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5 WAYS TO IMPROVE PROFIT MARGINS IN CONSTRUCTION

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No one starts a business with the goal of losing money, but when it comes to profit margins, those for construction companies are among the smallest in the world. The average profit margin for general contractors is between 1.4 and 2.4 percent. Subcontractors are only marginally better off, coming in at 2.2-3.5 percent.
Margins that narrow often mean a single mistake or delay can turn a profitable job into one where you won't make any money. In this volatile and competitive market, what can construction companies do to improve their profit margins and turn their business into a securely profitable one?

How to Improve Construction Profit Margins

1. Set profitability goals.
Before you start trying to strive for better profit margins, it helps to have specific profitability goals you can work towards. Studies show that companies that make clear and specific goals in regards to their profit margins make 33 percent more than those who do not. Despite this, 66 percent of companies have no specific profit goals.
Work on making your goals SMART: specific, measurable, achievable, relevant and time-based. For a construction company, a SMART goal might look like:
Our company will increase profit margins by 15 percent within six months.

2. Consider rental equipment.
Construction equipment is costly even at the best of times. If you're struggling to maintain profit margins, it might be challenging or downright

impossible to purchase new equipment. This might leave you scrambling to complete new jobs with old or outdated equipment.
Instead of stretching out every dollar or taking out costly loans to purchase new equipment, consider renting. This gives you access to new, top-of-the-line equipment without having to eat the cost. Plus, when you rent a piece of equipment, the rental company is often responsible for maintenance and repairs, saving you more money in the long run.

3. Focus on productivity.

Lean profit margins become that much more treacherous when you're scrambling to meet your deadlines. One of the most cost-effective actions you can take to improve these margins is to focus on productivity in the workplace. The more productive your crew is, the less of a chance that they'll miss a deadline or make a mistake that could cut into your profit margins.
Train your team well and make productivity everyone's focus. Keep your lines of communication open and actually listen to your employees. They can be your eyes and ears on the ground, so to speak, and they may notice problems that could cut into your profit margins long before you see them.

4. Understand all your costs.

Declaring that you are going to improve your profit margins and even setting goals are both noble endeavors, but they don't mean much if you don't understand all of the costs of each project. Construction costs include planning, estimates, capital costs, operational costs, whole life, and life-cycle costs—just to name a few. It's an entire branch of math by itself, and it will take some time to understand the relationship between all of these different incomes and expenditures.
Don't work solely on estimates and guesses. After each project, conduct a thorough postmortem and compare your previous estimates with the actual costs of business. If you notice any glaring inconsistencies, you can then create an action plan to address these shortcomings and improve your profitability on future projects.

5. Balance lean and good years.

Not every year is going to be a profitable one—such is the nature of the construction industry. The Great Recession in 2008 proved that point better than we ever could. You will occasionally be stuck with lean years where work is scarce, and your profit margins shrink even further. Don't let this scare you away. Instead, learn to balance these lean years with your good ones, so you'll always be prepared, regardless of what the market has in store for you.

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