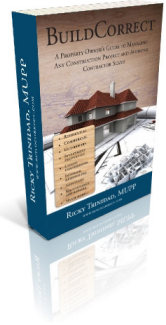


PRICE DISSECTOR

A guide for separating labor and material costs



Separate labor and materials

Separating labor and material costs will help you negotiate a reduced price, avoid contractor scams, and manage your budget effectively. It is an important step for the successful management of your project.

Many contractors tend to hide additional earnings within bulk numbers. This is a primary reason why property owners often over-pay for services. For example, your contractor may quote a price of \$5,000 plus a 15% management fee to replace hardwood floors for your project (total cost of \$5,750). You later discover that the material cost was \$1,800 and that he finished the project with two laborers within 2 days. The following calculation will show that he earned much more than the \$750 management fee that he represented, and that you could have received a better price if you had negotiated the contract by separating the material costs and paying the contractor for labor only.

Hidden Profit Example Chart

Labor Cost	Hourly Rate	Hours Worked	\$
Laborer 1	\$20	20	400
Laborer 2	\$20	20	400
Management Fee			750
Total Labor Cost			\$1,550
Material Cost			\$1,800
Total Project Cost			\$3,350
Cost to Homeowner			\$5,750
Contractor's Hidden Profit			\$2,400

The separation of labor and material costs is an effective strategy for negotiating a fair price because the only way the contractor can be over-paid is if you agree to pay above-market prices for labor (see Price Comparer, free tool #7, for a list of reasonable pricing for various types of work). The contractor is not able to hide additional profit because everything is out in the open. In the above example, the contractor would have had to charge \$60 per hour for each laborer in order to justify the additional \$2,400 that he generated. It is unlikely that a property owner who has read BuildCorrect and uses the online tools would agree to such a fee.

Obtain a materials list

The best way to separate labor and material costs is to obtain a detailed list of all materials for your project. This list of materials should represent all items that must be purchased for the completion of your project. There are several ways to obtain this:

- 1) Request a materials list from your architect, and have your general contractor review, edit and validate it.
- 2) Take your plans to a supplier and request a materials list for your project (many suppliers do not charge for this service).
- 3) Have your general contractor provide a materials list for your project.
- 4) Hire a third-party consultant, architect or engineer to create a materials list.
- 5) Create the materials list yourself. (This is only advisable if you're experienced in the area of work to be performed).

Choose the method that is most appropriate for your project. Regardless of the method you decide for obtaining your materials list, make sure your contractor agrees that it represents a complete inventory of

materials required for the completion of your project, otherwise, he can attempt to charge you additional costs later for installation of materials that were not represented on the list. The property owner and the contractor should both sign the materials list and agree to it. Keep in mind that there may be items that are not included in a materials list because it is often difficult to pre determine exact quantities and to account for every item beforehand; Especially with larger and complex projects. For this reason, your materials list should include a contingency factor of 5% - 10% of the total cost of the materials. Appendix "A" of this guide provides a sample materials list from a supplier for you to review. Your project may include longer lists and multiple lists outlining the materials involved you your particular project.

After you obtain a detailed materials list for your project, send it to several suppliers and obtain pricing for all materials required. "Big box" suppliers such as Home Depot, Menard's and Lowes often provide competitive pricing because they sell to homeowners and to contractors so they are able to reduce their pricing due to volume of sales. Nevertheless, a local supplier can be competitive also. Your best approach is to send your request to multiple suppliers and compare pricing for each item. With larger projects you may find that, although Supplier "A" offers lower pricing on several items than Supplier "B", it makes sense for you to purchase all materials from Supplier "B" if their overall cost is lower. The effort and cost of driving to several suppliers may not be justified in some cases because of the transportation and delivery expense. It is usually most efficient and cost-effective to obtain materials from as few sources as possible.

Simplify your list

Your initial materials list can be quite extensive, as it should be. It can include boxes of nails, boxes of screws, gallons of primer, gallons of paint, amount of sandpaper, bundles of insulation, etc. You should attach this materials list to the contract that is signed between yourself and the contractor. This list is also useful for obtaining exact pricing for each item from your supplier(s). However, for simplicity purposes concerning your pro forma, budget, bidding and negotiations, it is important to categorize and simplify your list into basic groups as shown below.

List Simplification Chart

Category	Materials
Site work	Trash bags, brooms, mops, cleaning supplies, tarps, protective plastics, etc.
Framing	Lumber, screws, nails, bolts, saw blades, drill bits, etc.
Plumbing	All piping (copper, PVC, cast iron), corners, welding supplies, plumbing fixtures, etc.
Electrical	All piping, tubing, wires, electrical fixtures, etc.
HVAC	Ducting, duct tape, furnaces, air conditioning units, etc.
Drywall	Mud, sandpaper, tape, drywall, drywall screws, etc.
Cabinetry	Kitchen cabinets, bathroom cabinets, cabinet hardware, etc.
Int. Finishes	Doors, hardware, windows, trim, molding, casings, etc.
Tops	Kitchen tops, bathroom tops, other surfaces.
Floors	Hardwood floors, carpeting, ceramic tile, vinyl tile, etc.
Appliances	Refrigerator, stove, dishwasher, washer and dryer, etc.
Masonry	Bricks, blocks, mortar, rebar, mixing compounds, sand, etc.
Exterior	Roofing supplies, siding materials, exterior trim work, gutters, downspouts, etc.
Garage	Garage door, motor, rail channels, repair supplies, etc.

** This list is not exhaustive. It is intended as a sample to demonstrate how a raw materials list can be simplified.*

Simplifying your materials list will help you obtain more accurate bids, and will significantly improve your negotiating position with contractors and sub contractors. This way, your contractor may provide you a simplified bid proposal for Framing at a price of \$1,200 (for example), but you can attach your raw materials showing that lumber, screws, nails, bolts, saw blades, drill bits, etc. are included in his bid.

Labor Costs and Fees

Now that you have a detailed materials list and a simplified materials list, you are well positioned to negotiate the labor costs and/or management fees for your project. Enter all costs in the Price Dissector tool as indicated. The tool will create a list of all labor and material costs for your project, separated by category. If you are working with a general contractor, he will provide you with a price for each sub contractor trade, plus his management fee for the work of managing and coordinating each one. Use Build Correct's Bidding Expert tool to obtain a proposal from your contractor. Make sure your contractor provides his proposal in the Bidding Expert format because it forces the contractor to provide a price per item, and it separates labor and material costs so that nothing is hidden. The Bidding Expert tool will require the simplified materials list you created here.

It is also advisable that you receive bids from individual sub contractors (carpenter, plumber, electrician, etc.) so that you can compare the pricing with those provided by your general contractor; And, so that you can replace his sub contractors if necessary while keeping him as the general contractor (if you wish). Knowing your material costs will help you see how much each contractor is charging you for their labor.

Lastly, check labor prices with those listed in Price Comparer (free tool #6) to see if the proposed pricing is high, low or out of the "ballpark". Price Comparer will also provide other sources that will help you make sure you do not over-pay for services provided to your project.

