6% |

HORIZON JOB COST ANALYSIS

JOB NAME/ADDRESS:

| CONTRACTOR RELATED | | | |
|---------------------------|--|----------------------|-----------------|
| CODE | TRADE CATEOTORY | SUBCONTRACTOR | MATERIAL |
| 427 | PRE CONSTRUCTION SERVICES | | |
| .2 | Engineering Services | | |
| .3 | Building Permit | | |
| .4 | Water Meter Increase Fee | | |
| .5 | Plan Copies | | |
| .6 | Product Selection Allowance | | |
| .7 | Reports & Surveys | | |
| .8 | Inspections | | |
| | | | |
| 428 | JOB SITE & JOB OVERHEAD | | |
| .3 | Port-a Let Rental | | |
| .4 | Temp facility (power pole/fences security) | | |
| .5 | Protection devices (tarps/plastic) | | |
| .6 | Material pickup & delivery | | |
| .7 | General Rental Equipment | | |
| .8 | Consumable Tools | | |
| .9 | Scaffold (Del/Set up/take down) | | |
| .10 | Quality Assurance | | |
| .12 | Product Management | | |
| .13 | Builders Risk Ins., other permits, fees | | |
| | | | |
| 429 | CLEAN UP/TRASH REMOVAL | | |
| .1 | Dumpster | | |
| .2 | Trash pick up/disposal (manual) | | |
| .3 | Staff - Construction Cleaning | | |
| | | | |
| PRO/OH | PROFIT/OVERHEAD (MARK-UP) | | |
| | ADMINISTRATIVE OVERHEAD | | |
| | PROJECT OVERHEAD | | |
| | Construction Management | | |
| | General Liability Insurance | | |
| | PROFIT | | |

JOB RELATED

| CODE | TRADE CATETORY | SUBCONTRACTOR | MATERIAL |
|-------------|-------------------------------|----------------------|-----------------|
| 402 | DEMOLITION | | |
| 403 | EXCAVATION-SOIL TREAT | | |
| 404 | CONCRETE / ASPHALT | | |
| 406 | SPECIALTY FRAMING | | |
| 407 | GENERAL FRAMING | | |
| 408 | ROOF SPECIALTY FRAME | | |
| 409 | ROOFING/FLASHING/GUTTERS | | |
| 410 | EXTERIOR TRIM | | |
| 411 | SIDING | | |
| 412 | EXT DOORS - LKSETS - GAR DOOR | | |
| 413 | WINDOWS | | |
| 414 | PLUMBING | | |
| 415 | HEATING & COOLING (HVAC) | | |
| 416 | ELECTRICAL | | |
| 417 | INSULATION | | |
| 418 | DRYWAL/TILE/PLASTER | | |
| 419 | SPECIALTY CEILINGS | | |
| 420 | MILL WORK/INT DOORS/LOCK | | |
| 421 | CABINETS/COUNTERS/HARDWARE | | |
| 422 | SPECIALTIES | | |
| 423 | FLOOR COVERINGS | | |
| 424 | PAINTING | | |

| | | | | |
|------------|--|--|--|--|
| 426 | ALLOWANCES | | | |
| .1 | APPLIANCES | | | |
| .2 | BATH & HANDICAP ACCESSORIES | | | |
| .3 | CABINET HARDWARE | | | |
| .4 | CABINETS (TOTAL) | | | |
| .5 | COUNTERTOPS (STONE/TILE) (TOTAL) | | | |
| .6 | DOOR HARDWARE | | | |
| .7 | DOORS | | | |
| .8 | ELECTRICAL FIXTURES (TOTAL) | | | |
| .9 | FLOORING (Carpet) | | | |
| .10 | FLOORING (Manufactured) | | | |
| .11 | FLOORING (Resilient) | | | |
| .12 | FLOORING (Tile/Stone) (TOTAL) - Dry Floor | | | |
| .13 | MAID SERVICE | | | |
| .14 | PAINTING (TOTAL) | | | |
| .15 | PLUMBING FIXTURES (TOTAL) | | | |
| .16 | SHOWER & TUB ENCLOSURES (TOTAL) | | | |
| .17 | GLASS - MIRRORS | | | |
| .18 | TUB DECKS/SURROUNDS | | | |
| .19 | WALL COVERINGS - WALLPAPER | | | |
| .20 | WALL TILE/STONE | | | |
| .21 | WINDOWS | | | |
| .22 | SPECIALTY WORK | | | |
| .23 | EXTERIOR COVERINGS | | | |
| .24 | GUTTER ALLOWANCE | | | |
| .25 | CLOSET ALLOWANCE | | | |
| .26 | TRASH PICKUP & DISPOSAL ALLOWANCE | | | |
| .27 | SUBCONTRACTOR CONSTRUCTION CLEANING ALLOWANCE | | | |
| .28 | ENGINEERING AND SURVEYS | | | |
| .29 | AUDIO/VISUAL ALLOWANCE | | | |
| .30 | SECURITY SYSTEM ALLOWANCE | | | |

PROJECT ESTIMATED vs ACTUAL REPORT

| | <u>Est. Cost</u> | <u>Act. Cost</u> | <u>(\$)</u> Diff. | <u>(%)</u> Diff. |
|-----------------------------|------------------|------------------|-------------------|------------------|
| Parts | | | | |
| 407M | 2,000.00 | 1,856.48 | (143.52) | (7.18%) |
| 411M | 350.00 | 0.00 | (350.00) | (100.0%) |
| 416M | 525.00 | 399.71 | (125.29) | (23.87%) |
| 423M | 100.00 | 0.00 | (100.00) | (100.0%) |
| 427M | | | | |
| 427.5 M-Design | 100.00 | 0.00 | (100.00) | (100.0%) |
| Total 427M | <u>100.00</u> | <u>0.00</u> | <u>(100.00)</u> | <u>(100.0%)</u> |
| | | | | |
| 428M | | | | |
| 428.5 M | 500.00 | 223.27 | (276.73) | (55.35%) |
| 428.8 M | 200.00 | 158.54 | (41.46) | (20.73%) |
| Total 428M | <u>700.00</u> | <u>381.81</u> | <u>(318.19)</u> | <u>(45.46%)</u> |
| | | | | |
| Total Parts | 3,775.00 | 2,638.00 | (1,137.00) | (30.12%) |
| | | | | |
| Service | | | | |
| 407S | 3,000.00 | 3,000.00 | 0.00 | 0.0% |
| 408S | 500.00 | 0.00 | (500.00) | (100.0%) |
| 411S | 400.00 | 0.00 | (400.00) | (100.0%) |
| 414S | 6,550.00 | 5,750.00 | (800.00) | (12.21%) |
| 415S | 500.00 | 450.00 | (50.00) | (10.0%) |
| 416S | 5,800.00 | 5,800.00 | 0.00 | 0.0% |
| 417S | 750.00 | 245.00 | (505.00) | (67.33%) |
| 424S | 850.00 | 850.00 | 0.00 | 0.0% |
| 427S | | | | |
| 427.2 S | 750.00 | 700.00 | (50.00) | (6.67%) |
| 427.3 S | 750.00 | 634.38 | (115.62) | (15.42%) |
| 427.6 S - Product Selection | 0.00 | 0.00 | 0.00 | 0.0% |
| 427.8S | 500.00 | 373.29 | (126.71) | (25.34%) |
| Total 427S | <u>2,000.00</u> | <u>1,707.67</u> | <u>(292.33)</u> | <u>(14.62%)</u> |
| | | | | |
| 428S | | | | |
| 428.10 S | 500.00 | 40.38 | (459.62) | (91.92%) |
| 428.12 S | 1,000.00 | 0.00 | (1,000.00) | (100.0%) |
| 428.13 S | 1,000.00 | 313.00 | (687.00) | (68.7%) |
| 428.3 S | 600.00 | 509.46 | (90.54) | (15.09%) |
| 428.5 S | 350.00 | 335.20 | (14.80) | (4.23%) |
| 428.6 S | 500.00 | 48.44 | (451.56) | (90.31%) |
| 428.9 S | 0.00 | 0.00 | 0.00 | 0.0% |
| Total 428S | <u>3,950.00</u> | <u>1,246.48</u> | <u>(2,703.52)</u> | <u>(68.44%)</u> |
| | | | | |
| 429S | | | | |
| 429.2 S | 200.00 | 57.02 | (142.98) | (71.49%) |

PROJECT ESTIMATED vs ACTUAL REPORT

| | <u>Est. Cost</u> | <u>Act. Cost</u> | <u>(\$)</u> Diff. | <u>(%)</u> Diff. |
|------------------------------|-------------------------|-------------------------|---------------------------|------------------------|
| 429.3 S | 200.00 | 261.27 | 61.27 | 30.64% |
| Total 429S | <u>400.00</u> | <u>318.29</u> | <u>(81.71)</u> | <u>(20.43%)</u> |
| Total Service | 24,700.00 | 19,367.44 | (5,332.56) | (21.59%) |
| Other Charges | | | | |
| 426MA - Allowances | | | | |
| 426. 1 MA - Appliances | 8,490.00 | 7,637.36 | (852.64) | (10.04%) |
| 426. 3 MA - Cab Hdwr | 365.00 | 329.78 | (35.22) | (9.65%) |
| 426. 5 MA - Countertops | 3,260.00 | 3,554.28 | 294.28 | 9.03% |
| 426. 6 MA - Door Hdwr | 50.00 | 67.52 | 17.52 | 35.04% |
| 426. 8 MA - Electrical | 275.00 | 255.47 | (19.53) | (7.1%) |
| 426.12 MA - Tile/Stone Floc | 0.00 | 1,125.54 | 1,125.54 | 100.0% |
| 426.13 MA - Maid Srv | 600.00 | 365.00 | (235.00) | (39.17%) |
| 426.14 MA - Interior Paint | 2,500.00 | 5,500.00 | 3,000.00 | 120.0% |
| 426.15 MA - Plumbing Fixtu | 1,055.00 | 1,013.38 | (41.62) | (3.95%) |
| 426.20 MA - Tile/Stone Wal | 325.00 | 1,052.58 | 727.58 | 223.87% |
| 426.22 MA - Interior Special | 16,628.00 | 500.00 | (16,128.00) | (96.99%) |
| 426.23 MA - Exterior Coveri | 300.00 | 300.00 | 0.00 | 0.0% |
| 426.26 MA - Trash & Pickup | 500.00 | 533.00 | 33.00 | 6.6% |
| 426.27 MA - Sub Const Cle: | 500.00 | 443.00 | (57.00) | (11.4%) |
| Total 426MA - Allowances | <u>34,848.00</u> | <u>22,676.91</u> | <u>(12,171.09)</u> | <u>(34.93%)</u> |
| Total Other Charges | <u>34,848.00</u> | <u>22,676.91</u> | <u>(12,171.09)</u> | <u>(34.93%)</u> |
| TOTAL | <u><u>63,323.00</u></u> | <u><u>44,682.35</u></u> | <u><u>(18,640.65)</u></u> | <u><u>(29.44%)</u></u> |

TREND ANALYSIS OF VARIANCES IN PROJECT COSTS

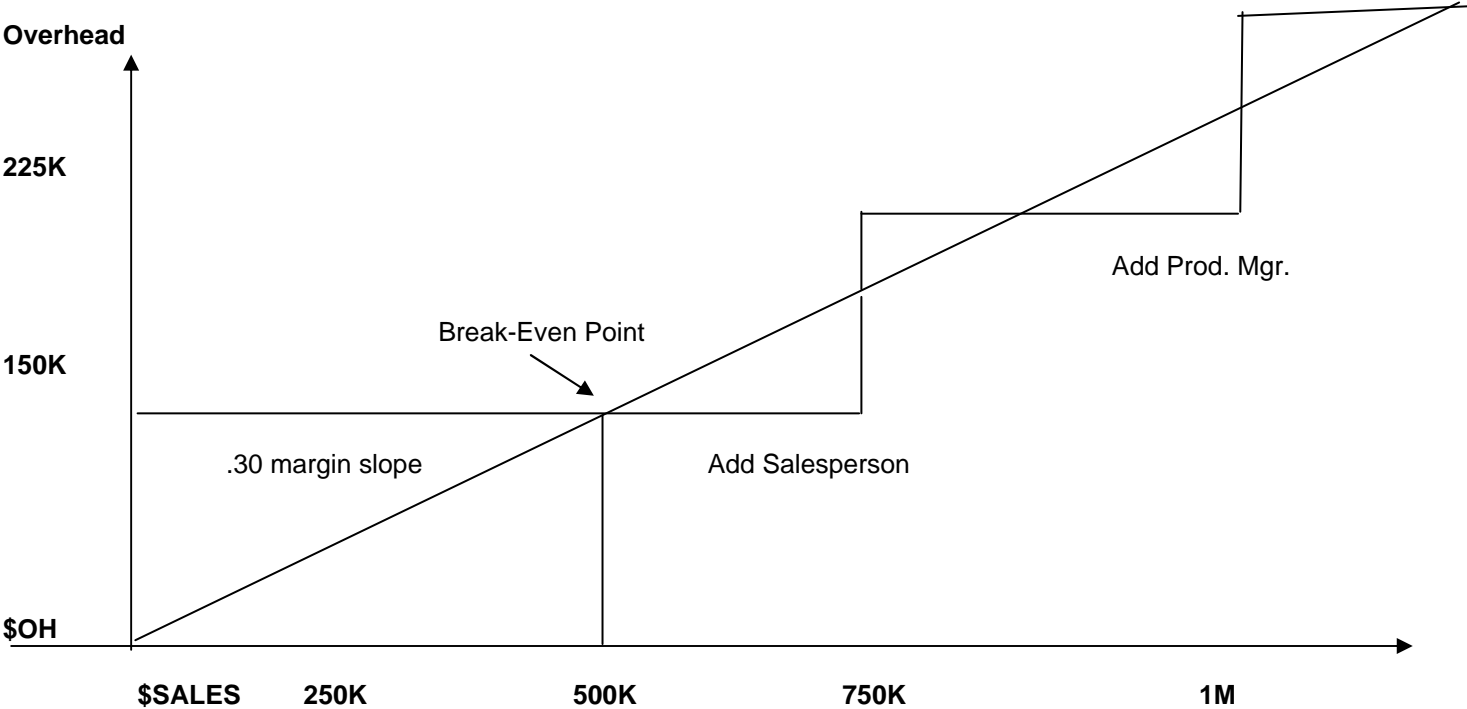
| Variance by Project | | | | | |
|---------------------|-----------|--------------|------------|-------------|----------------------|
| Year | Cost Code | Project Name | Type | Variance>4% | Reason |
| 2008 | 407M | Rosin | Frame | 5 | Matl Cost Increase |
| 2008 | 418S | Rosin | Drywall | 4 | Underbid |
| 2008 | 420M | Rosin | Millwork | 7 | Trim missed |
| 2008 | 402S | Welton | Demo | 4 | Underbid |
| 2008 | 407M | Welton | Frame | 8 | Missed Matl |
| 2008 | 416S | Welton | Electrical | 10 | Plan problem |
| 2008 | 402S | Smithson | Demo | 5 | Added Costs not seen |
| 2008 | 407M | Smithson | Frame | 12 | Poor Takeoff |
| 2008 | 413M | Smithson | Windows | 5 | Missed Count |
| 2008 | 424S | Smithson | Ext Paint | 15 | Underbid |
| 2008 | 420M | Kulp | Int. Doors | 8 | Door count |
| 2008 | 428S | Kulp | Clean | 10 | Maid clean poor |
| 2008 | 402S | Johnson | Demo | 5 | Underbid |
| 2008 | 407M | Johnson | Frame | 15 | Poor Takeoff |
| 2008 | 429 | Johnson | Dumpster | 10 | Used more than bid |
| 2007 | 404S | Harding | Concrete | 8 | Material increase |
| 2007 | 407S | Harding | Frame | 10 | Plan not clear |
| 2007 | 407M | Harding | Frame | 13 | Poor Takeoff |
| 2007 | 424S | Harding | Int. Paint | 5 | Used better sub |

DISCOUNTING PROJECT GRAPH

| Price Cut | Present Gross Margin | | | | | | | |
|-----------|----------------------|--------|--------|--------|--------|-------|-------|-------|
| | 5% | 10% | 15% | 20% | 25% | 30% | 35% | 45% |
| 1% | 25.0 | 11.1 | 7.1 | 5.3 | 4.2 | 3.4 | 2.9 | 2.6 |
| 2% | 66.6 | 25.0 | 15.4 | 11.1 | 8.7 | 7.1 | 6.1 | 5.3 |
| 3% | 150.0 | 42.8 | 25.0 | 17.6 | 13.6 | 11.1 | 9.4 | 8.1 |
| 4% | 400.0 | 66.6 | 16.4 | 25.0 | 19.0 | 15.4 | 12.9 | 11.1 |
| 5% | | 100.0 | 50.0 | 33.3 | 25.0 | 20.0 | 16.7 | 14.3 |
| 6% | | 150.0 | 66.7 | 42.9 | 31.6 | 25.0 | 20.7 | 17.6 |
| 7% | | 233.3 | 87.5 | 53.8 | 38.9 | 30.4 | 25.0 | 21.2 |
| 8% | | 400.0 | 114.3 | 66.7 | 47.1 | 36.4 | 29.6 | 25.0 |
| 9% | | 1000.0 | 150.0 | 81.8 | 56.3 | 42.9 | 34.6 | 29.0 |
| 10% | | | 200.0 | 100.0 | 66.7 | 50.0 | 40.0 | 33.3 |
| 11% | | | 275.0 | 122.2 | 78.6 | 57.9 | 45.8 | 37.9 |
| 12% | | | 400.0 | 150.0 | 92.3 | 66.7 | 52.2 | 42.9 |
| 13% | | | 650.0 | 185.7 | 108.3 | 76.5 | 59.1 | 48.1 |
| 14% | | | 1400.0 | 233.3 | 127.3 | 87.5 | 66.7 | 53.8 |
| 15% | | | | 300.0 | 150.0 | 100.0 | 75.0 | 60.0 |
| 16% | | | | 400.0 | 177.8 | 114.3 | 84.2 | 66.7 |
| 17% | | | | 566.7 | 212.5 | 130.8 | 94.4 | 73.9 |
| 18% | | | | 900.0 | 257.1 | 150.0 | 105.9 | 81.8 |
| 19% | | | | 1900.0 | 316.7 | 172.7 | 118.8 | 90.5 |
| 20% | | | | | 400.0 | 200.0 | 133.3 | 100.0 |
| 21% | | | | | 525.0 | 233.3 | 150.0 | 110.5 |
| 22% | | | | | 733.3 | 275.0 | 169.2 | 122.2 |
| 23% | | | | | 1115.0 | 328.6 | 191.7 | 135.3 |
| 24% | | | | | 2400.0 | 400.0 | 218.2 | 150.0 |
| 25% | | | | | | 500.0 | 250.0 | 166.7 |

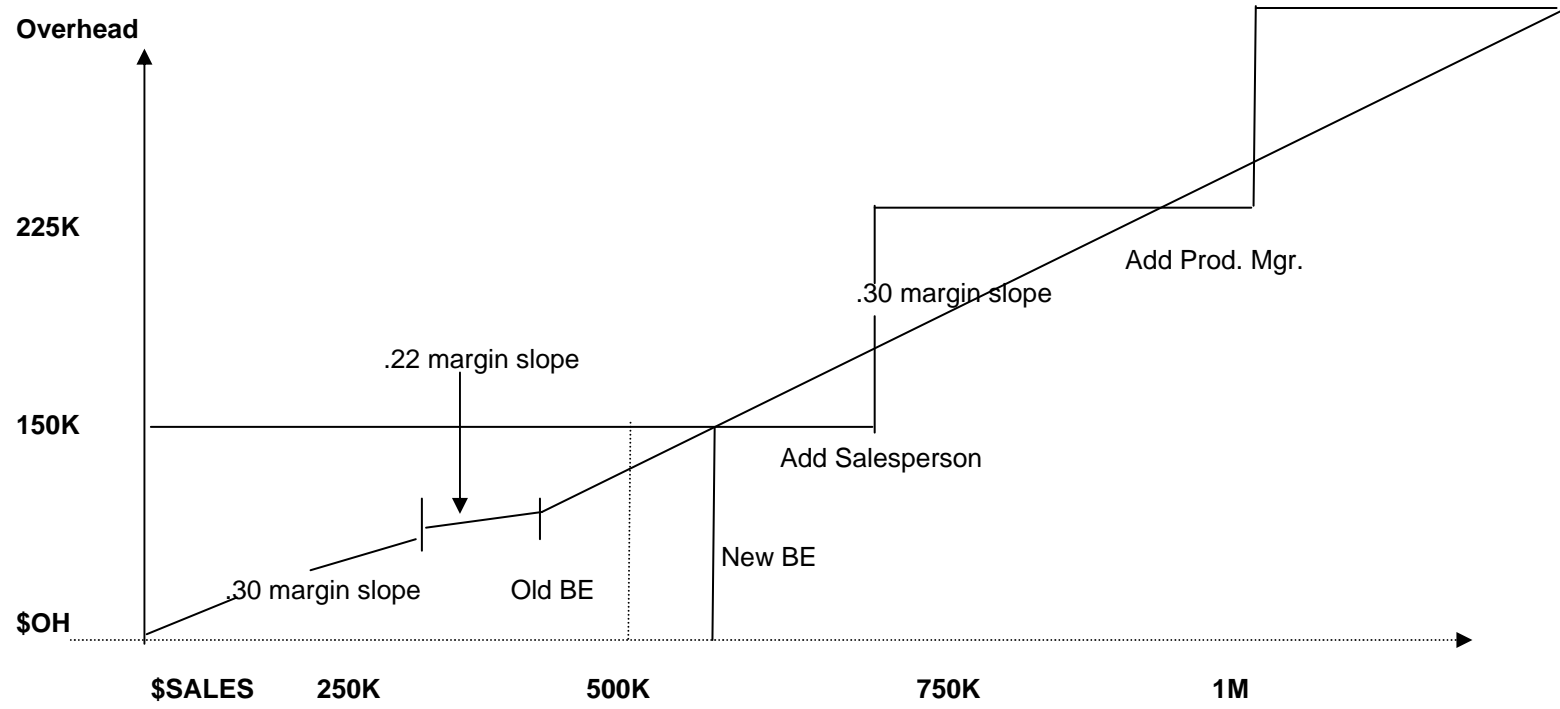
Percentage Increase in Volume Required to Earn the Same Dollars as at the Price Before Price Cut

BREAK EVEN ANALYSIS GRAPH (30% MARGIN)



Example 7A

BREAK EVEN (DISCOUNT) ANALYSIS GRAPH (30% MARGIN)



Example 7B

HORIZON DESIGN BUILD
Quarterly Income State (Budget vs. Actual)

| Revenue | Predicted | Actual | % | |
|----------------------------|---------------|---------------|-----------|--------|
| Remodel | 204.00 | 250.00 | 23% | |
| Custom Homes | 125.00 | 110.00 | -12% | |
| Design | 18.75 | 25.00 | 33% | |
| Misc. | 2.50 | 2.50 | 0% | |
| Total | <u>350.25</u> | <u>387.50</u> | 11% | |
| | | | Margin | |
| Cost of Goods Sold | | | Predicted | Actual |
| Remodel | 140.00 | 165.00 | 31% | 34% |
| Custom Homes | 102.50 | 90.00 | 18% | 18% |
| Design | 10.00 | 14.00 | 47% | 44% |
| Indirect | 2.50 | 2.50 | | |
| Direct | 7.50 | 7.00 | | |
| Total | <u>262.50</u> | <u>278.50</u> | | |
| Gross Profit/Margin | 87.75 | 109.00 | 25% | 28% |
| Operating Expenses | | | | |
| Salary & Payroll Expenses | 42.50 | 42.00 | | |
| Office | 6.00 | 7.00 | | 17% |
| Veh-Trav-Enter | 3.00 | 3.50 | | 17% |
| Taxes | 1.50 | 1.50 | | |
| Insurance | 5.00 | 5.00 | | |
| Comm/ITT | 0.50 | 1.00 | | 100% |
| Prof Fees | 1.50 | 1.00 | | -33% |
| Depreciation | 1.50 | 1.50 | | -- |
| Other G&A | 0.50 | 0.75 | | 50% |
| Marketing-Adv | 3.00 | 3.50 | | 17% |
| Total | <u>65.00</u> | <u>66.75</u> | 25% | 3% |
| Net Income | 22.75 | 42.25 | | 86% |

STAFFING CHANGE CALCULATION TOOL

Additional Staff (Base Salary/Hourly per year) + Full labor burden = Added Revenue
Gross Margin

Example: Add a project manager to Production Department

\$50K (base salary) + 10K (labor burden) = \$200K (Additional Revenue)
.30% (gross margin)

Labor Burdon Costs:

Social Security & Medicare

State Unemployment Insurance

Federal Unemployment Tax

Insurance (Medical-Dental-Disability)

Communication

Vehicle/gas or Mileage

Tools

Education-Training

Misc.

HORIZON DESIGN-BUILD

July 2008 % of completion.xls

JULY , 2008

| JOB # | JOB NAME | JOB CONTRACT PRICE | JOB ESTIMATED COST | ESTIMATED GROSS PROFIT | % EST GROSS PROFIT | JOB ACTUAL COSTS TO DATE | % COMPLETE (costs to date divide by est costs) | EARNED GROSS PROFIT | ACTUAL COST AND GP | ACTUAL RECEIVABLES INVOICED TO DATE | UNBILLED REVENUE (under) OR (UNEARNED REVENUE) (over) |
|----------|-------------|--------------------|--------------------|------------------------|--------------------|--------------------------|--|---------------------|--------------------|-------------------------------------|---|
| IIO408 | JOB A | \$ 162,243.00 | \$ 124,568.00 | \$ 37,675.00 | 23.22% | \$ 37,059.38 | 29.8% | \$ 11,208.43 | \$ 48,267.81 | \$ 71,892.00 | \$ (23,624.19) |
| BA0308 | JOB B | \$ 59,580.00 | \$ 44,775.00 | \$ 14,805.00 | 24.85% | \$ 16,394.78 | 36.6% | \$ 5,420.99 | \$ 21,815.77 | \$ 21,120.25 | \$ 695.52 |
| AD1007 | JOB C | \$ 320,256.00 | \$ 249,551.00 | \$ 70,705.00 | 22.08% | \$ 122,805.87 | 49.2% | \$ 34,794.45 | \$ 157,600.32 | \$ 253,597.75 | \$ (95,997.43) |
| KR0308 | JOB D | \$ 98,264.00 | \$ 75,875.00 | \$ 22,389.00 | 22.78% | \$ 21,367.58 | 28.2% | \$ 6,305.09 | \$ 27,672.67 | \$ 27,131.30 | \$ 541.37 |
| AD0907 | JOB E | \$ 97,871.00 | \$ 76,310.00 | \$ 21,561.00 | 22.03% | \$ 62,517.01 | 81.9% | \$ 17,663.86 | \$ 80,180.87 | \$ 93,558.80 | \$ (13,377.93) |
| CH010108 | CUSTOM HOME | \$ 207,885.00 | \$ 159,164.00 | \$ 48,721.00 | 23.44% | \$ 84,540.81 | 53.1% | \$ 25,878.42 | \$ 110,419.23 | \$ 158,405.00 | \$ (47,985.77) |
| | | | | | | | | | | | |
| | | \$ 946,099.00 | \$ 730,243.00 | | | \$ 344,685.43 | | | | \$ 625,705.10 | \$ (179,748.43) |
| | | | | | | | | | | | |
| AD0507 | JOB F | \$ 315,739.00 | \$ 247,994.00 | \$ 67,745.00 | 21.46% | \$ 225,283.37 | 90.8% | \$ 61,541.09 | \$ 286,824.46 | \$ 299,986.50 | \$ (13,162.04) |
| | | | | | | | | | | | |

UNDERSTANDING MARGIN & MARK-UP

KEY WORK TO SUCCESS

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PURPOSE OF THIS COURSE

Provide Builders and Remodelers an understanding of margin and mark-up, its uses, and the importance for their business success.

AUDIENCE

Builders

Remodelers

Construction Business Owners

ASSUMPTIONS

Financial Management Software In Place

Chart of Accounts

Job Cost Codes and Descriptions

Basic Financial Reporting

Income PL Statement

Balance Sheet

Job Cost Analysis

Cash Flow Analysis

Basic Financial Ratios

COURSE OBJECTIVES

Define Margin and Mark-Up

Provide examples of calculations and cross over

Discuss Margin and Mark-Up considerations

Describe areas of business where these terms apply

Review and analyze applicable key financial reports and tools

Identify ways to manage these terms for business success

Identify areas where misuse or misunderstanding create risk to fail

Review key points to take back and apply

DEFINITIONS

Project Mark-Up is a percentage applied to job costs to arrive at a selling price that supports your business plan and goals.

Mark-Up is a method by which the gross profit is created.

Gross Profit is the difference between revenue and the costs of goods sold.

Project Gross Profit margin is the percentage of the sales price that the gross profit represents..

Business Gross Profit Margin is the percentage of a construction business's total income left over after the business has paid all the cost of goods sold of its building or remodeling projects.

$$\text{GPM} = \frac{\text{GROSS PROFIT DOLLARS}}{\text{REVENUE/SALES INCOME}}$$

MARGIN AND MARK-UP CONSIDERATIONS

Types of Contract

Fixed Price Contract should carry a greater margin than a Cost Plus or a Time and Material Contract.

Cost Plus Contract must state whether the profit and overhead fee is based on a mark-up or margin basis.

Difficulty or Complexity

The more difficult the project (design, site conditions, distance to travel, client personality) the more management time will be required and the greater the opportunity for errors.

AREAS OF BUSINESS WHERE UNDERSTANDING THESE TERMS APPLIES

Business Plan Development

Part of short and long term goals
Business growth projections

Estimating (starting point of profitability)

Calculating the proper selling price that will maintain the gross margin and net income goals

Production

Project Cost Analysis to calculate estimated versus actual cost differences

Variance or slippage Trend Analysis whereby effective changes are made to maintain margins

Discounting Work Analysis to understand the consequences of reducing margin

Administration

Financial Report Analysis
Staffing Change analysis
Variance Trend Analysis

Marketing and Advertising Forecasting

Lead conversions to sales for revenue predictions.

KEY FINANCIAL REPORTS AND ANALYSIS TOOLS

Revenue Projections (short or long term)

Income and P/L Statement Projections (short or long term)

Project Estimate Take-Off

Project Estimate versus Actual Report

Variance (Slippage) by Project Report

Discounting Project Work Graph

Break Even Budget and Analysis Graph

Income Statement Budget versus Actual Report

Staffing Change Calculation Tool

Work in Progress versus Under-Over Billed (% of Completion Report)

MANAGING MARGIN AND MARK-UP FOR SUCCESS

Create a Business Plan and update yearly.

Resources for help:

NAHB Courses

Business Clubs (Remodeler 20 Club)

Business Coach

Educational Materials (NAHB Library)

Develop a 1-3-5 year future business model

Plan for breakeven – worst - best scenarios

Be prepared for change

Review and improve estimating procedures

Review and analyze production reports weekly or at least Bi-monthly

Set up, monitor, and analyze key financial reports.

Understand the effects of margin on marketing and advertising revenue generation

AREAS WHERE MISUSE OR MISUNDERSTANDING CREATE RISK TO FAIL

Contractual Misunderstandings

Client assumptions

Failure to consistently monitor margins will cause cash flow problems.

Failure to observe and correct trends and variances will cause errors and mistakes eroding gross margin and net income.

Failure to review and understand financial reports will increase your risk to be blind to cash flow problems, to not understand what you have earned from clients revenue, and to manage overhead costs.

WITHOUT A BUSINESS PLAN GROWTH WILL BE TURBULANT INSTEAD OF CONTROLLED

KEY POINTS TO TAKE HOME AND APPLY

Start a business plan

Make time to get away from day to day operations

Break into small increments and set a timetable

Get help

Involve and get input from staff and professionals

Review and update monthly or at least quarterly

Make it a part of your beliefs

Monitor the margins of each job at least every other week and correct variances (slippage)

Take time away from production to review the business's financial health weekly and study to understand key financial reports and ratios every month looking for trends.

Use and apply margin and mark-up wisely and effectively