

Remodelers' Cost of Doing Business Study

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Remodelers' Cost of Doing Business Study

NAHB's Remodeler's Cost of Doing Business Study is one of the most important business management tools remodelers can use. The study is based on a nationwide survey of remodelers. Centered on candid answers about annual revenue, cost of sales and operating expenses, as well as company assets, liabilities and equity positions, NAHB calculates average gross and net profit margins, as well as critical financial ratios for remodeling professionals nationwide.

Results will be analyzed by region of the country and business model (general remodeler versus design-build remodeler). Speakers will discuss the important metrics presented in the study, why remodelers need to understand them, and how they can use them to gauge the health of their operations.

Learning Outcomes

- Learn how to use the metrics and other data presented in the study as tools to compare the performance of your remodeling business with others in the industry.
- Understand which business performance metrics are most critical to the success of a remodeling business.
- Gain valuable insights into recent trends in business operation costs.

Have you ever wondered how your bottom line compares with that of other remodelers?

How much profit do the best performing remodelers earn?

What is the average compensation owners receive for running their businesses?

The Cost of Doing Business Study Allows Remodelers to:

- Have benchmarks
- Pinpoint areas for improvement
- Set budget targets
- Create a road map to increase efficiency and boost profitability

Study Methodology

- Survey was sent electronically to 6,400 remodelers nationwide in March 2012.
- Questionnaire asked remodelers to report their Income Statement and Balance Sheet for 2011.
- Findings are published in “Remodelers’ Cost Doing Business Study: 2012 Edition.”

Balance Sheet

Assets		Liabilities and Owner's Equity	
Cash [1000-1090]	\$	Current liabilities [2010-2490]	\$
Accounts and notes receivables [1210,1230]	\$	Long-term liabilities [2510-2700]	\$
Other current assets [1280-1690]	\$	Owner's equity [2900-2960]	\$
Other assets [1810-1990]	\$		
Total Assets	\$	Total Liabilities and Owner's Equity	\$

Income Statement

Each code number refers to the NAHB Chart of Accounts, found at www.nahb.org/chart

<u>Revenue from Operations</u>		
Residential remodeling and repairs [3130,3135,3137]	\$	
Commercial remodeling and repairs [3133]	\$	
New single-family home building [3100-3125]	\$	
All other revenue [3000, 3050, 3140, 3150, 3160-3490]	\$	
Total Company Revenue [sum of the previous four entries]		\$

Income Statement - Continued

<u>Cost of Sales</u>		
Labor for residential remodeling/repairs (include fringe benefits) [3810-3820]	\$	
Material for residential remodeling/repairs [3830]	\$	
Trade contractors for residential remodeling/repairs [3840]	\$	
Commercial remodeling and repairs direct construction costs [3810-3870]	\$	
New single-family direct construction costs [3600,3610,3620,3625] (permits, labor with burden, materials, trade contractors) and Land [3550]	\$	
All other costs of sales (related to items that fall under "All other revenue")	\$	
Total Company Cost of Sales [sum of previous six entries]		\$
Gross Profit		
Total Company Revenue less Total Company Cost of Sales		\$

Income Statement - Continued

<u>Operating Expenses</u>		
Indirect construction costs [4000-4990] (Vehicles, superintendents, tools, warranty, construction equipment)	\$	
Financing expenses [5000-5990] (points and interest on all business loans)	\$	
Sales and Marketing expenses [6000-6990] (advertising, marketing, salaries and commissions to sales personnel)	\$	
General and Administrative expenses [8050-8990] (salaries, payroll taxes and benefits, office expenses, vehicles, travel, entertainment, taxes, insurance, professional services, and depreciation) (exclude owner's compensation)		
Owner's compensation [8010] (owner's salary, draws, bonuses and benefits. Do Not include distributions from retained earnings)	\$	
Total operating expenses [sum of previous five entries]		\$
Net Income Before Taxes [total company gross profit minus total operating expenses]		\$

Findings

- All Residential Remodelers: All respondents combined
- General Remodelers Only: Business may include home additions, alterations, reconstruction, maintenance, or repair work, but not design services.
- Design-Build Remodelers Only: Business provides both design and construction services as a full-service package.
- By Census region, revenue groups, number of years in business, and number of jobs.

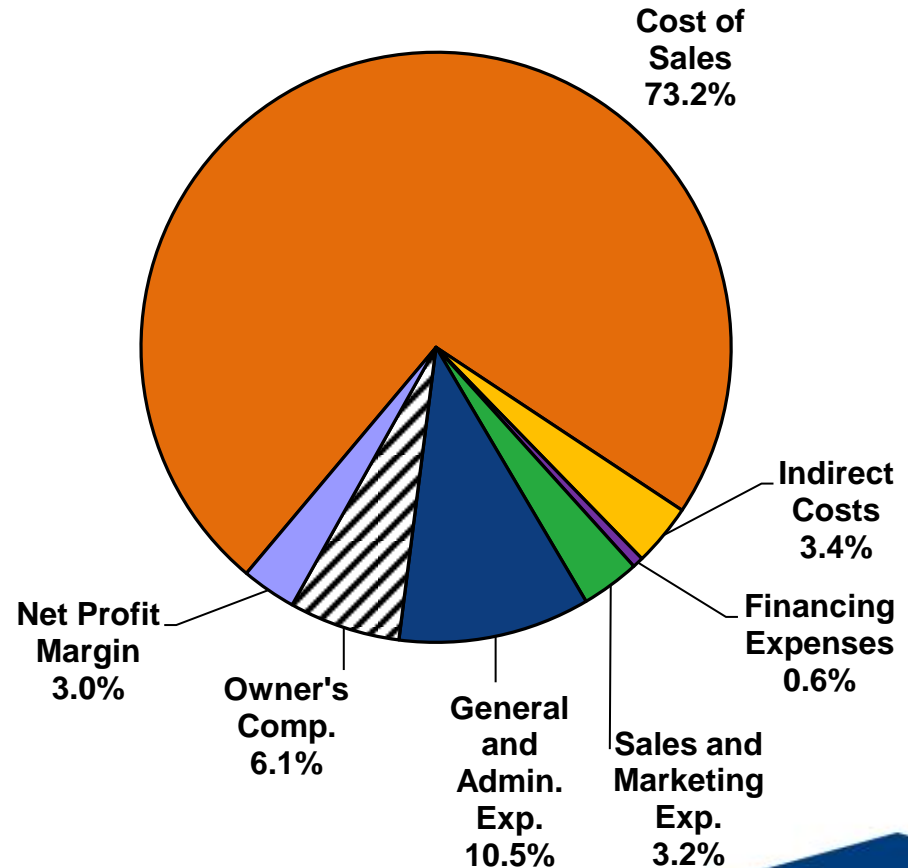
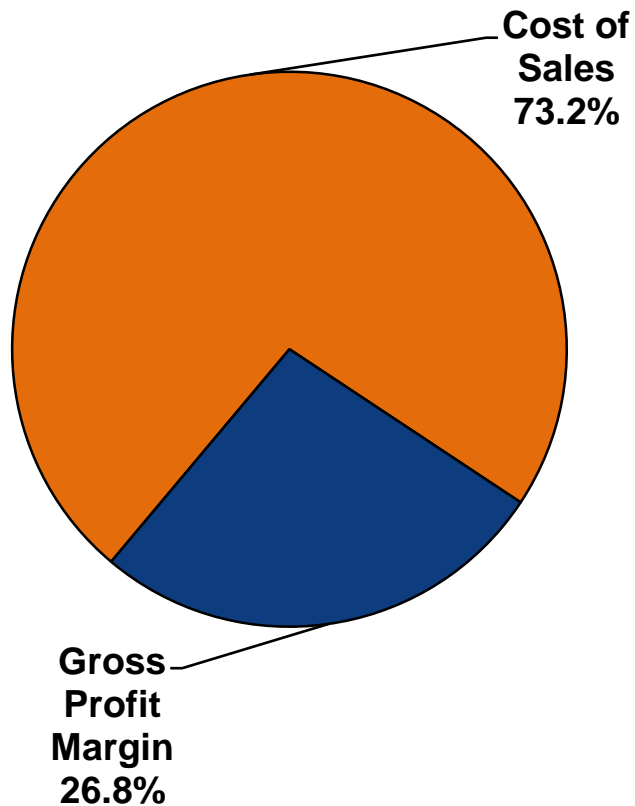
Income Statement Summary

(All Remodelers)

	Average (in \$1,000s)	% of Revenue
Total Revenue	\$1,134	100%
Cost of Sales	\$831	73.2
Gross Profit	\$303	26.8
Operating Expenses	\$269	23.7
Net Profit	\$34	3.0

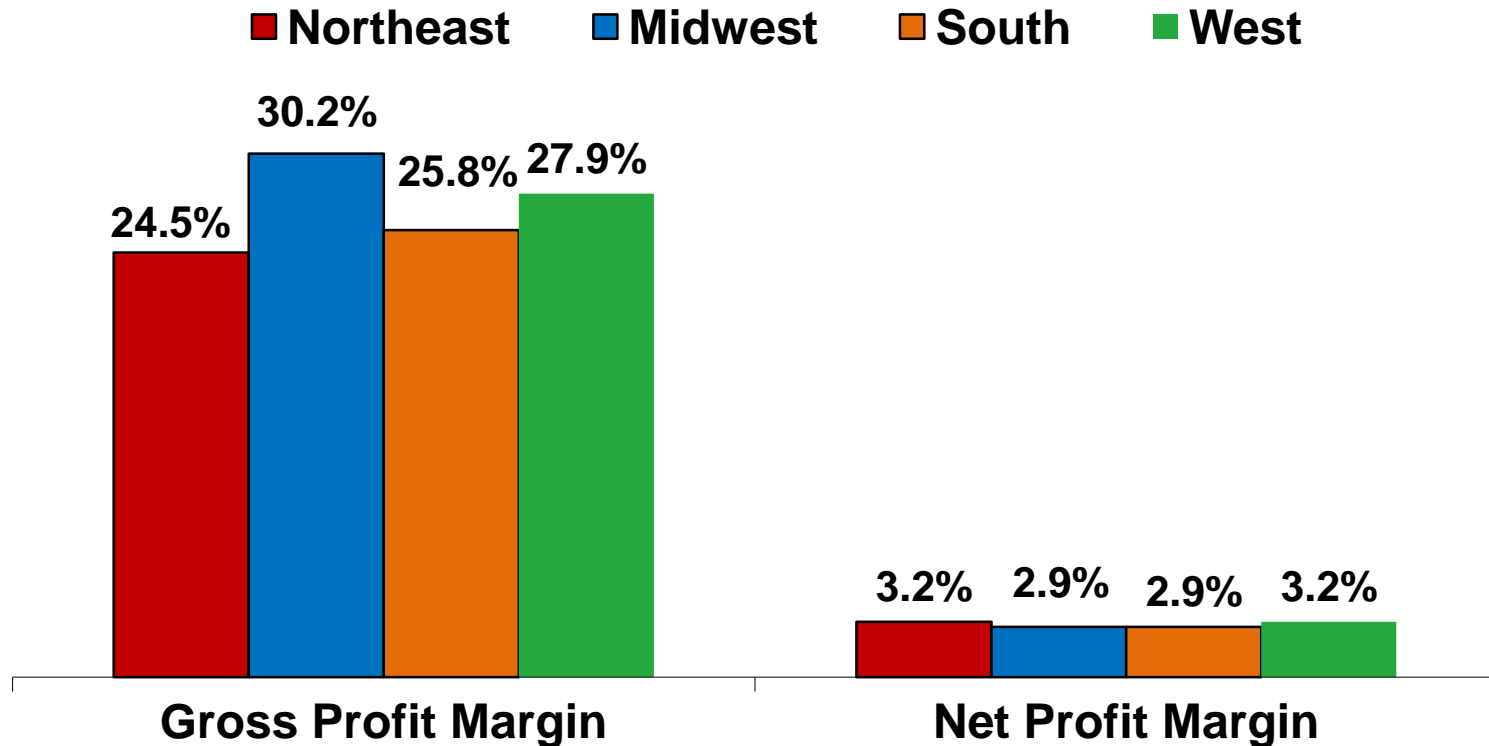
Gross And Net Profit Margins

All Remodelers (As % of Revenue)



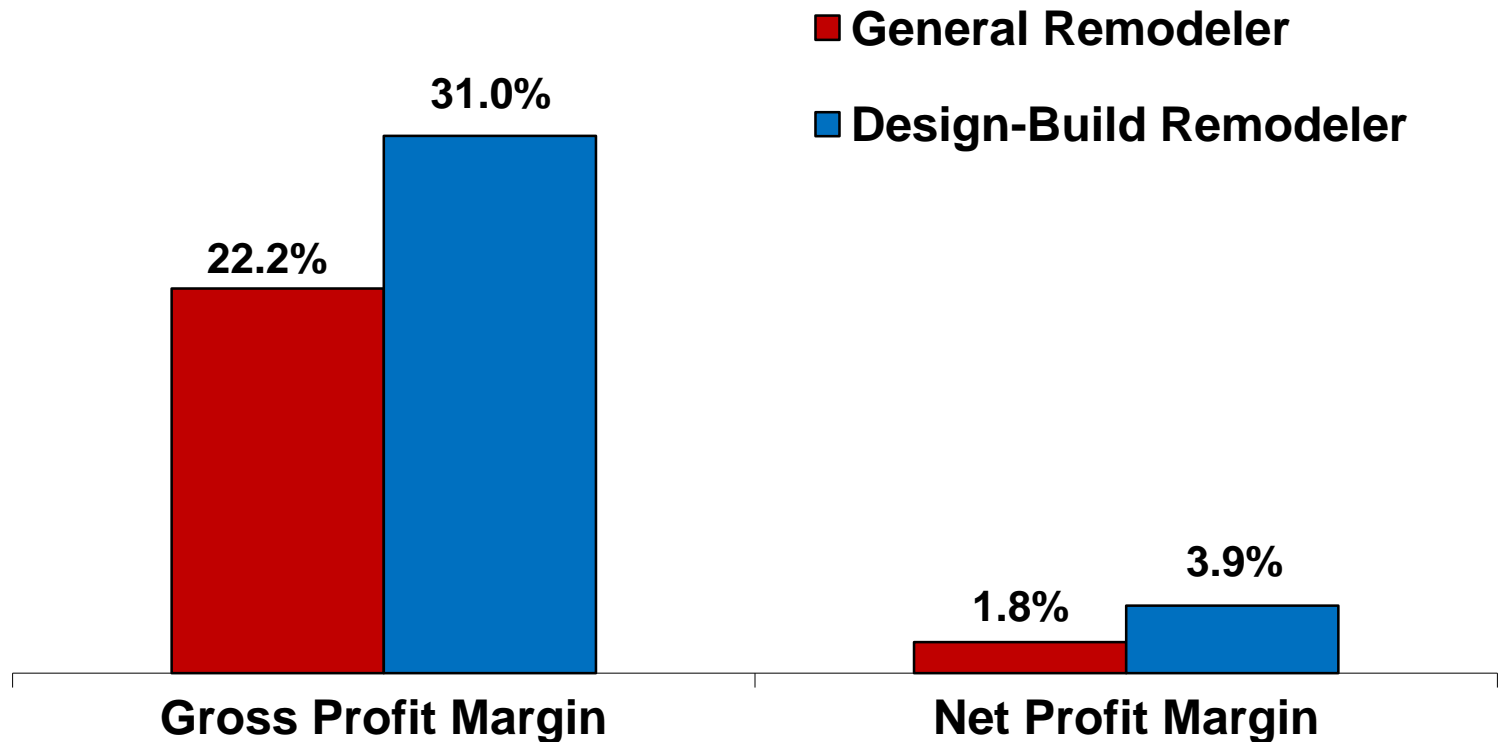
Gross And Net Profit Margins – By Regions

All Remodelers (As % of Revenue)



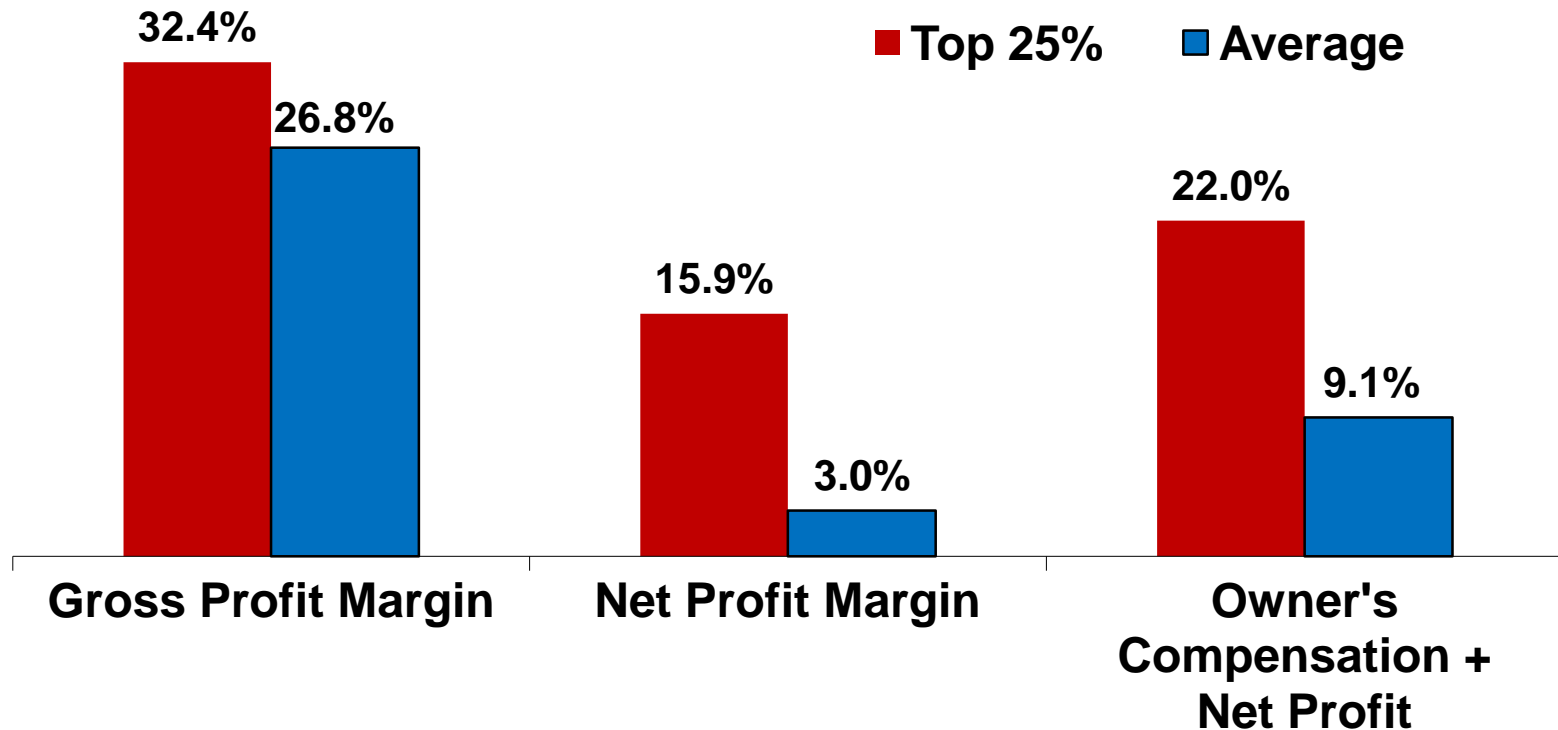
Gross And Net Profit Margins – By Business Model

All Remodelers (As % of Revenue)



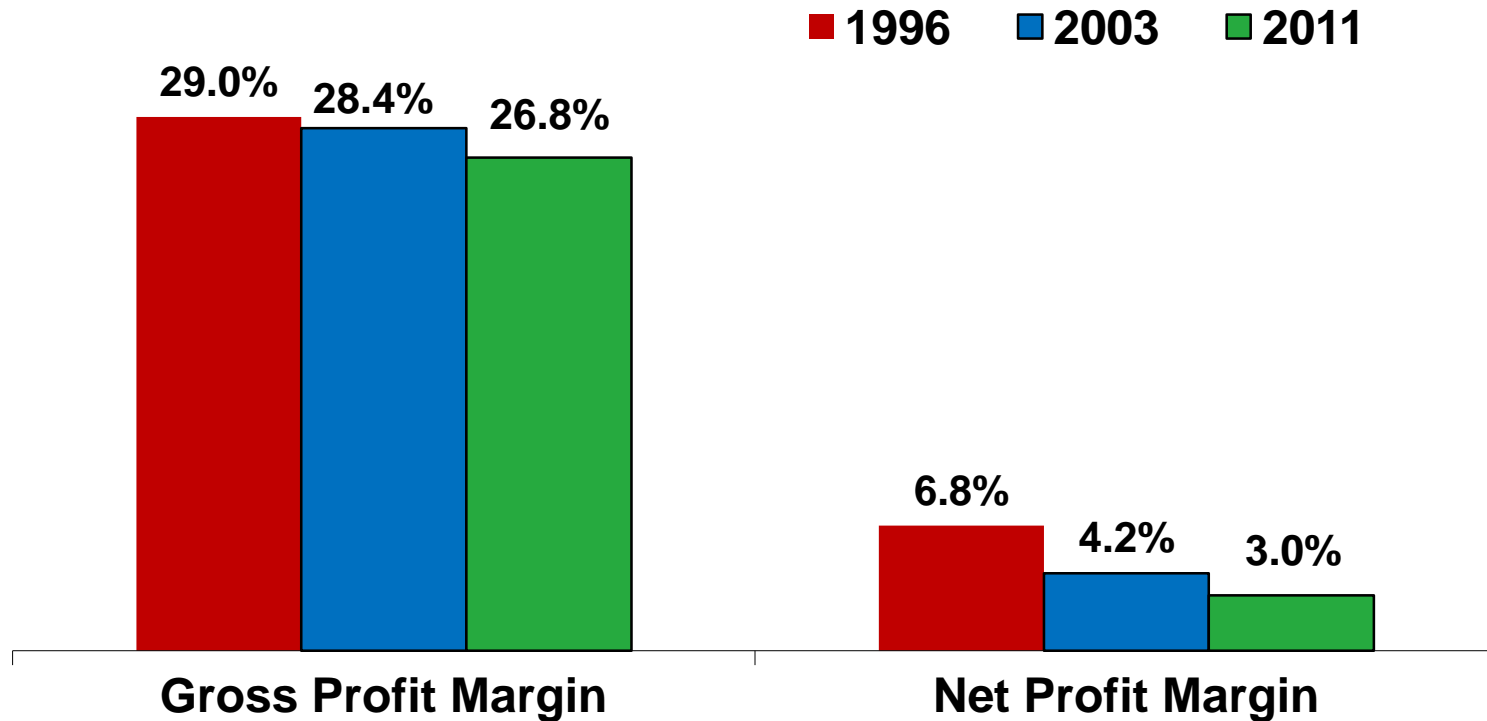
Income Statement – Top Performers vs. Averages

(As % of Revenue)



Income Statement - History

All Remodelers (As % of Revenue)



Balance Sheet Summary

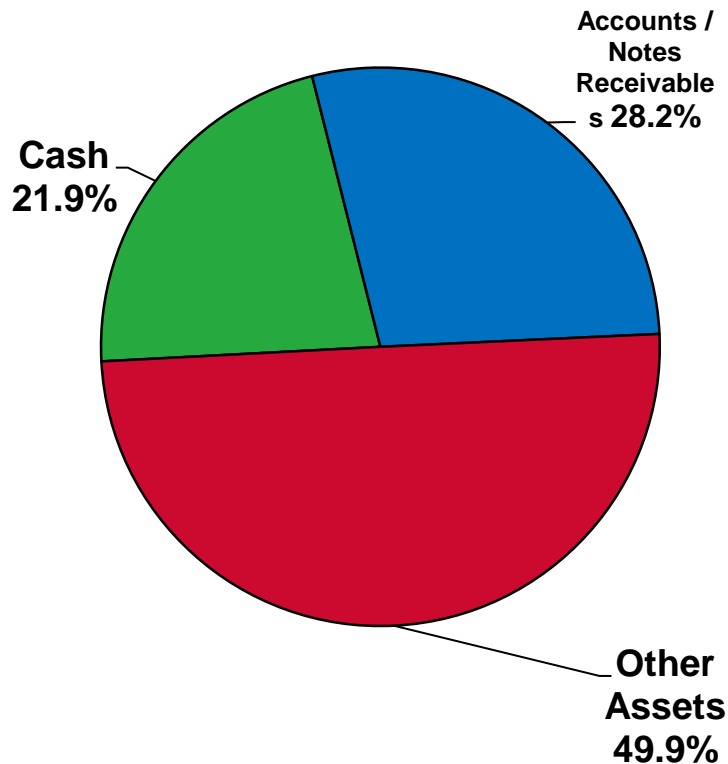
(All Remodelers)

	Average (in \$1,000s)	% of Assets
Total Assets	\$269	100%
Total Liabilities	\$176	65.4
Total Equity	\$93	34.6

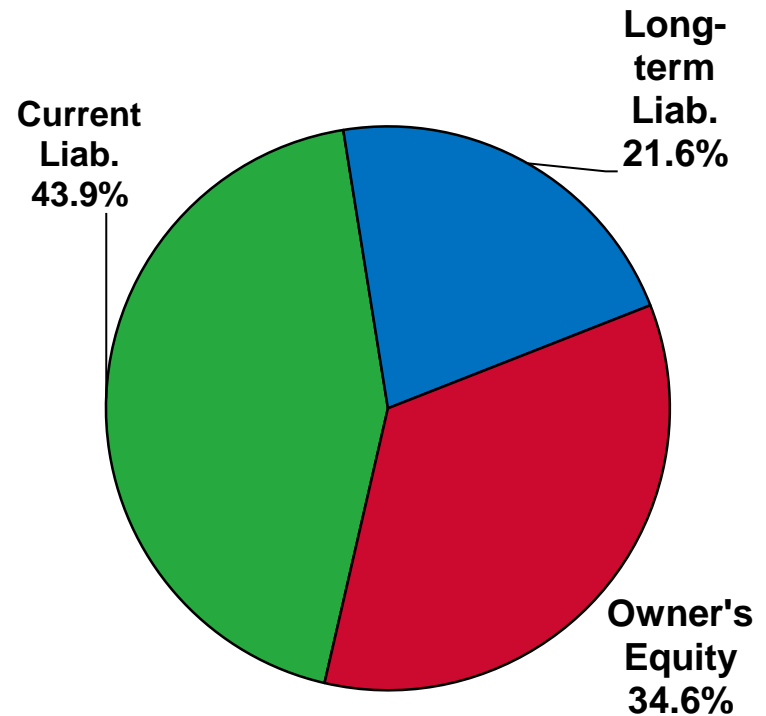
Assets, Liabilities & Equity

All Remodelers (As % of Total Assets)

Assets

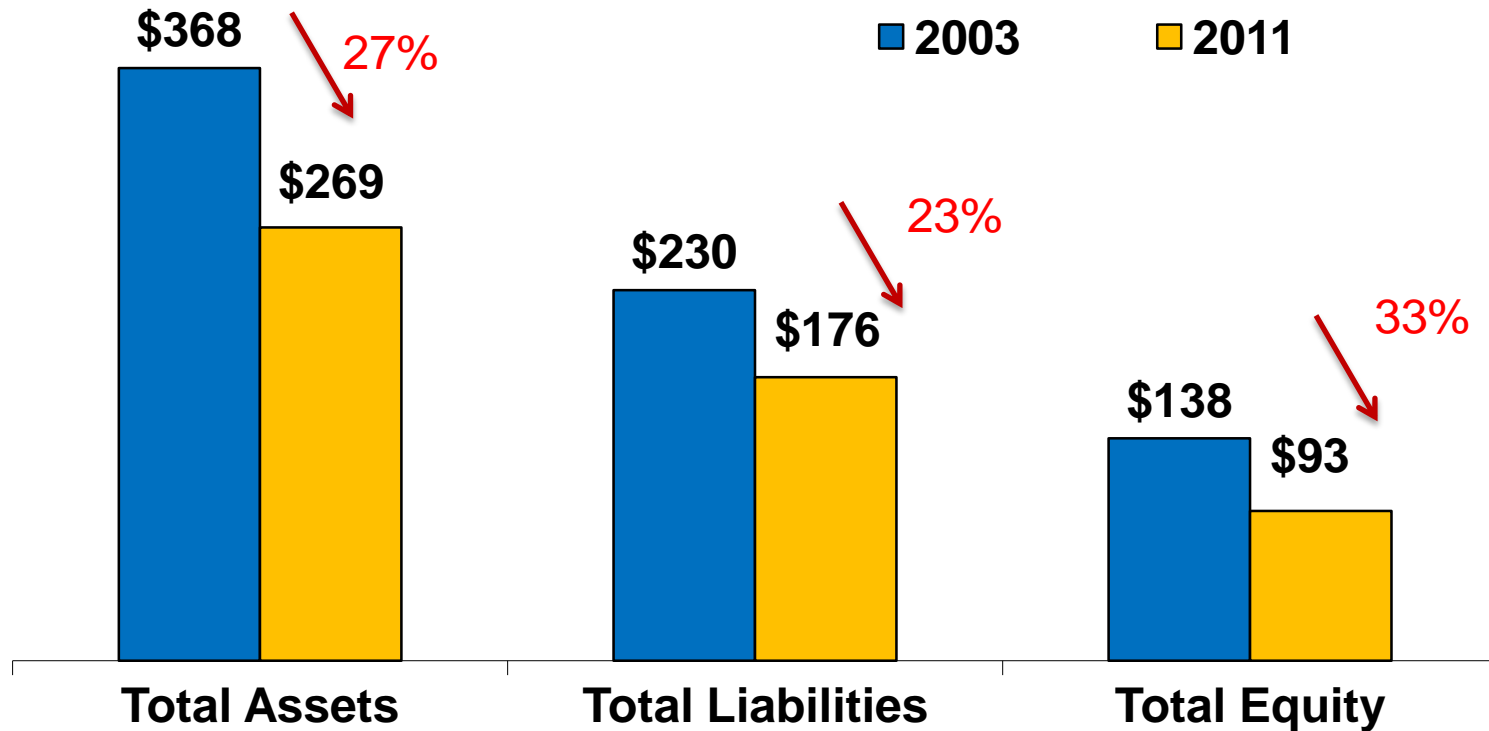


Liabilities & Equity



Balance Sheet - History

All Remodelers (In Thousands \$)



Financial Ratios

All Remodelers

	2003	2011
Current ratio	1.36	1.49
Debt-to-equity ratio	1.67	1.90
Return on assets	15.8%	12.8%
Return on equity	42.0%	37.0%

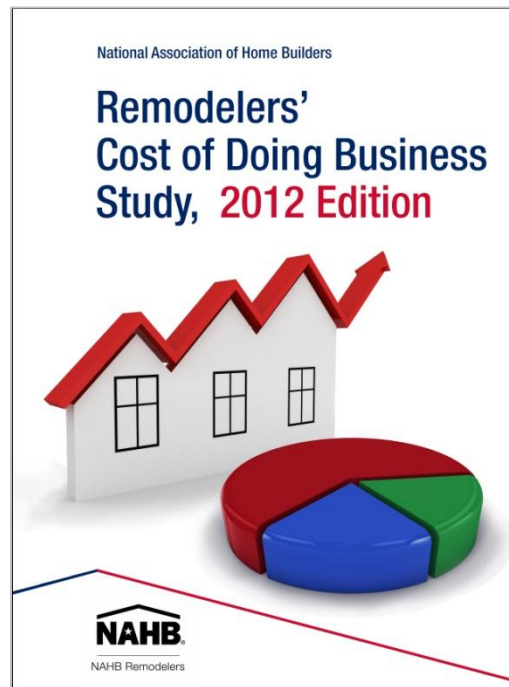
Current Ratio: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Return on Assets: $\frac{\text{Net Income}}{\text{Total Assets}}$

Debt-to-Equity Ratio: $\frac{\text{Total Debt}}{\text{Equity}}$

Return on Equity: $\frac{\text{Net Income}}{\text{Equity}}$

Remodelers' Cost of Doing Business Study, 2012 Edition



**Provides key financial benchmarks
for remodelers**

- Available as an e-Book only
- Download to your PC, iPad, or view and read online
- Fully searchable

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How to Use the Study

- Averages should not be considered targets. Rather, pay closer attention to the top 25% results.
- You must understand how the study defines various costs of goods sold and operating expenses before comparing results to your own performance.
- Make sure to align how and where you account for field labor costs/benefits to the way it is done in the study.

How to Use the Study

- Two major outputs to look at: gross profit margin and net profit margin.
- A legitimate goal for net profit margin is up to 10% (of total revenue).
- Owner's compensation should be around 6%-10%.

How to Use the Study

- Controlling your gross margin is the single most important factor for success.
- Increasing volume without carefully tracking gross margin does not necessarily lead to improved net profits.
- If you are new to remodeling, look at results from companies with fewer years of experience, or those with fewer employees or jobs.
- Focus on the percentages – they are size blind.

How to Use the Study

- Zoom in on operating expenses – do they look normal compared to the industry?
- Study can help you plan for future hiring as volume grows.
- Consider becoming a C or S corporation, or at the very least, an LLC or LLP.

How to Use the Study

- Cash accounting is almost useless as a business management tool.
- Consult with a professional and switch to a more advanced, timely, and accurate accounting method.
- This study is a great tool for starting to learn what results you should be aiming for.

QUESTIONS?

IBS Education handouts are available at www.BuildersShow.com/handouts

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