

Boost Profits With Upgrades

by Bobby Parks

The most common way deck builders try to make more money is simply to build more decks. Unfortunately, that strategy can entail hiring more employees, which eats into the profit gained from the additional sales.

Instead, wouldn't it be better to increase annual revenue without adding projects and employees — and make customers happier at the same time (even as you are charging them more)? By selling composite decking and railing upgrades, my company has accomplished both: The higher sales prices have resulted in higher profits and the better-quality products have improved long-term customer satisfaction.

Upgraded decks look better longer and cost less in both time and money to maintain. A deck built of just about any material looks pretty good right after completion. But after it's been exposed to the elements for a period of time, it begins to show its true colors and looks less and less appealing. Eventually, customers will need to have the deck cleaned and sealed or stained. By the time they do this two or three times, they will probably have spent more money than, or at least an amount equal to, what they would have spent had they upgraded to a good-quality composite to begin with.

Building with composites may also reduce your number of callbacks and lower your warranty cost. Most composite decking won't increase produc-

tion costs by taking more time to install than wood does; in fact, it often installs faster because the crew doesn't have to cull poor-quality boards.

Cost and Profit

I realize that deck builders offer a wide range of products and services in different parts of the country and that costs, labor rates, and targeted margins vary. The numbers I use in this article are only examples to illustrate the possibilities we all have to improve profits. Desired gross margin could even be its own article; I'm going to use a 30 percent margin in my examples.

Let's say you design a \$10,000 deck with pressure-treated decking and rail that takes a two-man crew seven days to build. Your gross profit (before overhead is deducted) should be \$3,000 on each deck; if you run a couple of crews

and build 60 all-wood decks a year at an average price of \$10,000, your total annual sales will be \$600,000 and your annual gross profit will be \$180,000.

If, however, you sell your customer a composite-decking upgrade that raises the sales price by 35 percent to \$13,500, your gross profit on the deck (assuming you keep the same margin) will increase from \$3,000 to \$4,050 (Figure 1).

By converting just one-third of your wood-deck sales to composites, you could increase your annual sales by \$70,000 to \$670,000 and your gross profit by \$21,000 to \$201,000 — an 11.6 percent increase in gross profit (21,000 divided by 180,000). Your net profit will show an even higher percentage increase because of the way overhead costs work.

Most businesses have fixed over-

Profit on an Upgraded Deck		
	Standard deck	Upgraded deck
Price per deck	\$10,000	\$13,500
Gross margin	30%	30%
Gross profit	\$3,000	\$4,050
Overhead	\$2,000	\$2,000
Net profit	\$1,000	\$2,050

Figure 1. Here, a gross margin of 30 percent is used to calculate gross profit. Because overhead for the \$13,500 deck is the same as for the \$10,000 deck, upgrading the deck increases net profit by an even higher percentage than it increases gross profit.

head costs that are covered by a certain amount of sales each year. If sales numbers surpass the target while maintaining margin, the additional sales can be disproportionately more profitable. In a nutshell, more money falls to the bottom line because overhead expenses were covered by the original targeted sales amount.

Let's say your gross margin was 30 percent of a \$600,000 year, for example. You're a sole proprietor and your overhead costs were 20 percent, or \$120,000. You're left with a net margin of 10 percent; that's a net profit of \$60,000.

If you increased your annual sales by \$70,000 by selling composite upgrades and maintained the same gross margin, it's possible that the full \$21,000 in gross profit would fall to the bottom line and into your pocket. The additional 11.6 percent of gross profit just increased your original \$60,000 net profit by 35 percent to \$81,000 (Figure 2). Imagine how quickly this adds up with a larger sales volume.

Railing Upgrades

Profit increases can also be obtained by offering alternative railings. Although some products require additional labor hours, which would affect the amount of profit realized, many do not. You can offer elaborate rail systems or less expensive upgrades, such as aluminum balusters combined with wood. Either way, you are educating the customer about available products and providing yourself an opportunity to increase sales — and therefore profits. And railing upgrades may interest some of the customers that chose not to go with the composite option, giving you a mixed bag of sales.

As an example, let's assume your standard offering is a wood-picket railing with some detail for \$20 per linear

foot. You could offer an aluminum-baluster option with connectors for an additional \$12 to \$16 per linear foot, depending on what you pay in labor. If the average deck has 60 feet of rail, you're talking about an up-sale of somewhere between \$720 and \$960. If you sell only one-third of your projects with this option, you'll add between \$14,400 and \$19,200 to your annual sales and between \$4,320 and \$5,760 in gross profit. Much of this will add to your net profit (Figure 3, page 3).

Customer Satisfaction

You may be thinking that everything I've talked about is easier said than done. You're right — it is. Think about these questions, though: Would you use treated-wood decking for your own deck? Do you want the effort and expense to maintain its looks? How do you think most of your customers five years, or even just one year, down the road would respond if you knocked on the door and asked them if they were enjoying their deck? My experience has been that it's not difficult to convince a homeowner who's had to maintain a wooden deck of the

benefits that composites, and even exotic hardwoods, provide.

We better serve our customers when we educate them about composites and alternatives and encourage them to use them — not just sell them something we don't believe in ourselves. If you research and screen the alternative products available, and convince your customers to pay more up front, I believe they will invite you in when you knock on their door in years to come.

Which Composites?

Many of us who have used composite materials have experienced product failure or problems. This should just make you wiser when deciding which products to use, not scare you off composites. In my opinion, composites have come a long way over the past few years (though they still have a ways to go).

I have had good experiences with TimberTech (www.timbertech.com), GeoDeck (www.geodeck.com), and EverGrain (www.evergrain.com). They have performed relatively well in terms of resistance to stains, scratches, mold, and fading.

Annual Profits, One-Third of Sales Upgraded		
	60 decks (\$10,000 each)	40 decks (\$10,000 each) + 20 decks (\$13,500 each)
Annual sales	\$600,000	\$670,000
Gross margin	30%	30%
Gross profit	\$180,000	\$201,000
Overhead	\$120,000	\$120,000
Net profit	\$60,000	\$81,000

Figure 2. Upgrading one-third of the decks sold in a year increases both sales and net profit by 35 percent in this example. Increasing prices without increasing staff allows the additional profit to drop to the bottom line.

Annual Railing Profits, One-Third of Sales Upgraded		
	60 railings (\$1,200 each)	40 railings (\$1,200 each) + 20 railings (\$1,920 each)
Annual sales	\$72,000	\$86,400
Gross margin	30%	30%
Gross profit	\$21,600	\$25,920
Overhead	\$12,400	\$12,400
Net profit	\$9,200	\$13,520

Figure 3. Railing upgrades offer another opportunity for increasing profit. Selling an aluminum baluster in place of a standard rail (at an additional \$12 per linear foot, maintaining a 30 percent margin), adds \$720 in gross profit to each 60-foot railing. On an annual basis, upgrading one-third of the railings sold adds \$4,320 to gross profit.

GeoDeck is very durable and a gouge or scratch can usually be brushed out with a wire brush. Its tongue-and-groove version allows for a clean look, similar to what you get with hidden fasteners but without the labor or expense. Products from Procell Decking Systems (www.procelldeck.com) are impressive, and I believe they are on the right track to solve the long-term problems that some composites have had. I'm sure there are many others I'm less familiar with.

Research products before you use them: Look for those that don't scratch or stain easily, and make sure they're colorfast and not prone to mold issues. Check expansion characteristics. Become familiar with proper

installation techniques and how well the products receive fasteners. Use proven products with sound corporate backing.

Also, listen to other deck builders: Many are willing to share their experiences with other contractors, especially at events such as DeckExpo or through NADRA.

The bottom line is that offering quality upgrades gives you the opportunity to be more profitable, increases long-term customer satisfaction, and increases the potential for referrals for your business. ❖

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