

It looks as though we finally had a respectable year for component sales in the USA this year. Because of this, I am expecting this year's BCMC trade show in San Antonio, Texas on October 8<sup>th</sup> to the 10<sup>th</sup> to have a much better turnout than it has had since the crash. Most vendors are talking about strong sales with many component companies investing in new equipment and expanding their existing manufacturing in some way. I will have a booth, and I hope to see you at the show. Of course, if you do go, you will be able to recognize me by my big brown leather hat that I always wear at the trade show.

Now, for the odd title of this article: "Selling Roof Trusses and Truck Transmissions." Let us assume you are having problems with your truck's transmission and you need to have it replaced. When you take your car to the local mechanic, do they not tell you the hourly rate for service and that any parts needed to fix your auto is extra? The hourly charge they are billing you is to cover their operating expenses and create a net profit. The cost of the part they are replacing has no bearing on how much the hourly rate is. The cost of the part is an add-on expense you are charged on top of the established hourly rate. Now, what does this have to do with roof truss sales? Bear with me, and keep reading, please.

If you were not selling manufactured components, how would you maximize your gross profit for your manufacturing facility? It is quite simple, really. You would rent or lease your facility at the maximum dollar rate per time period. It would be a natural idea to lease at the maximum dollar rate the market would allow, whether on a monthly, weekly, daily, or even per-hour basis. What they are using your facility for and the cost of materials they are using to manufacture their products is irrelevant to you. You want the most you can possibly get based on market conditions for the agreed time the lessee uses your facility. Now, when you sell a component project to your customers, how is this so different from leasing your manufacturing facility? When you manufacture a customer's project, it is using your facility's hourly and daily time periods.

Most component manufacturers establish the selling price based on the cost of material plus labor cost, and then use some type of multiplier for establishing the total sales price. Material costs of lumber and truss plates are like a new transmission for your truck. What does that mean? Well, you go to your local mechanic and they first establish how long it will take to replace the transmission in your truck, then they add the cost of the new transmission to the bill. They do not use the cost of the transmission, plus the cost of labor, and then mark it up. Why is this? Because the cost of the transmission has nothing to do with how much of the hourly garage time rate the replacement job will consume. Yes, they will mark up the cost of the new transmission, but the cost of the transmission is a separate line item.

Now you can see how this applies to selling roof trusses. When you use the cost of material in your pricing formula, you are charging your customer less per hour for your facility's hourly rate when the material cost drops. Using material cost to establish the margin rate skews the hourly rate up and down depending on the market cost of material. By using a cost markup, any time lumber cost drops, you are giving yourself an hourly pay cut for your company. Now, what can you do to provide a consistent baseline to establish your gross margin markup for each project?

Drummond's pricing method for proper margin rate per time period:

$$\text{Material} + \text{Labor Cost} + (\text{Dollar Rate} * \text{Expected Hours}) = \text{Sales Price}$$

Results of using this pricing formula:

Higher margin dollars per hour projects than prior sales. Why is this? Watching the gross-margin dollar rate per estimated hour will allow you to recognize the high and low margin dollar-per-hour projects at a glance. You will have a much better understanding of which orders really are worth the effort and which ones you will pass on to your competition. You will know at a glance how much you really will be earning on an hourly basis, so in essence you are giving your company an hourly raise to do business. All of this will lead to greater net profit at the end of the year.

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- Lean Manufacturing Best Practices Made Simple and Practical (50% shop & 50% office)

Todd Drummond Consulting LLC.

**Selling Roof Trusses and Truck Transmissions**

Website: [www.todd-drummond.com](http://www.todd-drummond.com) - Phone: 603-763-8857 - Email: [todd@todd-drummond.com](mailto:todd@todd-drummond.com)

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- Established Time Standards for Truss Manufacturing (Over 80 different factors to choose from based on equipment types)
- Labor Tracking Software (Automated per truss tracking off the build tables!)
- 60+ consults, 10<sup>th</sup> year in consulting service, and 25 years in the truss industry

See website for customer testimonials and other helpful information: [www.todd-drummond.com](http://www.todd-drummond.com).