



The Big Picture

Recovering Design Costs When They Are Incurred

by Joe Falis

Thoughts on receiving compensation for design services from an SBCEA chapter president.

One of the often overlooked areas of true cost in a truss company is design costs. Not only are we most of the time not adequately compensated for design costs, but we only derive income to cover those costs when the job actually ships—often many months after the design process is completed, even in a slow market!

No construction design professional gives away their services, only hoping to be paid later, when and if the building is constructed. Surveyors, residential designers, architects, and engineers all are paid upon completion of their services. In fact, the plans often are not released until they are paid. Most of our highest paid employees (spelled “overhead”) are truss design technicians and truss design managers. Shouldn't we recover the costs for these individuals as they occur?

SBC Industry One Minute Poll: Compensation for Design Services

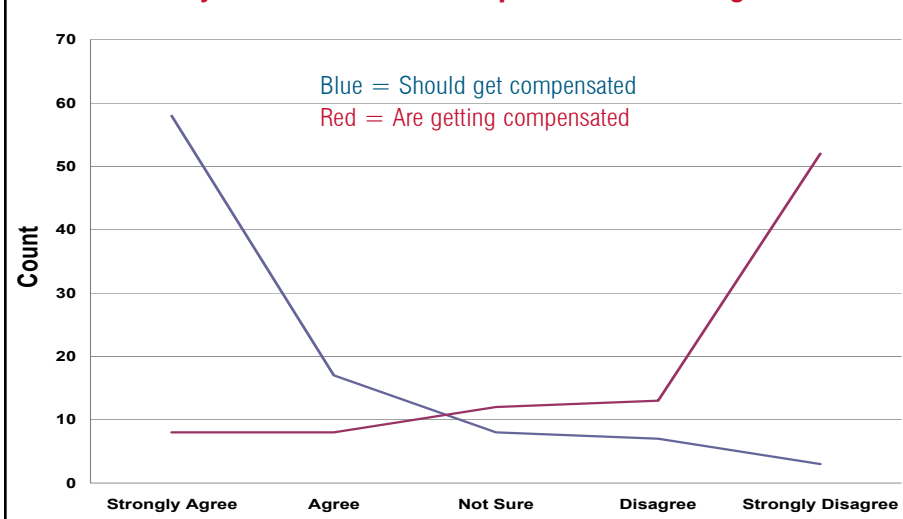


Figure 1. Of 93 component manufacturer respondents, 58 believe they should be compensated for design services even if a job is cancelled. Conversely, 52 respondents said that they do not receive compensation for their design services in the event a job is cancelled.

at a glance

- Component manufacturers are not often compensated for the costs they incur for their design services.
- A recent One Minute Poll suggests that although an overwhelming majority of CMs believe they should be compensated for these costs, most are not.
- A way to address it is to provide contract language that details separate charges for the completion of design services and the delivery of products to the jobsite.

A recent **SBC One Minute Poll** on this topic yielded interesting results. Component manufacturers can log in to www.sbcindustry.com/designcosts to complete the survey. (The results can only be viewed upon completion of the survey.) Although an overwhelming majority of component manufacturers surveyed—roughly 62 percent—agree that component manufacturers should be compensated for design costs, about the same number of respondents concur that we are not. Figure 1 illustrates this discrepancy.

Some examples of situations where costs are not typically recovered:

1. Cancelled jobs: In both good and bad economic times over the past few years many jobs were cancelled after truss designs were completed.

During the “Boom Years” some builders simply “flipped” their lots, making more profit on the bare property than if they built anything on them. Some owners could not build due to soaring construction costs during that time. Conversely, in a declining market, inability to get financing, loss of employment, and existing inventory has caused many jobs to be cancelled. Although some of our contracts specify “cancellation fees,” they are difficult to collect.

2. Went to another supplier: After “using” you for the layout for permitting, the contractor hires another company to fabricate the products (easy to negotiate the competitor’s price down when the contractor provides them your layout with all the kinks worked out). Many who answered the poll indicated they did not bill for truss layouts, even though they knew that a competitor built the job and may have used the truss layouts in the process.

3. Delayed jobs: Even in this slow market, from the time a truss layout is done sev-

eral months may pass before until the job actually ships. The largest, most complex custom jobs, which have the highest design costs, take the longest. Our company has found that oceanfront jobs that must be approved by the Department of Environmental Protection, the Department of Natural Resources, the Army Corps of Engineers, and local property owners associations, to name a few, BEFORE the builder can apply for a building permit. In these instances costs are incurred for the layout, but not recovered until many months or years later.

4. Code Changes: The Florida Building Code in particular changes every three years. Imagine how much each Florida fabricator spent a few years back redesigning all their “repeat” models. Many companies had two-thirds of their staff working on code upgrades—with no compensation! The residential designers, architects and engineers were all paid for the new code revisions. While our company believed we would be “paid” for building those repeat models, market conditions did not allow that to occur before the next code change. Now we are required to do it again for the 2007 code (which went into effect March 2009).

5. Customer Revisions: Changes cost money. Design costs are incurred in addition to the physical truss change costs. There are also costs to print/email new layouts, and write an addendum. These are costs we are often not recovering.

What Are Some Suggested Solutions?

Revise your contracts to allow for invoicing design work at the time the service is completed. Wouldn't you like to have your design staff paid for each week—even if you shipped nothing? In this situation it is important to spell out in your contract the amount to be billed upon completion of layouts and/or truss engineering, and the subsequent amount to be billed upon delivery. With an executed contract, the builder will be legally obligated to pay you. Before doing this, however, make sure to contact your attorney and insurance broker to discuss the implications of your company selling services in addition to products.

Revision costs could be added to the final amount due after fabrication (if specified in the customer contract). This shift in procedure could create cash flow, eliminate hidden shrinkage, and ultimately protect the future of your company, in good times and bad.

Contact me with your thoughts! **SBC**

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