



Robinson Builders Mart

"Lumber, Building Material, Millwork & Hardware"

Customer Newsletter

September 3, 2019

Measuring Productivity & Profitability *By; Robert Patin*

With a career of nearly two decades, and having specialized in the construction industry, one of the things that fascinates me the most is how each company differs so much in its productivity and profitability. One of the biggest aspects altering this is whether a firm has benchmarks, or metrics to effectively track activity.

I have spent countless hours with clients and written many articles on what a construction company needs to do, and how they should go about creating and implementing a strategy to improve. I will focus on a few of these key metrics that I have found significantly impact a company's profitability.

These reports and benchmarks will have slight variation depending on self-performing companies versus majority subcontracted companies.



- **Throughput:**

$(\text{Revenue Of Project} \times \text{Gross Profit Margin}) / \text{Length of Project} = \text{Throughput}$

This may be the most important metric that most construction companies are not focusing on. If I were to ask you if you would prefer a \$500k project at a 25% profitability that lasts two months, or a \$1m project at a 25% profitability that lasts 5 months – which would you prefer? Even though many companies would pick the latter, on a profit per month basis the first is the clear choice.

I consider this metric to be most important, as this metric and insight from it will be the difference of your company still being in operation tomorrow.

- **Proper budgeting:**

Proper budgeting does not end at the creation of a budget. A budget whether operational, sales and advertising, project specific should be living, breathing and used daily. Without reporting to monitor your budget and tracking each line of the budget to actual spend, no leader will be able to affect change. I

often find most construction companies to not have the proper processes in place to effectively and profitably manage their business.

• **Average Hourly Earning:**

Calculated Overall and by Activity Type: Revenue / Hours = Average Hourly Earning

I have been asked many times, 'Why is this metric so important?' My response, 'It measures everything'.

Depending on whether you are a specialty contractor or self-performing general contractor, it is important to measure this metric by role or activity. It is this metric which will allow you to set a benchmark on where you would like your company to be for each of these roles and/or activities, allowing you to gauge your initiatives successes and failures.

While I do not list this specific metric as the most important, it effects the bottom line most of all.

What metrics are your company currently measuring, and are they meeting its goals (benchmarks)?

Remember – 'never let a good crisis go to waste' – Winston Churchill

Article Written By: Robert Patin

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