NAHB 2012
Finding Hidden Profits
...Management Tips for Builders, Remodelers & Architects

Dennis A. Dixon
Dixon Ventures, Inc.
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...Management Tips for Builders, Remodelers & Architects

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Contracting’s Biggest Profit Drains
1. Poor Estimate ...50 Ways To Leave Your PROFITS!
2. Start Project with Incomplete Plans & Specs ...Everything’s an Allowance
3. Insufficient Contract
4. Change Orders
5. Cost Plus vs. T&M vs. Fixed Price

Profitability Centers On 5 Management Tools...Contract Clauses & Categories
- Allowances
- Change Orders
- Draw (Payment) Schedule
- Specifications
- Warranty Issues Defined

Balancing The Numbers!

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* PROOF: Labor / Mat's / O/H Costs $1,000 @ 45% (1.45) = $1,450 Quote
* PROOF: Gross Profit 5 / Contract Quote $5 = % Gross Profit
* PROOF: $450 / $1,450 = 31.65%

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(928) 774-2223
Unlocking Your Profit Potential Is Linked To...

- Knowing What Your Clients Expect
- Defining What They’re Getting... & NOT Getting
- Having Paperwork That Defines The Work, Details, Products, Procedures = CONTRACT

Purpose of a Construction Contract

1. Clarifies the Work to be done.
2. Identifies the Contract Parties.
3. Answers Any & All Ambiguities.
4. Source to Clarify All Agreements & Future Questions.
5. Clarification Tool for Any (Grey Matter) Disagreements.
6. Helpful in resolving CONFLICT!

Contract Boilerplate: Policies & Standards

1. Date of Contract
2. Project Start Date
3. Name of Contractor
4. Name of Land Owner
5. Architect or Designer
6. Other Professionals
7. Project Address (Legal)
8. Plans Description
9. Scope of Work
10. Contract Price
11. Time of Completion
12. Conditions Needed to Begin
13. Allowance Procedure
14. Change Order Procedure
15. Financing/Inheritance
16. Dispute Resolution
17. Owner Duties & Responsibilities
18. Contractor Duties
19. Inspection
20. Insurance
21. Notices & Communications
22. Work By Owner or Other Contractors
23. Assignment of the Contract
24. Intended Use of the Project
25. Lien Waiver Procedures
26. List Title & Description
27. List Conditions & Disclaimer
28. Payment Conditions
29. Plans Problems & Resolution
30. Pre-Existing Conditions
31. Project Completion Procedures
32. Punch List Procedures
33. Representative – Owner
34. Representative – Contractor
35. Submittals & Samples
36. Supervision & Management
37. Termination of Contract
38. Warranties (Implied & Written)
39. Work Stoppages
40. Zoning, Subdivision & Govt Compliances

Contract Sections, Subjects, Paragraphs & Wording

- 14. Change Order Policies & Procedures
- 33. Owner Representative
- 34. Contractor Representative

How Should Builders & Remodelers View CO’s & Allowances?

Allowance & Change Order Procedures As Outlined in the CONTRACT

- Allowance Conditions, Procedures & Rules
- Change Order Conditions, Procedures & Rules

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13. Allowance Policies & Procedures (Contract Wording)

- A. Allowance amounts vary pre-determined based upon Owner directives and selections prior to start of the project.
- B. Contractor will encourage owner to finalize all decisions prior to commencement of work, but will allow 5% allowances.
- C. Calculated Allowances are noted in the Specifications.
- D. Allowance selections are to be purchased through and installed by Contractor and/or approved vendors/sales/suppliers only.
- E. No Owner supplied materials or labor are allowed.
- F. Warranty may vary with Allowance Selections.
- G. Contractor will charge a 28% fee on any and all allowance overages.
- H. Allowance Credits will be calculated as a direct, simple arithmetic CREDIT. Example: Allowance = $1,200 (Over Hardware) less $950 (Hardware + Install Labor) = $250 CREDIT.
- I. Allowance CREDITS will be applied toward final payment.

14. Change Order Procedure (Contract Wording)

- A. Changes to the work as defined in the original Contract Construction Agreement for the project are additional work and will cost additional monies.
- B. Change Orders have a minimum fee of $75.
- C. Change Orders requested, but not carried out will be charged to the client at minimum fee, $75, plus an hourly fee ($65/hr) to cover administration/estimation/management expenditures.
- D. All Change Orders will be written up, signed and funded prior to commencement of work.
- E. Change Orders will be considered authorized when signed by the Owner Representative & Contractor Representative.

14. Change Order Procedure (cont'd)

- F. Allowance selections, choices, directives and limitations will be documented with a Change Order.
- G. A Change Order Summary with the Revised Contract Amount and Updated Completion Date will be supplied with each new change order.
- H. Change Orders Unexecuted by the Cancellation Date will be considered null and void.
- I. Change order work will alter the original scope of work and may alter the warranty and liability coverages provided by the contractor. Such changes or limitations to those coverages will be noted on individual change orders.
- J. Verbal discussions are binding.

Reasons Change Orders Are Problematic?

- CD isn't in Writing
- Lack of Signature
- Lack of Details / Facts / Figures / Model #’s / Paperwork
- Non-Payment
- Completion Delays & Their Costs
- Contractor has to drop everything and prioritize the Change Order.
- One more thing to add to an already full “To Do List”
- Arguing over the Price, Costs and Delays caused by a Change Order
- Too much time elapses between Discussion, Write-Up & Billing

Rules to Minimize Allowances & Change Orders

- Start the Project with 100% Plans & Specs.
- Minimize Contract Allowances (Maximum # of 5)
- Detail the Specs to Define Gray Areas.
- Ask Clients About Their Concerns, Issues, Decisions & Potential Changes or Job Conditions

Reasons To Improve Your Management of Allowances & Change Orders?

- 1. Profitability
- 2. Efficiency
- 3. Client Satisfaction
- 4. You Control the Project (not vice versa)
- 5. Completion Schedule Is REALISTIC!
What is an Allowance?
“A defined monetary credit to pay for a project detail to be selected at a later date”.

What is a Change Order?
“Documentation to adjust, change, clarify, modify, solve, re-design and/or define any Project Contract Detail to keep the construction job moving forward to completion”.

Proper Use of the Change Order
“To document any alteration to the Contract, Plans or Specifications”.

Suggested Uses of Change Orders
“As a Management Tool to document ALL Project communications”.

Admin Costs of Generating & Managing Change Orders
- Client call Monday morning: 20 mins.
- GC call to Supt. On-Site: 15 mins.
- Supt. calls back about delay: 15 mins.
- GC calls 3 Subs to postpone work: 25 min
- Office Time to clarify RO’s: costs: 2 hrs.
- Office Time to Process CC: 1 hr.
- Client signs, pays, filing: 1 hr.

Total Time: 5.25 hrs. + Job Work
How Much Has This Already Cost Your Co.?

Office Overhead Costs For a Change Order?
- Your Office Time: 3 hrs.
- Your Field Supt. Time: 2.5 hrs.
- Contractor Time: 1.25 hrs.

What do you charge just to break-even?
- Office Time @ $37 x 3 hrs. = $111
- Supt. Time @ $30 x 2.5 hrs. = $75
- Your Time @ $125 x 1.25 hrs. = $157

Total Break-Even Expense: $343 (No Job Work!)

Calculating Office OVH Costs: Change Orders
- Office Equipment: $500, per year
- Office Insurance: $1,500
- Liability Insurance: $5,000
- Office Labor: $25,000
- Office Labor Benefits: $2,500
- Office Lease: $13,800
- Office Misc.: $1,200
- Office Supplies: $1,500
- Office Telephones (all): $3,000
- Office Utilities: $600
- Office Vehicles: $12,000
- Work Comp Costs: $4,800
- Cash Costs to Operate the Office Per Year = $75,500
- $75,500 Per Year / 256 Work Days Per Year = $295 Per Day
- $295 Per Day / 8 Work Hours Per Day = $37 Per Hour
- * Notice that there is not ANY Owner compensation listed here!

Change Order Costs Field Supervision
- Supt. Salary: $42,000 per year
- Supt. Labor Overhead: $6,912
- Cell Phone Expense: $1,200
- Vehicle Expense: $8,000
- Cash Costs To Maintain Site Management Per Year: $9,112.
- $58,112 Per Year / 256 Work Days Per Year = $220. Per Day
- $240 Per Day / 7 Work Days Per Day = $72 Per Hour
- $240 Per Day / 8 Work Days Per Day = $30 Per Hour

How Much Are Your Worth?
- Theory Income = $160,000 / Year
- 256 Working Days / Yr.
- $160,000 / 256 Days = $525 / Day
- 2,304 Work Hrs. / Yr. @ 9 hrs. per day
- $160,000 / 2,304 hrs. = $70 / Hr.
- # Projects / Yr.
- $160,000 / 4 New Homes = $40,000 per Home
- # Remodels / Yr.
- $160,000 / 10 Remodels = $16,000 per Remodel
**Use Calculated Allowances**

- Allowance Amount is Based on Fact
- Client Understands the Logic
- Eliminates 3rd Party Guesswork!

**Calculated Allowance Example 1**

12. Floor Coverings: $13,366.50

- Carpet specified as a cost standard is American Carpet Co. „Stellar Galaxy“, Grade I, installed over a 6/16“ rebond foam pad, 0.41 density. Supplied and installed by Bing Brothers Carpet Co.


- Quantity: 390 square yards (per Allowance)

- Carpet Allowance Calculation:
  
  \[ \text{Price} \times \text{Quantity} = \text{Allowance} \]
  
  \[ \text{Price} = \frac{\text{Allowance}}{\text{Quantity}} \]
  
  \[ \text{Price} = \frac{13,366.50}{390} = 34.40 \text{ per Yard} \]

- Price includes install, edging, freight & tax.
- Carpet Selection must be completed and submitted to Contractor by 9-30-2012.
- Note: Same selections could take up to 10 weeks to arrive at the jobsite.
- Client may pick a Berber or Plush.

**Calculated Allowance Example 2**


- Dining Fixtures: $1,500.
- Breakfast Nook Fixtures: $300.
- Under Cabinet Lighting: $300.
- Entry Fixtures: $500.
- Interior recessed cans (12): $960
- Other Bath Fixtures (8): $800.
- Ceiling Fans (3): $1,500.

- Fixtures: Net part of Allowance

- Landscape Lighting: Net part of Allowance

- Any other fixtures selected will be an extra cost to this Allowance Estimate. Fixtures are to be selected and ordered by the Lmc Co., Flagstaff, AZ.
- Final fixture selection. Pricing will include fixture, labor, striping, install & sales tax.
- This Allowance is a suggested cost guideline for the Owner. Final pricing may vary.
- Selections must be completed by 7-14-2012 and delivered to Contractor.

**Addendum A: Allowance Summary**

Smith Residence: Lot 9A Sper, Shadow Subdivision - 3439 Dining, Flagstaff, AZ 86004

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<th>Decision Due Date</th>
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<td>$13,366.50</td>
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<td>2. Stone Veneer</td>
<td>$57,333.00</td>
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<td>3. Other Fixtures</td>
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<td>7-14-2012</td>
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<td>4. Hardware/Doors</td>
<td>$9,990.00</td>
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<tr>
<td>5. Tile/Grout</td>
<td>$1,200.00</td>
<td>7-10-2012</td>
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- Addenda supplied & installed by approved vendors & subcontractors.
- Decisions must be made by the due date.
- Selections completed after the due date will result in a project completion delay.
- Selections to be confirmed, priced, and authorized within 10 days, signed Change Order.
- Allowance amounts were calculated based upon Client Options at time of contract preparation.
- Details/Calculations are noted in the Specifications.

**Sample Field CO Form**

(5” wide by 8.5” tall - Carbonless Paper)

Dixon Ventures, Inc.
1815 N. Main Street
Flagstaff, AZ 86001
(928) 774-2223 dixve@hotmail.com

Job Site Action Form

Project: 

Customer: 

Work: 

Change Order: 

Invoice Amount: 

Signature: 

Authorization: 

Div/Sec Rep: Date/Time: 

**CO Example 1 “Allowance Selection” No Price Change**

ABC Contracting, Inc.
1800 Johnson Ave.,
Dallas, Texas 77013

Project: Smith Residence
Location: Lot 7, Rolling Hills, Irving, TX 75062
Date Requested: 09-26-2012
Expiration Date: 09-26-2012

Details: Carpet Allowance is specified in Contract Specs as: Franklin Carpet Co., 8394, Whispering Galaxy, plush carpet with a 6/16” rebond pad (density 0.43).

- Quantity: 390 sq. yards.
- Vendor: Birmingham Bros Carpet Co. (Dallas, Texas)
- Selection: #466 “Whispering Galaxy”. Color: Saturn Tan (plush).
- Carpet to be installed in all rooms as per Plans. Frame areas as per Allowance.

- NO PRICE CHANGE.
- Project Completion Date: No Change

Contractor: 
Owner: 
Date: 
Paid Date: 
Check Number: 

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CO Example 2 “Real Change”
- Change Order Number: 2 Kitchen Ceiling Crown Molding
- Date Requested: 11-25-2012  Expiration Date: 11-36-2012
- Details: Change size of Kitchen Crown Molding @ all ceiling areas (approx. 46 lined fl.). Profile will be Millwork Express #0998, Red Oak (brown) 6.5” width x 0.75” thickness as per sample approved and selected by Owner, on-mile, 5-25-02. Sample was signed by Owner and is @ Smith’s Office.
- Crown will be caulked to the walls and ceilings to accommodate variations due to framing / drywall.
- # Credit 2.5” Crown Mold
- # #5006 6.5” Oak Crown Mold
- Labor to Install
- Staining, Lacquering, Finishing
- This Change Order Cost: $1,698.27
- Sales Tax: $104.15
- Net CO #2 Cost: $1,702.42  Project Completion Date: Adds 5 days

CO Example 3 “Allowance Add’l Cost”
- Date Requested: 8-9-2012  Expiration Date: 8-10-2012
- Details: Customer final electrical future selections 8-1-2012.
- Selections: Fixtures are detailed in the attached list. Owner (Cheryl Jones) worked with Mike Holton to pick and finalize fixtures.
- Write-Up Option 1
- Electrical Package: $6,937.57  Elect Ticket Pack: $6,802.96
- Freight / Shipping: $133.21
- Bulbs: $75.18
- This Change Order: $9,802.06
- Allowance Credit: $(9,216.00)
- Contractor Fees: $444.05 (25% x $1,500.00 + $444.00)
- Sales Tax: $138.36
- Net CO #3 Cost: $2,158.41  Project Completion Date: No change.
- Note: Dining Fixtures special order & will take 10-12 weeks.

CO Example 4 “Allowance Add’l Cost”
- Details: Customer selected appliances at A 1 Appliances, Dallas, Texas.
- Selections: Compactor: Kitchen Aid 45729 with Stainless Panel.
- Dishwasher: Electrolux 22577-FM with Stainless Panel.
- Microwave: Maytag 2299-LC (black with stainless trim).
- Oven: GE Electric 429-30 (black, elect., 1 oven).
- Refrigerator: SubZero 337 48” side by side, icemaker, stainless panels.
- Washer: Maytag 122-W (white).
- Dryer: Maytag 123-D (white, electric).
- Structural Changes: No access to corner and electricalhookup@ Kitchen & Laundry.
- This Change Order: 533,792.84
- Allowance Credit: $(11,214.00)
- Sales Tax: $(141.23)
- Net CO #4 Cost: $415,250.71  Project Completion Date: Adds 6 days

CO Example 5 “Documentation”
- Date Requested: 12-15-06  Expiration Date: 12-16-06
- Details: The Sanderson Project Contract has a list of Pre-Priced Options.
- Option #3 was substituting Wood Carriage House Doors for all three 36x aluminum roll-up garage doors.
- Owner has elected to keep the standard garage doors & color, effective 12-15-2012, per Bill Sanderson.
- No price change. No Project Completion date Change.

CO Example 6 “Project Delay”
- Details: Special Order MBR Bath Tile was ordered 7-12-2012. It was to be shipped no later than 8-5-2012.
- Dixon Ventures was notified yesterday that the product will not ship until Nov. 20th.
- This will cause a completion delay of 3 weeks.
- The new completion date is: Dec 15th, 2012.
- OPTION: Cancel the special order tile and order an “In-Stock” tile.
- Change Order Cost: $0-
- Project Completion Date: Adds 21 days

CO Example 7 “Credit”
- Change Order Number: Delete Reheating Drawer at Kitchen
- Date Requested: 5-8-05  Expiration Date: 5-10-05
- Details: Delete the Dorn brand, stainless steel warming drawer from the Kitchen Island Area. Replace with a pull-out cabinet drawer that matches other cabinetry.
- This Change Order CREDIT: $542.27
- Sales Tax CREDIT: $29.06
- Net CO #6 CREDIT: $571.33 CREDIT
- Project Completion Date: Adds 2 days
- Credit amount will be applied to the FINAL DRAW PAYMENT

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CO Example 8 “Handyman” Time & Materials

Change Order Number: 8 – Handyman Misc. Work Items
Date Requested: 12-5-06  Expiration Date: Complete By 12-34-06
Details:
- Install/Owners Bike Racks.
- Hang Mirrors/Blinds (7 windows).
- Assemble Furniture (Desk / Buffet / Dining Table)
- Work will be invoiced at $55 per man-hr plus materials.
- Supervision will be invoiced at $75 per man-hr.
- Change Order Fee: $175
- Administration Time: $65.50/hr.

Net CO #8 Cost: ________  Project Completion Date: No change.

CO Example 9 “Disputable” Non-Detailed Specs

Background Note - Specs Call Out...

Hardware-Baths: Satin Nickel

Brand?  Cost?  Allowance Amount?

CO Example 10 “Cancellation Costs”

Change Order Number: 10 – MBR Fireplace Addition
Date Requested: 4-5-06  Expiration Date: 4-8-06
Details: Change Order #8 originally was to "Add a Masonry Fireplace to the NE corner of the MBR. Client decided against pursuing this after the Change Order was prepared. Admin Costs are invoiced as detailed below.
Owner cancelled this CO: 4-8-06
Change Order Fee: $175.00
Administration: 2.5 hrs. @ $75/hr = $187.50
This Change Order: $362.50
Sales Tax: N/A
Net CO #7 Cost: $362.50  Project Completion Date: No change.

CO Example 11 “Courtesy No Charge”

Change Order Number: 11
Date Requested: 11-29-2012  Expiration Date: 11-29-2012
Details: Add 2 Leviton "Decor" Lighted Dimmers (white) Model 5927-6 @ Dining Room, One controls the chandelier; Other controls the 3 can lights @ the Dining Room Soffit.
This Change Order Cost: $0 (Courtesy of Contractor)
Sales Tax: N/A
Net CO #14 Cost: $0  Project Completion Date: No change

CO Example 12 “Options” Catalyze a Decision

Owner is considering floor covering options for the Family Room.

Option A: Wide Plank 3/4" x 18" Antique Pine Flooring
   $19,340.00 + Tax (Adds 20 days)
Option B: Bruce Hardwood, 3/57" Antique Oak Flooring
   $9,629.00 + Tax (No completion extension)
Option C: Saitto Tile 16" x 16" (stained/whitewashed/sealed)
   $12,567.00 + Tax (Adds 18 days)

Owner to finalize their selection by July 15th, 2012.
Project Completion Date: (As detailed in options)

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CO Example 13 “Real Change”

- Details: Add a sink to the Kitchen Island at rear end (across from refrigerator). Center the sink side to side and 3” in front of the countertops edge. Sink is undermount, stainless steel, mounted on the countertop (centered @ rear of sink, 2” front edge).
- Sink: Kohler "K 3120", 3 hole, vitreous china, white.
- Disposal: insatiable & HP with chrome lip and black plastic drain plug.
- Faucet: Delta "LaFaucet", brushed nickel finish, with soap dispenser.
- Granite Countertop Edge: Sink is undermounted with 2 1/4" straight edge of slab showing above the sink surface. Edge will be slightly setback from sink slab (about 1/2). This change order includes labor and supervision to accomplish this work, concrete slab sawed, plumbing, required drain, water lines and vent, plumbing fixtures and installation, removal of the island base to expose sink, tile cutout for sink @ granite countertop, additional plans, fees and building inspection.
- This will cause a completion delay of 2 weeks. Revised completion date: 03/4/2013.
- Change Order Cost: $2,746.83
- Project Completion Date: Adds 14 days.

CO Example 14 “Warranty Disclaimer”

- Details: Kitchens & Breakfast Nook floor coverings were changed to a laminate floor product as per 12/30/03. Owner has been made aware that this flooring is slippery when wet and that it is not to be used as a walkable surface. Fixtures were installed by 2/4 and have exceeded 30 days from date of delivery. This contractor will not be held responsible for any damages sustained by the owner. Contractor reserves the right to discontinue warranty on the product. Owner must apply for warranty on the product. This warranty only applies to the product and not the installation. Work is being done by the direction of the owner.
- Flooring: Wausau "Starler Plank", "8" x24", oak plank in "Natural Oak" color.
- Floor Plan: Wausau 1810 series (see recommendation by manufacturer).
- Lifetime Warranties: By others Labor to correct problems will be at additional cost.
- Installation Patterns: Run parallel to floor (See drawing attached).
- Tile Flooring: Credit: $1,261.00
- Wausau "Starler Plank": $2,372.00
- Add'l floor demo./work: $233.00
- Net CO 14 Cost: $1,301.00
- Project Completion Date: No change

CO Example 15 “Time & Materials”

- Details: Add 7 Antiqued 2x4 Board/Drives (2024x192) @ Family Room
- Different sizes 2 x 4" down from the ceiling. (See Layout Plan attached).
- Glass Panels are dual glass: tempered, clear/tempered.
- Space units between truss centers (measured by truss layout).
- Interiors are drywall sanded, texturized, and painted kitchen.
- Coat application: All coats will be labor and material cost (1.38 plus sales tax of 8.4%).
- Contractor will provide a proposal summary of all coat material costs, the invoice complete.
- A. Labor will be billed @ $15 per hour (prorated).
- B. Materials will be billed @ invoice cost and included in the total cost summary.
- C. Painting: Visit: 23
- D. Change Order Fees: $179.89
- E. Supervision & Administration Time: Billed @ $35 per hr.
- Net CO 16 Invoice Amount: $5,000.00

Change Order Summary Example

- CO # | Description | Date | Cost
- 1 | Alter Driveway | 4-27-06 | $175.00
- 2 | Add Slight-MR | 5-25-06 | $607.00
- 3 | Add Elec. Misc. | 5-20-06 | $305.00
- 4 | Carpet Selection | 5-20-06 | -
- 5 | Roof Color Selection | 5-20-06 | -
- 6 | MBR Caiswerk | 5-25-06 | $1,219.42
- 7 | Add MBR Fireplace | 5/25/06 | $345.00
- 8 | 9, 10, 11, 12, etc. | 5-20-06 | -
- 13 | Appliance Selections | 5-20-06 | $6,500.00
- 14 | Add Dining Dinners | 5-20-06 | N/C

- Base Contract: $98,345.00
- CO Add/Amend: 4-2-06 | $4,403.37
- New Contract Amount: $102,778.37
- Revised Completion Date: October 16, 2012

Reality Check...Estimating is a Function of Team Effort based Upon Facts, Figures, Subs, Suppliers

Assembling a Production Cost

- 125 Job Cost Categories
- OAC + Land + Sales Cost + Profit = Contract Price
- 350 to 500 Line Item Costs = 125 Categories
- Cost Impact of $100 (+ or -) on Each 125 JCC?
- "Manage the Pennies & the Dollars Take Care of Themselves"
- Tract Purchasing Boosts Bottom Line via Negotiating with Subs & Suppliers per Volume Purchased

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Remember: Markup = (100% - Gross Profit Margin) / 100

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</tbody>
</table>

Proof: Labor / Material / O&M Costs: $1,050 / 45% / 1.45 = $1,450 Quote
Proof: Gross Profit / Contract Quote = % Gross Profit
Proof: $450 / $1,450 = 31.63%

How Much Are You Worth?

- Your Anticipated Compensation According to Corporate America Standards?
  - Owner 20% Gross Sales + 5% Bonus
  - ABC Contracting Annual Revenue = $1,500,000
  - What Should the Pay Be? ... $315,000
  - $315,000 / 2,304 Work Hrs. = $137 per Hr.

Example: Assembling a Contract Price

Client Preliminary Budget = $350,000
Total Under Roof Area: 4,500 SqFt

1. Profit Goal: $100,000
2. OVH (11 months x $3,287): $35,300
3. Estimate / Spec / Sell Job: $8,500
4. Supervision @ $45/hr x 30 hrs = $1,350
5. Management @ $25/hr x 10 hrs = $250
6. Permits / Subdivision Fees: $5,000
7. Arch Plan Cost: $2,500
8. Errors & Omissions: 5% $400
9. Production Costs: Maximum $440,733 ($95 per SqFt)

Example: DRAW SCHEDULE: ADDENDUM D
(Prepared by the Estimate)

- Jones Residence: 133 Bear Howard Drive, Forest Highlands, Flagstaff, AZ
- Contractor: Smith Contracting, Inc. (Arizona License # E-116771) 1213 North Main Street, Flagstaff, Arizona 86004 (928) 774-2223
- Contract Amount: $668,728
- DRAW 1: (10%) $66,872 (less $5,000 Estimate Deposit) $61,872
  - Building Permit
  - Tree Removal & House Survey Placement / Staking
  - Driveway Excavation, Backfill, Grading Completed
  - Fostings Completed
  - Drainage Work Completed
  - Utility Trenching, Install, Backfill Completed
  - Window & Skylight Package Ordered
  - Exterior Doors Ordered

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DRAW 2: (10%) $66,872
- Stemwall Grouted with Concrete
- Sand Plaster @ Stemwall completed
- Waterproofing Applied
- Floor Fill installed and compacted
- Underslab Plumb, HVAC, Electrical Rough-in's
- Garage & House Conc Slab completed
- Backfill at House perimeter installed
- Driveway Fill and Compaction & Culvert Installed
- Wall Framing Started (50%)

DRAW 3: (15%) $100,309
- Wall Framing 5% Completed
- Wall Sheathing Completed
- Roof Framing & Trusses Completed
- Roof Sheathing Installed
- Windows Finalized
- Exterior Grading Completed
- Deck Piers & Framing Completed

Draw 3 is increased to 15% to cover framing costs.

Draw 10 is reduced to 5% of contract amount.

DRAW 4: (10%) $66,872
- Exterior Walls (Squared & Braced)
- Wall Wrap Sheathing Completed
- Windows Installed
- Metal Flashing Installed
- Skylights Installed
- Plumbing, HVAC Top Outs Completed

Draws 5 Thru 9
- Draw 5 @ 10% = $66,872
- Draw 6 @ 10% = $66,872
- Draw 7 @ 10% = $66,872
- Draw 8 @ 10% = $66,872
- Draw 9 @ 10% = $66,872
- ...Draw 10 is only 5% = $33,436

DRAW 10: (5%) $33,436
- Floor Coverings Completed
- Door Hardware Completed
- Bath Hardware Completed
- Paint Touch-Up/Caulking Completed
- Contractor's Tools & Equipment Removed
- Final House Cleaning/Window Cleaning
- Final Inspection
- Walk-Thru With Owners

Contractor: Fred Smith  Date: Sept. 9, 2012
Mr. Joe Jones:  Date:  
Mrs. Joan Jones:  Date:

Assembling The Total Contract Bid Price

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Estimate is the First Step of the PROJECT: It Requires Management, Supervision & Direction ...With the Architect, Paperwork & Visiting with Supt. @ The JobSite?

Control Costs: Standardize Your Specifications
- Assembly Line - Save Money
- Use Products & Suppliers You Know (Most Warranties = Worthless)
- Limit Client & Arch Choices
- Ex: Plumbing - Delta, Grohe, Kohler
- Refine Specs...Cost History (What Works From Past Jobs?)
- Adjust Specs per the Estimate (Some Simple Words Cost Money)
- Don't Reinvent the Wheel for Every Job!

Specifications: Example 1 "Driveway"
- Color: Coral 345 Gamsa Tan 20% per each content. Appearance will be lighter than Coral Color Sundeck House.Stone. It will be the same Approximate color on all the colored stone samples at client's home.
- Concrete: Mix to be identical to that used on driveway. No water will be added during mixing at concrete plant.
- Concrete: 2,500 psi at 28 days. Core Testing is optional. Fiber Rebars concrete mix is Optional.
- Expansion Joints: At center bays of driveway and every 15 ft. (approx.) across the time.
- Finish: Thick Ball (as per U.S. - 2105 Hollow Masonry)
- Driveway Layout: As per Plans (sheet A-1 2nd Plans)
- Supplier: United Materials
- Thickness: 5" minimum w/ 1" thick x 1/2" wide turn down at j oxes with sheet pavement.
- Original Plans called for 6" driveway concrete thickness. This was revised to 5" to save money.
- Udel Driveway concrete will be poured during the final phase of house completion. Vehicles & heavy trucks/traffic (moving) rate to be permitted for a minimum of 15 days after wet concrete pour.
- Weather...Curing...Honing...Spalling...Chipping

Specifications: Example 2 "Stucco"
- The stucco material applied to the home will be a synthetic cement plaster mix that will be applied over a substrata of expanded metal lath (1/4" x 34 gauge).
- The framing and sub-base under the cement stucco plaster finish will expand and contract based upon the seasonal climate, humidity, weather and temperature conditions.
- Small/minute expansion-contraction cracks (less than 1/8" thickness) may appear in the stucco finish over time. This is normal, expected and within acceptable standards.
- Repair of these expansion voids is recommended to be done with a flexible cauli ng compound such as CAF "StuccoFlex 3000".
- The contractor will repair any such cracks or voids in the stucco finish for a period of 1 year after the completion of the home.
- To maintain a good, weathered surface to the stucco exterior of the home, it is recommended that it be caulked yearly and repainted every 5 years with an "elastomeric" type paint, formulated for exterior stucco applications.
- Any repairs will be completed with the same type and color of paint to the nearest edge, bay and bottom of the imperfections area.

Specifications: Example 3 "Brick Veneer"
- Brick Size, Name, Supplier & Color
- Mortar Type & Color
- Brick Pattern
- Joint Size and Strike Details
- Will a Sample Panel Be Prepared?
- Installation Limitations: Weather, Cold?
- Warranty Limitations
- Waterproofing, Weep, Backing, etc.

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Specifications: Masonry Veneer

Specifications: Example 4 “Painting”
Are There Some Details Lacking?
- All interior Walls will receive 3 coats of latex paint.
  ...Your painter always does 1 primer + 1 "heavy finalcoat"
- Bath, Kitchen and Laundry Areas to receive 2 coats of enamel paint.
  ...Oil Base or Water Base?
- Exterior Siding will receive 2 coats of fade resistant, exterior, latex paint.
  ...Define "Fade Resistant"?
- Stucco Surfaces will receive 2 heavy coats of elastomeric paint.
  ...Brand? Color? What Sheen? Define "Heavy"?
- All paints, stains, finishes & colors to be selected & approved by Owners prior to application. ...How much time will this take?

SPECIFICATIONS for a Calculated Allowance
Example: Floor Coverings
(From Category #20 in the Specs)

- 20. FLOOR COVERINGS Allowance = $33,412 (See Details Below)
  - Carpet: Living Area, MBR, MDR, ORS, Bedrooms 2, 3, 4, Bedroom Hallway,
  - Garage Floor: Smooth finished concrete. No sealer or painted finish installed.
  - Tile Floor: Bathrooms (all), Basement, Entry, FP Hearth, Kitchen, Utility
  - Vinyl Floor: None.
  - Wood Floor: None.
  - Carpet Selection:
    - 2.237 SF 24" x 24" 60% waste = 261 square yards carpet
    @ $25/yd (installed with pad) = $6,525.00 Allowance
  - Tile Flooring Selection:
    - 1,336 SF 12" x 12" $12.65 per SF = $14,887.00 Allowance
- Sample Specification “Allowance” Wording

Conclusions
- Have a Thorough CONTRACT
- Each CO is a Mini-Contract
- Document Everything In Writing
- Minimize Allowances
- Don’t Negotiate!
- Mark-Up Changes 50-100%
- CO Signed & Paid BEFORE Proceeding
- Specifications Are DETAILED!
- Spell Out Warranty Limitations
- Control the Train From the Locomotive ...Not the Caboose!

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