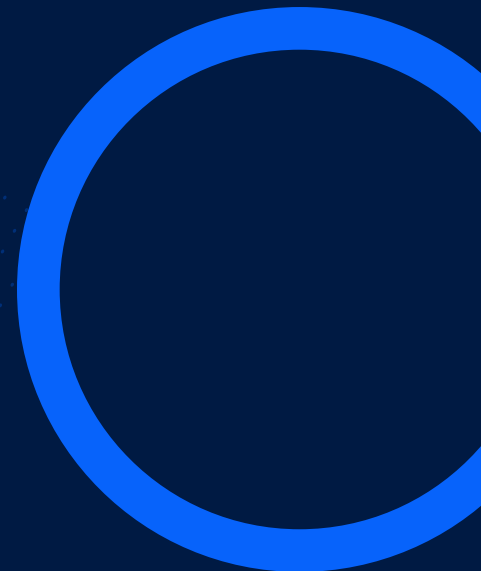




The ultimate
profitability checklist:

Fixed price vs. cost plus for **construction** **projects**

Check out our comprehensive guide to help you confidently determine which contract type is the best fit for your jobs.





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Cost plus vs. fixed price: How to choose the best fit for your business

Are you considering which construction contract to use for your next project? Let us help make the decision easier.

Choosing between a cost plus or fixed price contract is actually one of the most crucial steps in [ensuring profitability](#) on a job. If you're not using the right contract type, you're probably losing out on some serious cash that could be in your pocket.

For builders, selecting the appropriate contract model can mean the difference between maximizing financial gain and facing challenges. By aligning your contract model with your typical project requirements

and overall business objectives, you can mitigate risks, enhance client satisfaction and ultimately, drive success.

In this guide, we'll define the differences of cost plus and fixed price contracts, walk you through how to manage either type of project with construction tech and provide a profitability checklist that'll help you choose the best contract type for your business.

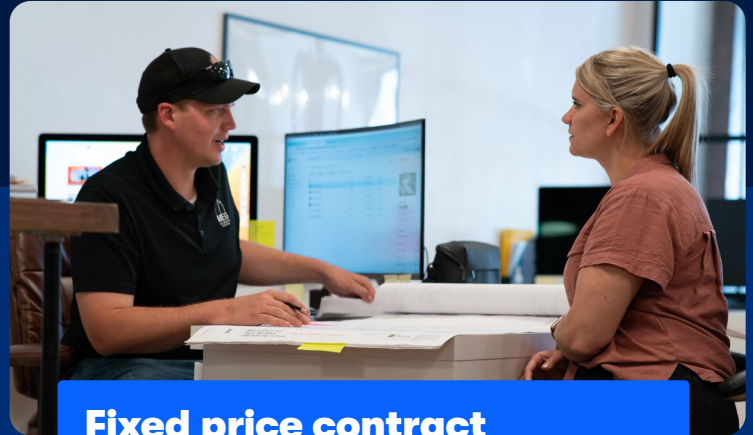


Cost plus contract

With cost plus contracts, clients agree to pay the builder for the actual costs of construction, plus an additional fee or percentage for profit and overhead. This model [provides transparency](#), as clients have visibility into the actual expenses, and it allows for flexibility in adjusting project scope or materials during construction.

 Flexible

 Transparent



Fixed price contract

A fixed price contract sets a predetermined total price for the project, which includes all construction costs and the contractor's profit margin. This model offers clients certainty regarding project costs from the start, minimizing financial risks and uncertainties.

 Minimizes risk

 Financial certainty

Vs.

What are the pros and cons of cost plus and fixed price?

There are advantages and disadvantages to both types of contracts. When considering the pros and cons, it really comes down to three main considerations: Budget, profit and risk.

	Cost plus	Fixed price
Budget	<p>Pro: There's more transparency for clients when it comes to project expenses.</p> <p>Con: There's uncertainty surrounding the total project cost. Clients pay for the actual costs of construction, so unforeseen expenses or project delays can lead to budget overruns.</p>	<p>Pro: Fixed price contracts provide budget certainty for clients with the total project cost being predetermined and agreed upon up front.</p> <p>Con: If unforeseen expenses arise or if there are delays, builders may face financial losses if they're not able to complete the project within the agreed-upon budget.</p>
Profit	<p>Pro: There's potential for higher profits if costs are managed efficiently. Profit margins are tied directly to project costs, allowing builders to earn more using markups.</p> <p>Con: Builders aren't able to determine their total profit amount up front.</p>	<p>Pro: Builders have the opportunity to negotiate a fixed profit margin up front.</p> <p>Con: Builders lose the potential for higher profits compared to cost plus contracts where profit margins are tied directly to project costs.</p>
Risk	<p>Pro: There's more transparency when it comes to unexpected costs on a project, so clients aren't surprised.</p> <p>Con: More of the risk is shifted to the client, which can lead to disputes if expectations are not clearly defined.</p>	<p>Pro: Clients have peace of mind knowing the financial risks are lower, and they can see their total cost up front.</p> <p>Con: The majority of the risk from cost overruns and project delays fall on the builder.</p>



Navigate fixed price and cost plus contracts with confidence



Now that you've reviewed the pros and cons, use this checklist with three sets of criteria to help determine whether cost plus or fixed price contracts are right for your construction projects.

There are many things to consider when deciding to use a fixed price or cost plus contract. It helps to understand the project complexity, client preferences, level of risk and flexibility needed for each project. While fixed price contracts are appropriate for simpler, well-defined projects with predictable costs, cost plus contracts offer greater flexibility and transparency for managing complex projects with evolving scopes and uncertainties.

Builders and their clients should carefully assess project complexity and requirements to choose the pricing model that best aligns with their needs and objectives.

After answering these questions, you should have a better idea how complex your job will be. If your projects tend to be more complex, then it's safe to assume that a cost plus contract is the way to go.



Project complexity and scope

Scope of work

Is the scope of work well-defined or is it subject to potential changes and additions?

Are there any unique or specialized requirements that may impact project costs or timelines?

Technical requirements

Are there any technical challenges or specialized construction methods required for the project?

Does the project involve coordination with multiple trades or subcontractors with specific expertise?

Job site conditions

Are there any site-specific challenges or environmental factors that may affect construction activities?

Does the project require extensive site preparation or remediation work?

Regulatory compliance

Are there any regulatory or permitting requirements that could impact project timelines or costs?

Does the project involve compliance with specific building codes or zoning regulations?



◆ Tips for success

- Assess the existing conditions and any potential constraints that may impact construction activities.
- Involve key stakeholders throughout the project to gain insights into their expectations, preferences and concerns.
- Break down the project into manageable phases and tasks, each with its own set of objectives, milestones and deliverables.
- Analyze historical data on project costs, schedules and performance to inform your understanding of project complexity and scope.
- Leverage [project management software](#), scheduling tools and collaborative platforms to streamline project planning and communication.

Client preferences and risk tolerance

Schedule flexibility

Is there flexibility in the project schedule to accommodate potential delays or changes in scope?

Are there any time-sensitive factors, such as seasonal constraints or client deadlines?

Client expectations

What are the client's expectations regarding project transparency, cost control and communication?

How will the chosen contract type align with the client's preferences and objectives?

Client involvement

How involved is the client in the decision-making process and project management?

Does the client have clear expectations regarding project deliverables and quality standards?

Budget constraints

Does the client have a fixed budget for the project or is there flexibility in adjusting costs as needed?

Are there any funding limitations or financial considerations that need to be addressed?

Change management

Is there a formal process in place for managing changes to the project scope or specifications?

How will change orders be addressed, and what impact will they have on project costs and timelines?

Risk assessment

What are the potential risks and uncertainties associated with the project, such as material shortages, labor availability and unforeseen site conditions?

How will these risks be managed and mitigated throughout the project lifecycle?

Tips for success

- Take time to understand your client's specific needs, objectives and budget constraints.
- Clearly explain the differences between various pricing models, such as fixed price and cost plus contracts.
- Offer flexible pricing structures that align with the client's preferences and project requirements.
- On cost plus contracts, [be transparent](#) about pricing components, including labor costs, materials, overhead and profit margins.
- Showcase the value-added services and benefits associated with each pricing model.
- Honor pricing commitments and deliver on promised services and outcomes.
- Use client feedback to refine pricing strategies, improve service delivery and enhance client satisfaction in future projects.

Market conditions and competition

Economic conditions

What are the current macroeconomic indicators such as GDP growth, inflation rates and interest rates that will influence construction activity and investment?

What are the local and regional economic trends?

Industry outlook and trends

What industry forecasts, market reports and emerging trends are shaping construction demand and preferences?

Which technological advancements, sustainability initiatives and regulatory changes are influencing construction practices and project requirements?

Population growth and demographics

What are the population growth rates and demographic shifts that are increasing demand for construction services, such as residential housing or infrastructure development?

Government policies and regulations

What are the current government policies, regulations and incentives? (i.e. infrastructure spending, building codes, zoning laws and environmental regulations)

Competitive landscape

What does the competitive landscape look like? Identify key competitors, their market share, strengths, weaknesses and strategic positioning.

Supply chain dynamics

What is the current availability and cost of construction materials, labor and subcontractors within the market?

Are there any supply chain disruptions, such as material shortages, trade tariffs or labor shortages, that may impact project costs and timelines?



◆ Tips for success

- Identify potential risks and uncertainties that may impact market dynamics, such as geopolitical tensions, natural disasters or economic downturns.
- Develop a [strategic plan](#) and risk mitigation strategies to address unforeseen challenges and protect against market volatility.



Know the value of your work and price accordingly

Strategic pricing is important because it helps builders ensure profitability. By developing and implementing pricing strategies that align with your business objectives and market analysis, you can achieve revenue growth. Conducting thorough cost analysis, estimating project expenses and evaluating profit margins are critical for successful project management.



Here are some tips to help you get started.

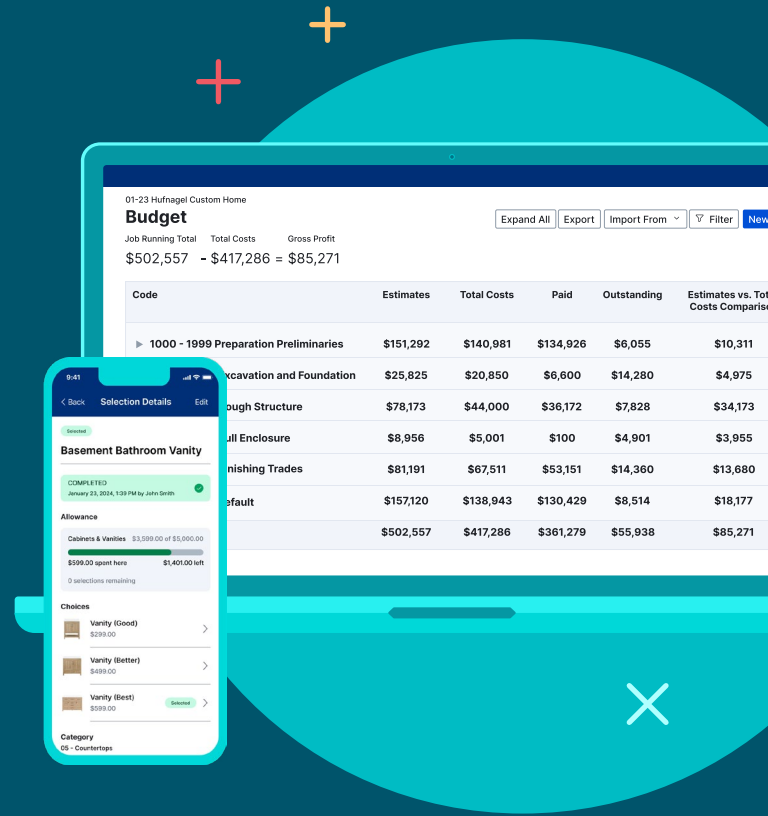
- 1. Gather comprehensive project data**
Use historical data from similar projects, industry benchmarks and market research to inform cost estimates and identify potential cost drivers.
- 2. Break down costs into categories**
Organize project costs into categories, such as direct costs (i.e. materials, labor) and indirect costs (i.e. overhead, permits, contingencies).
- 3. Account for material and labor costs**
Estimate labor costs based on labor rates, productivity rates and hours required for each task. Then research material prices, suppliers and delivery costs to help determine material expenses and account for potential price fluctuations.
- 4. Consider equipment costs**
Include costs associated with equipment rental, maintenance, fuel and depreciation when estimating project expenses.
- 5. Account for overhead**
Calculate overhead costs – such as administrative expenses, insurance, taxes and general company overhead – and allocate them proportionally to project costs.
- 6. Apply profit margin**
Add profit margins to the total project cost to ensure profitability and cover business expenses, risks and return on investment.
- 7. Use estimating software**
Leverage [construction estimating software](#) to streamline cost analysis, improve accuracy and enhance productivity.
- 8. Regularly monitor costs**
Track actual costs against estimated costs, analyze variances and adjust forecasts accordingly to ensure project profitability and financial performance.



No matter how you build, you can build with Buildertrend.

Recent updates to [Buildertrend's project management software](#) make it easier to manage markup and customize options on invoices. We also introduced the new Job Costing Budget that'll increase transparency and help manage profitability on cost plus jobs.

Here's how our platform helps support both fixed price and cost plus builders.



For builders using fixed price contracts:

Budget management: Create [detailed budgets](#) for fixed price contracts with the ability to allocate costs, track expenses and monitor budget vs. actuals to ensure financials stay on track.

Project selections: Use the [Selections feature](#) to streamline client material choices and upgrades. This helps guide clients through the decision-making process, ensuring every detail of their project aligns with their vision and budget.

Estimates: Use the [Estimate feature](#) to create a project roadmap that predicts costs, quantities, labor hours and more. Feel confident knowing the total project cost is accurate.

For builders using cost plus contracts:

Transparency: Provide added transparency into project costs and expenses through the [Customer Portal](#). Allow access to the budget with detailed expense breakdowns and financial summaries to help clients understand the overall cost of their project.

Approvals: Buildertrend is a single source of truth when it comes to [change orders](#), updated pricing, project revisions and documenting homeowner approvals.

Client billing: Customize itemized expenses and provide detailed explanations to facilitate transparent billing. Then allow homeowners to [make payments](#) through Buildertrend.

Ensure profitability with Buildertrend

Regardless of which contract you chose – cost plus or fixed price – Buildertrend offers the essential tools you need to ensure profitability for your business. You can accurately track expenses, manage project budgets and monitor profit margins in real-time, enabling informed decision-making and proactive cost

management. You have the power to optimize project outcomes, enhance client satisfaction and drive long-term growth and success for your business.

Take the next step and [schedule a demo](#) today.

“

We ensure 100% transparency in our processes and financials, making our clients feel secure as well. Losing financial credibility with homeowners is what a builder’s nightmares are made of. Using the Estimate and Budget features in Buildertrend, tracking numbers regularly and communicating the results to your team and clients are the first steps toward ensuring a successful project.”

Adam Copenhaver,
Co-owner of CopeGrand Homes