THE "MUST KNOWS" OF TRUSS MANUFACTURE (Part 2)

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In Gang-Nail GuideLines No. 8, I promised to explain why it is important to only apply your mark-up to the EqA value when calculating the selling price of a job. In that article I said this was essential if you wanted to obtain an estimate of your profit easily on a daily basis. However, there are more compelling reasons why you should do this.

Firstly, I think it is important, and I assume you will agree, that you should get consistant return in the way of profit for your effort. EqA is a well proven measure of "effort" or work done in the truss plant. Therefore, it follows that when we are quoting jobs, we should apply our mark-up to the EqA value.

This is probably best illustrated by the following example which compares this method with the more conventional mark-up of both timber and labour. To make my point clear, I have selected a relatively simple job and a more complex job, each containing a similar timber volume and cost. The complex job, however, has a larger labour and overhead cost because it has more jig set ups and more complex trusses.

Truss Plant "A" and "B" are competitors and we all know our customers are very price sensitive, so it is obvious that plant "A" would win the complex job at $4745 and plant "B" would win the simple job at $3870. Fair enough, each has got 50% of the work. But is it a fair distribution? I would say not. Plant "A" is returning $49.52/ plant hour, compared with plant "B's" $62.00 which is considerably better. As you will see from this example, plant "B" returns $62.00/plant hour regardless of the type of job.

Secondly, plant "A's" problem is compounded because of its method of calculating the selling price. Plant "A's" method tends to under price the complex jobs and over price the simple jobs. Therefore, they win more than their share of complex jobs at a much reduced profit. This drastically reduces plant "A's" profitability.

Both plants will continue to be busy as the operators will adjust their mark-ups to ensure they continue to win jobs. However, the plant using the % mark-up on cost will have to work a lot harder and turn over a lot more than his competitor to achieve the same level of profitability. This also exposes plant "A" to a greater risk of bad debts, increases demand on working capital, etc.

This concept may be difficult for some people to accept because it is not conventional practice. However, when you consider that a truss plant's business is to turn timber into trusses, and that we do not have a product to sell until this is done, then it becomes more logical to mark-up a reliable measure of truss plant output. This of course is EqA.

Simple Job
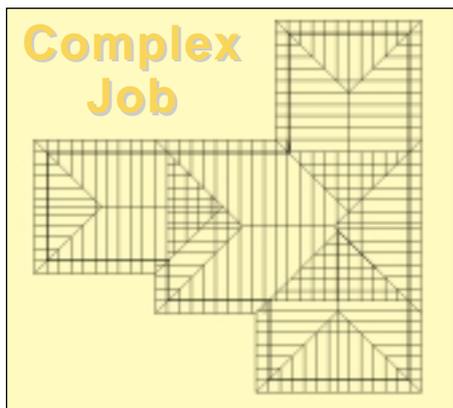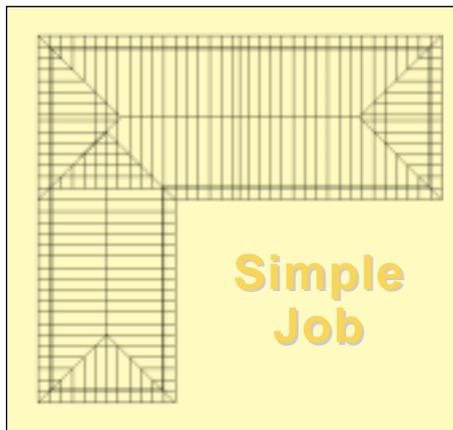
Complex Job

TRUSS PLANT 'A' USING % MARK UP ON COST		
	Simple Job	**Complex Job**
Timber Cost	$2130	$2180
Labour & Overhead Cost	$1244	$1946
Total Cost	$3374	$4126
EqA	124	194
Production Time	8 hours	12.5 hours
Sell Price @ 15% mark up	$3880	$4745
Profit	$506	$619
Return of effort/plant hour	$63.25	$49.52

TRUSS PLANT 'B' USING MARK UP ON EqA		
	Simple Job	**Complex Job**
Timber Cost	$2130	$2180
Labour & Overhead Cost	$1244	$1946
Total Cost	$3374	$4126
EqA	124	194
Production Time	8 hours	12.5 hours
Sell Price @ $4-00/EqA	$3870	$4902
Profit	$496	$776
Return of effort $/plant hour	$62.00	$62.00