PPB

Pro Profit Build

7 Profit Leaks Costing You Thousands

Profit margins in construction are under constant pressure. Unseen operational issues can silently drain resources, turning profitable projects into financial losses. This guide identifies seven common profit leaks and provides direct actions to resolve them. Addressing these inefficiencies will strengthen your financial control and protect your bottom line on every job.

Critical Control Issues Draining Your Profits

Poor Change Order Control

Unmanaged scope changes are a primary source of profit loss. When a client requests work outside the original contract, and you fail to document and price it accordingly, you are performing free labor. A disciplined change order process is not optional. Every modification must be captured in a formal change order that details the scope, cost, and schedule impact. This document must be signed by the client before any additional work begins. This practice eliminates disputes and ensures you are compensated for all work performed.

Use your Project Tracking Sheet to monitor the financial impact of all approved changes against the original contract value. Obtain two supplier quotes for change orders: one reflecting actual cost, the other at Manufacturer's Suggested Retail Price (MSRP). MSRP can be used during change order negotiations to mitigate unforeseen project losses. Price labor hours using industry-standard rates, referencing resources such as RSMeans. This approach provides a defensible basis for pricing, reducing client disputes. You will then have 2 estimates, the one the client sees and then your actual cost which will give you a perspective over overall profitability of the change order which on the client's quote may look like 10 & 10 but in reality may be 40 and 30.

Untracked Labor Inefficiencies

Calculating labor cost based on hourly wages alone is a fundamental error. The true cost of an employee includes fringe benefits, payroll taxes, workers' compensation, and other burdens. A $25/hour employee may actually cost your business $35-$40/hour. Failing to account for this total labor burden in your estimates means you are underpricing every job from the start. Use a labor cost calculator to determine your exact cost per hour for each employee. This precise figure must be the basis for your job costing and estimating to ensure labor costs are fully covered.

Overcomplicated Software

Expensive and complex project management software can create more problems than it solves. When systems are too difficult for your team to use consistently, they lead to inconsistent data, poor communication, and wasted time. Simplicity drives profit in the field. Focus on streamlined systems that your team will actually use. Well-designed spreadsheets can often outperform generic software because they can be customized to your specific workflows. For more advanced needs, consider targeted AI tools that automate specific tasks like data entry or scheduling without requiring a complete operational overhaul.

At PPB, we believe that additional software is not required if the team understands the company's Standard Operating Procedures (SOPs). Software is only as effective as the person entering the information. If that person does not understand project management fundamentals, the software cannot fill those knowledge gaps.

Operational Leaks That Silently Destroy Margins

Inconsistent Job Costing

Without a consistent method for tracking project costs, it is impossible to know which jobs are profitable. Accurate job costing requires attributing all direct costs—labor, materials, and subcontractors—to a specific project. Implement a standardized job costing framework for every project. This involves using a detailed chart of accounts to track expenses against the project budget. A Work In Progress (WIP) report provides a snapshot of all ongoing projects, comparing costs to date with projected final costs. This allows you to identify potential overruns early and take corrective action.

Overlooking Material Savings

Material costs constitute a large portion of project budgets. Contractors often neglect opportunities to reduce these expenses through supplier rebates and early payment discounts. These savings accumulate significantly over time. Loyalty to specific suppliers can also provide pricing incentives such as better discounts off of MSRP and delivery priority, ensuring timely material arrival. Incorporate rebate tracking into procurement. Supply chain management must identify potential rebates and ensure purchasing teams meet claim requirements. Maintain adequate cash flow or a business line of credit to capitalize on early payment discounts from suppliers.

Crew Downtime

An idle crew can quickly become a significant financial burden. Downtime caused by poor scheduling, material delays, or waiting on other trades reduces labor efficiency and eats into project profitability. Weather is one of the most common and costly causes of delays. To mitigate this, have a contingency plan in place to redirect labor before they arrive at a job site closed due to weather. Identify alternative projects where the crew can be sent for 2-3 days to maintain progress and even get ahead. This approach keeps your team working, earning their paychecks, and staying motivated, which not only boosts morale but also establishes you as a compassionate and capable leader.

Effective workforce management is key. If you are a subcontractor daily conversations with the superintendent to communicate your anticipated next steps 1-2 weeks out will eliminate these issues most of the time. Hold daily huddles with your teams to coordinate tasks and address potential bottlenecks before they lead to downtime. A well-planned project keeps your crew productive and your labor budget intact.

Scope Creep

Unmanaged changes to project scope directly reduce profitability. This includes additional labor, materials, and associated overhead not accounted for in the original bid. Informal requests, such as "can you take care of this real quick," over the life of a 6-12 month project frequently contribute to profit erosion. Each unbilled addition, whether a minor adjustment or an extra task, accumulates. Collectively, these uncompensated tasks strain resources and extend timelines without financial return.

Establish clear boundaries with the client from the outset. Implement a strict change order protocol. While some flexibility is expected, consistently performing extra work for free can lead to a loss of respect and financial exploitation. Set a threshold for "real quick" requests by calculating the time and material cost. For example, if a request requires a trip to the supply house or more than 30 minutes of work, a formal change order should be issued. This process protects the project's financial integrity and prevents profit erosion.

Fix these seven leaks before your next job starts.