Understanding Your Numbers

NZCB Conference Follow Up

Andersen at NZCB Conference

A big thank you to everyone who attended our NZCB Conference sessions on Accounting Foundations and Understanding Your Numbers, presented by Andersen New Zealand.

For those who couldn't make it, the key message from both presentations was simple: successful builders don't just build great projects – they understand the numbers that drive profit, cashflow and long-term business value.

While we covered bookkeeping, cashflow, tax, structures and succession planning, the two concepts that generated the most discussion were Mark Up vs Margin and the real impact of pricing decisions.

3 Key Takeaways

1. Mark Up vs Margin – They Are Not the Same

Many builders mistakenly add a 20% mark up and assume they have achieved a 20% margin.
They haven't.

Desired Gross Margin	Required Mark Up
15%	17.65%
18%	21.95%
20%	25.00%
22%	28.21%

For example, if your project costs are $85,000 and you want a 20% margin, your selling price must be $106,250, not $102,000. Achieving the correct margin produces an additional $4,250 profit on the same job.

2. The Hidden Cost of Discounting

The most powerful slide from the conference showed what happens when a $100,000 project is discounted by 10%:

- Gross profit falls from $20,000 to $10,000
- Gross margin falls from 20% to 11.1%
- To earn the same dollars, sales volume must effectively double

3. The Power of Small Price Increases

The reverse is also true.
A 10% price increase:

- Increases gross profit from $20,000 to $30,000
- Improves gross margin from 20% to 27.3%
- Reduces the number of projects required to cover overheads by approximately one-third

3 Useful Slides

For easy reference, we collated our three most useful slides for you to refer to. They are;

1. Mark Up vs Margin Conversion Table
2. Impact of a 10% Discount
3. Impact of a 10% Price Increase

The takeaway: Most builders don't have a volume problem; they have a pricing and margin discipline problem. Understanding the difference between mark up and margin, and being confident in your pricing, can have a far greater impact on profitability than simply winning more work.

Mark Up vs Margin Conversion Table

Desired GP Margin	Mark Up Percentage	Mark Up Multiplier
12%	13.64%	1.136
13%	14.94%	1.149
14%	16.28%	1.163
15%	17.65%	1.176
16%	19.05%	1.190
17%	20.48%	1.205
18%	21.95%	1.220
19%	23.46%	1.235
20%	25.00%	1.250
21%	26.58%	1.266
22%	28.21%	1.282

Impact of Price Discount

		Contribution Margin										
		10.00%	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%
Price Decrease	2.00%	25.00%	15.38%	11.11%	8.70%	7.14%	6.06%	5.26%	4.65%	4.17%	3.77%	3.45%
	3.00%	42.86%	25.00%	17.65%	13.64%	11.11%	9.38%	8.11%	7.14%	6.38%	5.77%	5.26%
	4.00%	66.67%	36.36%	25.00%	19.05%	15.38%	12.90%	11.11%	9.76%	8.70%	7.84%	7.14%
	5.00%	100.00%	50.00%	33.33%	25.00%	20.00%	16.67%	14.29%	12.50%	11.11%	10.00%	9.09%
	10.00%	Not Possible	200.00%	100.00%	66.67%	50.00%	40.00%	33.33%	28.57%	25.00%	22.22%	20.00%
	15.00%	Not Possible	Not Possible	300.00%	150.00%	100.00%	75.00%	60.00%	50.00%	42.86%	37.50%	33.33%
	20.00%	Not Possible	Not Possible	Not Possible	400.00%	200.00%	133.33%	100.00%	80.00%	66.67%	57.14%	50.00%
	25.00%	Not Possible	Not Possible	Not Possible	Not Possible	500.00%	250.00%	166.67%	125.00%	100.00%	83.33%	71.43%
	30.00%	Not Possible	Not Possible	Not Possible	Not Possible	Not Possible	600.00%	300.00%	200.00%	150.00%	120.00%	100.00%

Impact of Price Increase

Price Increase \ Contribution Margin	10.00%	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%
2%	16.67%	11.75%	9.09%	7.41%	6.25%	5.41%	4.76%	4.26%	3.85%	3.51%	3.23%
3%	23.08%	16.67%	13.04%	10.71%	9.09%	7.89%	6.98%	6.25%	5.66%	5.71%	4.76%
4%	28.57%	21.05%	16.67%	13.79%	11.76%	10.26%	9.09%	8.16%	7.41%	6.78%	6.25%
5%	33.33%	25.00%	20.00%	16.67%	14.29%	12.50%	11.11%	10.00%	9.09%	8.33%	7.89%
10%	50.00%	40.00%	33.33%	28.57%	25.00%	22.22%	20.00%	18.18%	16.67%	15.38%	14.29%
15%	60.00%	50.00%	42.86%	37.50%	33.33%	30.00%	27.27%	25.00%	23.08%	21.43%	20.00%
20%	66.67%	57.14%	50.00%	44.44%	40.00%	36.36%	33.33%	30.77%	28.57%	26.67%	25.00%
25%	71.43%	62.50%	55.56%	50.00%	45.45%	41.67%	38.46%	35.71%	33.33%	31.25%	29.41%
30%	75.00%	66.67%	60.00%	54.55%	50.00%	46.15%	42.86%	40.00%	37.50%	35.29%	33.33%

Where To From Here?

If there was one theme common to both presentations, it was this:

Small improvements in pricing discipline, margin management and financial visibility can have a dramatic impact on profitability and cashflow.

Many business owners work incredibly hard to win more work, when often the biggest opportunity is making a little more on the work they already do.

At Andersen, we work with builders, trade businesses and SMEs across New Zealand to help you:

- Understand profitability by job, customer and service line
- Improve pricing and margin discipline
- Build better cashflow forecasting and reporting
- Develop business structures that support growth and wealth creation
- Create succession and ownership transition plans
- Gain confidence in the numbers that drive business decisions

Arrange a Complimentary Discussion With Our Team

Sometimes a short discussion and a review of a few key numbers can identify opportunities worth significantly more than the time invested. If you want to think differently about your pricing, margins, cashflow or business performance, we'd be happy to have an informal conversation.

Remember: You don't have to work harder to improve profit. Often, you simply need to understand your numbers better.

Mike Atkinson

Mike.Atkinson@nz.Andersen.com

021 619 177