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What Is the Cost of a Tool?



By Scott Burt

The answer to this question may not have as much to do with the price you pay for the tool as it does with how quickly you can get the tool to pay for itself and become a profitable company asset for the remainder of its lifespan. Notice I do not say “whether” you can do these things, but “how quickly.” This is about knowing your numbers and making good investment decisions to improve your numbers.

I have spent a lot of hours discussing this with painting contractors on the Internet as well as in real life. Contractors often want to reinvest in their businesses or wish to make more money to reinvest in their business – sometimes feeling that customers just don’t want to pay what painting contractors have to charge to take their business to the next level. But that same group of contractors will hem and haw over a \$250 tool investment that they actually need or, just as likely, grab a new tool on Sunday that is required for a new project on Monday. We are a confusing bunch.

You have to do a little math to determine if and how a tool will break even and then become a profit builder for you. Tool purchases can be emotional decisions, or they can be made in haste. Neither of those cases lends itself to doing a little math leading to a well-informed business decision. So, let’s make the “From the Field” column our temporary backroom for better-informed decision making.

Let’s say you are tired of doing every spraying task with your airless. You are filling 25 or 50 feet of hose with material every time you turn it on; too much of your pricy paint is landing on the floor as overspray. For small, especially fine-finish tasks, it can



be a production killer to switch your airless out from latex primer to the quart of clear poly that needs to be sprayed. You spray enough cabinets, mantles, doors and trim that you are ready to consider a second rig, and one that is more of a fine-finish specialist in comparison to your airless, which is a generalist. You have read enough at topcoatreview.com to know that there are a whole bunch of options that go far beyond an airless with a fine-finish tip, in both quality and efficiency.

A good five-stage HVLP can come with a price tag in the \$1,500 range, but it will give you the option of running your airless in latex drywall primer at the same time that the HVLP could be spraying oil on a batch of doors in the basement. If all you own is an airless, you might not see both of these activities happen in the same day very often. That is because it is inconvenient. It is inconvenient if you do it; it is inconvenient if you don’t, and that could be costing you money. Tolerating your own inconvenience and inefficiency could be costing you. Not investing could be costing you.

So, what’s the cost of your new \$1,500

HVLP? Sometimes contractors make the mistake of looking only at the price. And don’t we hate it when customers do that to us? The \$1,500 expenditure is perceived at times by the contractor as a loss or expense – it doesn’t have to be. Contractors will do exhaustive research and scramble around looking for the best “deal.”

If you choose to spend \$1,500 on tools, any tools, you are basically speculating or, worse, hoping that a \$1,500 investment will yield you a return – to be measured in profits. You are creating an opportunity for yourself and for the tool.

RULE #1 OF TOOL INVESTING: DON’T BUY TOOLS YOU DON’T NEED

If you don’t really need the tool, it is unlikely that you will use it enough for it to pay for itself and become a profitable company resource. This mistake makes you a tool collector, which is so DIY. Tools that don’t make you money will do nothing but cost you.

In our HVLP example, you can live without an HVLP sprayer, but could you make more money with one?

Here's how you answer this question, and this is the part where you have to know your numbers in order to make an informed tool-purchasing decision. It's not about beating down a local tool supplier for the lowest possible purchase price. It's about knowing what YOU need to do to get the tool to pay for itself and become a profitable company asset for you.

Let's say your labor rate is \$40/hr. You don't charge time and materials on projects, but this is the rate at which you estimate fixed-price contracts based on your production rates, and it is also the rate that you charge for additional work outside the initial scope of your contract. Within that, you have a goal of hitting a 15 percent net profit margin on each project and over the course of the year.

The tool you want has a price tag of \$1,500. In order for a tool to pay for itself, it has to directly contribute to your net profit in the same amount as its price tag, and the quicker the better. Because \$1,500 is 15 percent of \$10,000, you will need \$10,000 in sales of work directly involving this tool to get it to pay for itself and become a profitable tool.

What does that mean? Materials for spraying could be 20 percent, or \$2,000, and \$8,000 represents all your labor and operational costs. Let's say \$5,000 is directly attributed to labor. At \$40/hr., this translates to 125 man-hours. One guy runs that tool for just over three weeks, and the tool is paid for. This is the tool's breakeven point, if your numbers are good. This is ground zero for profitability and return on your tool investment. But you do need to know your numbers in order to grow through capital investment. By that, I mean it's critical to estimate your \$10,000 worth of work based on your actual labor, material, overhead and operational costs. And of course, in order to do any of this, you have to know what your hourly labor rate is and why.

This type of analysis, when applied to power tools like sprayers, sanders or dust extraction systems, is particularly useful because these are the high-impact tools that boost production for your paint contracting company.

RULE #2 OF TOOL INVESTING: DON'T LOWER YOUR RATES

Your new tools are making you more efficient as you deliver a better-quality

result in a way that is more convenient to your customers. Resist the temptation of considering your new efficiency as a competitive advantage that will allow you to win contracts at lower prices by doing them faster. You do not deserve a pay cut for your risk taking, investments, and mastery of new equipment and processes.

By taking the risk of capital investment and getting tools to pay for themselves, you have earned the increased profits that result. In other words, if a task previously took you an industry standard of six hours and a tool investment now allows you to do the same task more efficiently and with a better-quality result in just three hours, your rate just went up. Do not go out and estimate that as a three-hour task going forward, at least not at your standard rate. Consider a higher rate for tasks that fall in the category of equipment supplemented production boosts. This is a great opportunity to differentiate yourself from the competition, not to

lower your prices and look more like them.

Capital investment doesn't have to be a Catch-22. The better you become at critical decision making, the more efficient and profitable you can become. Contractors will generally agree that the most profound impact you can make on profitability will be production based: tools and processes in the field. This article has focused on making informed tool purchase decisions and expediting the return on your investment – getting tools to the breakeven point as efficiently as possible. In most cases, you get what you pay for. Now, go out and pay for what you get. For more information on maximizing tool profitability after the breakeven point is achieved, visit www.topcoatreview.com. **APC**

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