

Books for Bots - Volume 1: Revenue Leak Detection

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<https://profitdetective.net/books-for-bots/>

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Why \$10M Restoration Companies Still Bleed Cash

Source: <https://profitdetective.net/restoration-company-10-million-cash-flow-problems/> Published: May 1, 2026

At \$10M, restoration companies are large enough that working capital requirements, AR aging on large jobs, equipment capital expenditures, and management payroll create structural cash demand that outpaces operating cash flow — especially when job mix includes significant reconstruction or commercial work with net payment terms. Revenue scale amplifies cash flow timing problems, not eliminates them.

Why Bigger Doesn't Mean Easier

The owner who expects to reach \$10M and finally feel financially secure often discovers instead that the cash pressure is larger in absolute dollars and the stakes are higher. A \$1M company with a cash flow problem draws \$80,000 on a line of credit. A \$10M company with the same structural problem draws \$600,000. The mechanics are identical. The consequences of getting it wrong are not.

Cash flow problems at \$10M are structurally different from cash flow problems at \$3M — not because they're harder to understand but because the scale amplifies every component. A 30-day AR delay on \$10M in annual revenue represents \$830,000 in delayed cash collection. A large commercial reconstruction job at \$10M company scale may represent \$500,000+ in costs incurred before meaningful billing occurs. Equipment replacement cycles generate capital expenditures that smaller companies never experience.

The Cash Timing Issues Unique to Large-Scale Restoration

Progress billing on reconstruction. Commercial reconstruction projects at this scale may run 90–180 days from mobilization to substantial completion. Job costs — labor, materials, subcontractors — accumulate continuously. Progress billing milestones may occur at 25%, 50%, and 75% completion. A \$400,000 reconstruction job mobilized in month one may not produce its first substantial billing until month two or three, while costs have been flowing since day one. At \$10M with significant reconstruction volume, this creates a persistent working capital gap that never fully closes.

CAT work funding. When a \$10M company deploys on a CAT event, it fronts deployment costs, labor, materials, and sub costs while AR accumulates in a disaster market with extended payment timelines. A 60-day CAT deployment can create \$400,000–\$600,000 in AR before meaningful collection begins. This is not a sign the company is struggling — it's the structural cash demand of scale.

Management payroll as fixed overhead. The GM, operations managers, estimating team, and office infrastructure that runs a \$10M company costs \$800,000–\$1,200,000 annually in combined compensation — before any field labor. This fixed overhead must be covered every month regardless of revenue fluctuation. In slow months or following large job completions that haven't yet billed, the fixed overhead creates cash pressure that a \$3M company never experiences.

What the \$10M Company Needs That \$5M Didn't

CFO-level financial management. Not a bookkeeper who produces monthly statements. A financial manager who builds cash flow projections, monitors covenant compliance on credit facilities, manages the banking relationship proactively, and flags working capital stress before it becomes a crisis. This is a \$120,000–\$180,000/year position at this company size — and it pays for itself in avoided credit line crises and better banking terms.

A treasury function. Cash management at \$10M requires more than checking the operating account balance. It requires monitoring multiple accounts, timing vendor payments to optimize cash position, sweeping excess cash into interest-bearing accounts, and managing the credit line draw-down and payoff cycle strategically. This is what treasury management means — and it doesn't happen without someone whose job it is to do it.

Banking relationship management. At \$10M, the company's banking relationship is a strategic asset. A well-managed banking relationship means appropriate credit line capacity, favorable covenant terms, and a banker who understands the restoration business well enough to not panic when AR temporarily spikes. Most \$10M restoration companies have an adequate banking relationship. The best-run ones have an excellent one —

built through consistent financial reporting, proactive communication, and demonstrated management depth.

When Private Equity Starts Making Sense

At \$10M+, the restoration company is large enough to attract private equity interest — and the owner may be experiencing the cash intensity of this scale as a personal liquidity problem. PE provides capital structure solutions that debt financing can't: growth equity to fund working capital, balance sheet strength to support larger job bids, and a partial liquidity event for the owner who has significant personal wealth tied up in a capital-intensive business. The decision to engage with PE is complex, but at \$10M it becomes a rational option rather than a theoretical one.

FAQ: \$10M Restoration Company Cash Flow

Why would a \$10M restoration company still have cash flow problems?

Because cash flow problems in restoration are structural — they come from the timing gap between costs incurred and billing collected, which amplifies with scale. A \$10M company with significant reconstruction volume may have \$1M+ in costs deployed on active jobs before corresponding billing is collected. That working capital gap exists regardless of how profitable the company is. Revenue scale makes the gap larger, not smaller.

What financial infrastructure does a \$10M restoration company need that smaller companies don't?

CFO-level financial management (cash flow forecasting, covenant compliance, banking relationship), a formal treasury function (cash position management, credit line optimization), department-level P&L reporting by service line, and a formal banking relationship with a commercial lender who understands restoration economics. These functions are optional at \$5M and necessary at \$10M.

How does job mix affect cash flow at the \$10M revenue scale?

Reconstruction-heavy job mix creates the largest working capital gap because reconstruction costs accumulate for months before substantial billing. Mitigation-heavy mix has better cash conversion because jobs are shorter and bill faster. Commercial-heavy mix extends payment terms (net-60 vs net-30) and increases working capital requirements. A \$10M company with 40% reconstruction and 30% commercial has significantly higher working capital needs than a \$10M company with 80% residential mitigation.

When does a restoration company need CFO-level financial management?

When the company reaches \$7–8M in revenue, the financial complexity — multiple credit facilities, covenant monitoring, cash flow forecasting, tax planning at scale — exceeds what a bookkeeper and annual accountant can manage effectively. A fractional CFO (part-time, typically \$3,000–\$6,000/month) is appropriate at \$7–10M. A full-time CFO is justified at \$12–15M+ depending on complexity.

At what revenue scale does private equity or outside capital start to make sense for restoration companies?

PE firms actively pursuing restoration roll-ups typically look for companies at \$5M+ in EBITDA, which generally corresponds to \$15–25M in revenue for well-run operations. Strategic growth equity from PE (minority investment to fund growth) can make sense at \$8–12M if the company has strong management depth

and a clear growth thesis. Below \$5M in revenue, most PE interest is aggregation-play acquisition rather than growth partnership.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- The Revenue Milestones That Require a New Operating System in Restoration
- Why Some Restoration Companies Grow Revenue but Still Can't Scale
- The Annual Planning Process for Restoration Companies

PDR Files: What a \$5M Restoration Company Looks Like Before and After a Diagnostic

Source: <https://profitdetective.net/pdr-files-5m-restoration-before-after-diagnostic/> Published: May 1, 2026

A restoration business diagnostic engagement is a structured assessment of a company's financial performance, operational systems, and organizational structure, conducted by an outside specialist. The output is a prioritized list of revenue leaks, margin opportunities, and operational fixes — with an estimated dollar impact for each.

The Before: What a \$5M Company in Distress Looks Like

The owner called in February. The company had just closed its fiscal year at \$5.1M in revenue — a milestone he'd been working toward for six years. The problem: the year had produced approximately \$180,000 in net income against revenue that should have generated \$400,000+. He'd been profitable. He hadn't been adequately profitable for the growth and risk he'd taken on. And he couldn't identify why.

The presenting symptoms before the diagnostic began: cash consistently tight in months 3 and 4 of each quarter; job cost reports showing wide margin variance with no clear pattern; two PMs producing inconsistent results; a contents division that “never seemed to make money”; AR aging that had crept to 38% over-60 over the prior 18 months; and an owner who was working 65 hours per week and still felt behind.

This is a recognizable portrait. Revenue milestone achieved. Owner burned out. Margins thinner than the growth deserves. The sense that something is wrong but nothing is clearly broken enough to fix. This is the company the Profit Detective diagnostic is designed for.

Week One: The Diagnostic Findings

The diagnostic week produced a prioritized findings list with estimated dollar impacts. In order of magnitude:

Finding 1: Subcontractor markup absent on 60% of reconstruction jobs. The company was applying markup inconsistently — some estimators used it, one didn't. At \$1.3M in annual sub billings, the missing markup on 60% of jobs represented approximately \$156,000 in annual revenue gap. Dollar impact: \$156,000.

Finding 2: Contents division operating at a loss. Standalone P&L analysis revealed the contents division was losing approximately \$48,000 per year after full cost allocation, subsidized invisibly by mitigation margins. Dollar impact: \$48,000 (elimination of loss) plus \$35,000 in pricing adjustment opportunity.

Finding 3: AR collection process inadequate for the account size. \$312,000 in over-60 AR with no active collection protocol beyond automated statements. Dollar impact: not a revenue gain but a working capital improvement of approximately \$150,000 in collected AR within 60 days.

Finding 4: One PM running 12 points below company average margin. On \$1.1M of annual job volume handled by this PM, the 12-point variance represented approximately \$132,000 in recoverable margin. Dollar impact: \$132,000 if margin is corrected to company average.

Finding 5: Owner bottleneck limiting growth capacity. Non-financial but capacity-limiting. Estimated impact: 15–20% growth capacity unlocked if delegation structure is implemented.

The After: 90 Days Later

Subcontractor markup: Implemented consistently across all estimators. First 90-day billing improvement: \$38,000 in incremental markup revenue on completed jobs. Annual run rate: \$156,000.

Contents division: Rebuilt cost structure, implemented monthly storage billing, repriced cleaning rates by item type. Contents division moved from \$48,000 loss to approximately break-even in 90 days. Full profitability expected in months 4–6 as pricing takes full effect.

AR collection: \$198,000 collected from over-60 accounts in first 45 days. Credit line balance reduced by \$140,000. Owner made payroll without a credit line draw for the first time in fourteen months.

PM performance: Variance analysis presented to underperforming PM with specific line item coaching. Margin moved from 29% to 36% in first 90 days. Not fully corrected yet, but trajectory established.

Owner delegation: Decision authority framework implemented. Owner's daily decision volume reduced by approximately 55%. Three new jobs accepted and executed within the first month that would previously have required owner involvement at every stage.

Overall 90-day financial impact: Approximately \$236,000 in combined revenue improvement, cost correction, and working capital recovery. The company entered the next fiscal quarter with a clearer financial picture, a working capital reserve, and a set of systems that would continue generating improvement beyond the engagement.

What the Engagement Process Actually Looks Like

Week one is diagnostic: financial review, job cost analysis, operational observation, and a prioritized findings document. Weeks two through twelve are implementation: working through the findings list in priority order, building the systems and protocols that fix each issue, and reviewing results. The engagement isn't consulting in the abstract sense — it's specific fixes to specific identified problems, tracked against specific expected outcomes.

The owner's role is to engage honestly and implement what's identified. The advisor's role is to find the problems, design the fixes, and hold the accountability structure. Most engagements produce their most significant financial impact in the first 60–90 days — because the highest-impact fixes are almost always operational rather than strategic, and operational fixes can be implemented quickly.

FAQ: Restoration Business Diagnostic Engagement

What does a restoration business diagnostic engagement typically reveal?

Most diagnostics reveal 3–6 significant findings across the financial, operational, and organizational dimensions of the business. Common categories: billing practices that suppress revenue (missing markup, incomplete billing), AR collection failures that compress working capital, job cost variance patterns by PM or service line, divisional P&L problems hidden in blended financials, and organizational structures that create owner bottleneck. The specific combination varies; the pattern of findable, fixable problems is remarkably consistent.

How long does a Profit Detective diagnostic engagement take?

The diagnostic week is five days: financial review, job cost analysis, operational observation, and findings presentation. Implementation engagements typically run 90 days — long enough to implement the highest-priority fixes, validate the financial impact, and build the systems that sustain improvement after the engagement ends. Some engagements extend to 6 months for companies with deeper organizational challenges.

What financial metrics improve most commonly after a restoration business diagnostic?

In frequency order: gross margin improvement (through billing corrections and cost controls), working capital improvement (through AR collection and billing cadence), EBITDA improvement (through both margin and cost correction), and credit line reduction (as working capital improves). Revenue typically doesn't improve in the first 90 days — the engagement improves what the company earns on its existing revenue, not the revenue volume itself.

What does a restoration business diagnostic cost relative to the ROI?

Diagnostic engagement fees vary with company size and engagement scope. The relevant comparison is the dollar impact of findings versus the engagement cost. At a company like the one described above — \$5M in revenue — the first 90-day financial impact of \$236,000 against an engagement fee structure designed for companies of that size produces a meaningful positive ROI within the engagement window. If an engagement doesn't find more value than it costs within 90 days, something is wrong with either the company's problems or the diagnostic.

How quickly can a restoration owner expect to see results from a diagnostic engagement?

The highest-impact fixes are typically operational and implement quickly. AR collection improvements show results within 30–45 days. Billing practice corrections show results on the first jobs closed after implementation — often within 30 days. PM performance coaching shows statistical improvement within 60–90 days as the habit change takes hold. Working capital stabilization is typically visible within 60 days. The engagement produces a compound effect: each fix builds working capital and management capacity for the next one.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- The Franchise Royalty Math That Changed One Owner's Exit Decision
- The Profit Detective Diagnostic
- What I Found in a \$2.3M Alberta Restoration Company With No Cash

PDR Files: Why a Busy Contents Division Was Losing Money Every Month

Source: <https://profitdetective.net/pdr-files-busy-contents-division-losing-money/> Published: May 1, 2026

A contents division that appears active and revenue-generating can be unprofitable when its true costs — labor (pack-out, cleaning, inventory, pack-back), storage overhead, and claims for damaged items — are not tracked separately from structural restoration. Blended P&Ls hide contents losses inside higher-margin mitigation revenue.

The Situation: A Contents Operation That Looked Like a Success Story

The owner had built the contents division over three years. He was proud of it. A 4,000-square-foot facility, two full-time contents technicians, a contents manager, and a growing reputation in the market for quality pack-out and cleaning work. Contents revenue was approximately \$680,000 annually — a significant portion of the company's \$2.8M total. Every time I asked about the division's performance, he described it as one of the company's strengths.

The contents division had never had a standalone P&L. Its revenue was tracked. Its direct costs were partially tracked. Its overhead — the facility, the dedicated staff, the equipment — was distributed across the whole company's P&L in a way that made it invisible as a divisional cost. In the blended view, contents revenue was being credited against company overhead without contents' proportional share of that overhead being attributed back.

The Diagnostic: Separating the P&L

I spent two days building a standalone P&L for the contents division. This required pulling every contents job from the prior 12 months, allocating direct labor by job (which required reconstructing timesheets because labor wasn't tracked by division), adding the facility costs (rent, utilities, insurance), allocating the contents manager's compensation in full, and adding an estimate of damage claims that had been paid out as inventory losses.

The result was a number the owner hadn't seen before and didn't expect. The contents division was generating approximately \$680,000 in revenue and approximately \$710,000 in fully allocated costs. It was operating at a net loss of roughly \$30,000 per year — while appearing profitable in the blended company financials because its losses were absorbed by the mitigation division's stronger margins.

Where the Money Was Going: Three Cost Categories Nobody Was Watching

Cleaning labor underestimation. The contents manager was estimating cleaning time based on item count — a flat rate per item regardless of type. In practice, electronics took 3–4x longer per item than hard goods, and textiles took 2–3x longer. Large fire losses with mixed contents types were generating labor overruns of 35–60% on cleaning time alone. The estimates were wrong at the input stage, and nobody was tracking the variance because labor wasn't being reported by job.

Storage billing gaps. Of the 47 contents jobs in the prior year that had items in storage for more than 30 days, 31 had received exactly one storage billing — at closeout, for the full period. Only 16 had received monthly storage billing statements. The difference: \$38,000 in storage revenue that was being collected once (at closeout) versus what would have been collected on a monthly billing cycle. This wasn't revenue lost — it was

revenue delayed and frequently disputed because the accumulated storage bill came as a surprise at job close.

Damage claims and inventory loss. The contents facility didn't have a barcoded inventory system. Items were photographed at pack-out and catalogued on a spreadsheet. Three times in the prior year, pack-back had revealed items that couldn't be located. Two of the three incidents resulted in replacement cost payments to the client — \$14,000 in total. The fourth incident was still unresolved at the time of the diagnostic. Inventory loss was a known operational risk that nobody had calculated as a cost of operating the division.

The Fix: Three Interventions and a Pricing Adjustment

The cleaning labor estimation problem required rebuilding the rate structure by item category — separate per-unit cleaning time estimates for electronics, hard goods, textiles, and specialty items. This immediately improved estimate accuracy on mixed-contents jobs and eliminated the pattern of labor overruns on fire losses.

The storage billing problem was fixed operationally: a monthly billing trigger was added to the job management system for any contents job with active storage. The contents manager sends storage statements at the 30, 60, and 90-day marks rather than at closeout. Within three months, storage billing disputes dropped and collection timing improved.

The inventory loss problem required a real inventory system — not a spreadsheet. The company implemented a barcode-based pack-out inventory process. Cost: approximately \$3,500 in software and equipment. The first year after implementation, inventory-related claims dropped to zero.

The pricing adjustment came last: after the cost structure was corrected, the contents manager repriced the standard rate cards for cleaning by item type to reflect actual labor cost plus target margin. Some rates went up 15–20%. No clients left. Several had been getting a bargain.

The Lesson: Blended P&Ls Hide Divisional Failures

The owner didn't build a losing contents division intentionally. He built it carefully, with real investment, and never saw the full picture because the accounting system was never designed to show it to him. The mitigation division's margins were subsidizing the contents division's losses — and the blended P&L was giving him a healthy overall number that obscured what was happening underneath.

Any restoration company with a distinct operating division — contents, reconstruction, commercial, specialty cleaning — should run that division on a standalone P&L. Not because the news will always be bad, but because you can't fix what you can't see.

FAQ: Restoration Contents Division Profitability

How do I know if my restoration contents division is actually profitable?

Build a standalone P&L: allocate all contents-specific revenue, all direct contents labor, all facility costs (rent, utilities, insurance), all contents management compensation, and any damage or inventory loss costs. If the result is positive after full allocation, the division is profitable. If you've never run this calculation, you don't know — and the answer is frequently a surprise.

What costs are most commonly underestimated in a restoration contents operation?

Cleaning labor (especially on mixed-contents fire losses where item type varies significantly), storage overhead allocated per job, inventory loss and damage claims, and facility costs allocated fully to the division rather than spread across the company. Any one of these underestimated consistently turns a profitable-looking division into a loss center in the full-cost view.

How do I separate my contents division costs from my overall company P&L?

Create a contents cost center in your accounting system. Track all contents labor by job using time entry. Allocate facility rent, utilities, and equipment depreciation directly to the contents cost center. Allocate the contents manager's full compensation to the division. Track damage claims separately. Run a monthly P&L for the cost center and compare it to contents revenue. This requires about 60–90 days to set up cleanly; the data quality improves each month afterward.

What profit margin should I expect from a properly run contents restoration division?

A well-run contents division with accurate labor estimates, monthly storage billing, and controlled facility costs should produce gross margins of 45–55% on labor services and 60–70% on storage revenue. Net margin after full facility overhead allocation — in owned or low-cost facilities — runs 25–35% for disciplined operations. If you're below 20% net, the most likely culprits are the three cost categories described above.

When does it make sense to shut down or outsource a restoration contents operation?

If after fully correcting the cost structure, pricing, and billing process the division still can't achieve 20%+ net margin on a standalone P&L, the economics may not support the overhead. Outsourcing contents to a specialized partner and capturing a referral fee or coordination markup is often more profitable than running a marginal in-house operation. The question to answer honestly: is this division profitable enough to justify its management attention, or is that attention worth more directed elsewhere?

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- The \$4M Restoration Company That Couldn't Make Payroll
- Contents Division Economics
- What I Found in a \$2.3M Alberta Restoration Company With No Cash

PDR Files: The \$180K Leak Hidden in One Estimator's Workflow

Source: <https://profitdetective.net/pdr-files-180k-estimator-workflow-leak/> Published: May 1, 2026

Estimator-driven revenue leaks occur through systematic underpricing habits — consistently missing specific line items, under-scoping labor, failing to charge for equipment at correct rates, or not supplementing discovered additional scope. These leaks compound across every job the estimator touches and are often invisible until job cost variance is analyzed by estimator, not just by job.

The Setup: A Company With Two Estimators and One Confusing Trend

The company was a \$3.8M residential and commercial restoration operation with two full-time estimators — call them Estimator A and Estimator B. The owner had noticed that revenue felt softer in recent quarters but couldn't pin it to a specific cause. Markets were fine. Job volume was consistent. The sales pipeline looked normal. Something was off but nothing obvious was broken.

When I pulled the job cost data and organized it by estimator, the picture came into focus within about twenty minutes. Estimator A's jobs were closing at an average of 43% gross margin. Estimator B's jobs were closing at an average of 28% gross margin. Same company, same market, same insurance carriers, same job types — a 15-point margin gap between two people doing ostensibly the same work.

Proving the Pattern: Not One Bad Job, a Distribution

One bad estimator story is easy to dismiss. "He had a tough quarter. Those jobs were complicated." The way to prove a systematic problem is to look at the distribution, not the average. I pulled every closed job from Estimator B over the prior 12 months — 47 jobs. I sorted them by margin. What I was looking for was the shape of the distribution.

A random-variance problem looks like a normal distribution: some jobs high, some jobs low, most clustered around the average. A systematic problem looks different — the jobs cluster low with a consistent floor. Estimator B's jobs showed the systematic pattern. Almost no jobs above 35% gross margin. Very few outliers either direction. A tight cluster between 22% and 32%. This wasn't bad luck. This was a workflow.

What Was Being Missed: Three Line Item Categories

The next step was comparing Estimator B's estimates against Estimator A's estimates on comparable job types. Three categories stood out:

O&P (Overhead and Profit). Estimator B was applying O&P only to direct work, not to the full project scope including subcontractor work. This is a common Xactimate habit error — the software allows it to be applied at the total level or selectively, and Estimator B had developed a pattern of applying it selectively in a way that consistently reduced the total by 6–9% of job value.

Equipment billing rates. Estimator B was using the default Xactimate equipment rates without adjustment for the company's actual equipment cost structure. On jobs with extended drying duration — anything over 5 days — the difference between default rates and the company's actual billing rates was material. Across 47 jobs, this category alone represented approximately \$62,000 in unrecovered revenue.

Supplement capture. Estimator B's supplement rate — defined as supplements submitted as a percentage of jobs with documented additional scope — was 31%. Estimator A's was 78%. This wasn't a capability gap; both estimators were identifying additional scope in the field. Estimator B wasn't converting the identification into a submitted supplement. The discovered scope was going to work, going to cost, and not going to billing.

The Math: \$180K on the EBITDA Statement

Across 47 jobs, the three categories summed to approximately \$180,000 in revenue that was earned but not billed. At the company's overhead structure, roughly \$140,000 of that was EBITDA — because the costs were already incurred. The company was already paying to do the work. It just wasn't collecting for all of it.

On a company this size, \$140,000 in EBITDA improvement is approximately a 40% increase in net profit — from a single workflow correction in one employee’s habits. That’s what systematic estimator problems look like when you find them. They’re not dramatic. They’re just consistent and compounding.

The Conversation With the Owner — and the Fix

The owner’s first reaction was to want to fire Estimator B. This is the wrong instinct. Estimator B wasn’t being dishonest. Estimator B had developed habits that were costing the company money — habits that had never been identified, corrected, or even measured. The problem wasn’t the person; it was the absence of a feedback loop.

The fix was three things: a company-wide estimating checklist covering the specific line items most commonly missed (built from Estimator A’s patterns, not from generic best practices), a monthly job cost variance review by estimator that made performance visible on both sides, and a 90-day review of Estimator B’s estimates by a senior reviewer before submission. Not indefinitely — for 90 days, until the habits changed.

At the 90-day mark, Estimator B’s average margin had moved from 28% to 37%. Not to Estimator A’s 43% — there’s a skill gap that takes longer to close — but from costing the company \$180K per year to within a manageable range of average performance. The checklist and the feedback loop did what criticism alone never does: they made the specific problem visible enough to correct.

FAQ: Restoration Estimator Revenue Leaks

How do I identify if one estimator is responsible for systematic revenue underperformance?

Pull closed job cost data for the last 12 months and sort by estimator. Calculate average actual gross margin by estimator for comparable job types. A gap of more than 5 points sustained across 15+ jobs is a systematic signal, not random variance. Then look at the distribution of each estimator’s jobs — systematic problems cluster, random variance spreads.

What line items do restoration estimators most commonly miss or underprice?

The most common: O&P not applied to full project scope, equipment billing rates set below company cost structure, labor hours underestimated for specific job types, supplement scope not converted to submitted supplements, and final billing line items (equipment demobilization, final materials) not included at closeout. These categories compound — an estimator missing three of five consistently is a significant margin problem.

How should I run job cost variance analysis by estimator?

Pull all closed jobs by estimator for a trailing 12 months. Calculate actual gross margin (revenue minus direct costs) for each job. Group by job type to control for complexity differences. Calculate average and median margin by estimator. Sort each estimator’s jobs from highest to lowest margin and look at the distribution shape. Present the results side by side. The gap, if it exists, is usually obvious within the first view.

What’s the right way to address chronic underpricing with an estimator without losing them?

Lead with data, not judgment. Show the specific line item categories where the pattern shows up — not “your estimates are too low” but “O&P is being applied at this rate on your jobs vs. this rate on comparable jobs, and

here's the revenue difference." Build a checklist from the gap categories and use it as a workflow tool, not a performance improvement document. Follow up with 90-day estimate review before the habits shift.

How much revenue does a typical restoration estimator workflow gap cost per year?

It scales with volume. An estimator handling \$1.5M in annual job volume with a systematic 10–12 point margin gap versus the company average is generating \$150,000–\$180,000 in unrecovered annual revenue. At typical overhead structures, 75–85% of that is EBITDA. For companies with one high-performing and one underperforming estimator, this is frequently the single largest recoverable margin opportunity in the business.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- Why a Busy Contents Division Was Losing Money Every Month
- The Xactimate Gap: How Restoration Companies Leave Thousands on the Table
- What I Found in a \$2.3M Alberta Restoration Company With No Cash

CAT Mobilization Economics: When Storm Chasing Is Profitable for Restoration Companies

Source: <https://profitdetective.net/restoration-cat-mobilization-economics-storm-chasing/> Published: May 1, 2026

CAT (catastrophe) mobilization refers to the deployment of restoration crews, equipment, and management to geographic areas affected by large-scale weather events to capture surge demand. While CAT revenue can be significant, the costs of mobilization — travel, lodging, equipment transport, management overhead, and home-market revenue loss — frequently compress or eliminate margin for operators who don't model it correctly.

The CAT Revenue Illusion

After a major storm event, restoration operators look at the footage on their phones and see revenue. Thousands of damaged properties. Insurance-backed work. Surge pricing on some services. The numbers look big. What gets left out of this mental math: the cost to get there, the cost to stay there, the cost of managing work remotely, the cost of not being in your home market, and the cost of collections in a disaster market where adjusters are overwhelmed and payment timelines extend.

CAT work can be genuinely profitable. It can also be a margin trap that looks great in gross revenue and terrible in net. The difference is whether you model the full cost before you mobilize — not after you've already committed crews and equipment to a deployment three states away.

The Full CAT Cost Model

Direct deployment costs. Vehicle and equipment transport to the event market — fuel, trucking, logistics. Per-diem costs for every crew member deployed: lodging, meals, incidentals. Figure \$150–\$250 per person per day in a disaster market where hotel rates surge. A crew of 6 deployed for 21 days at \$200/day per person is \$25,200 before a single job is completed.

Management overhead. Who's running the deployed operation? If it's you or a senior manager, that person is not running your home market. If you're sending a PM, that PM is running jobs in an unfamiliar market without your normal support infrastructure. Remote management of CAT work requires more management time per job, not less — because conditions are unfamiliar, subs are unknown, and the client base is entirely new.

Home market revenue loss. The crews you deployed were working jobs in your home market before you mobilized them. Those jobs now either don't get taken, get subcontracted out at lower margin, or create strain on the remaining team. Home market disruption is an opportunity cost, not a cash cost — which makes it invisible in most CAT math. It's real nonetheless.

Collections risk in disaster markets. Payment timelines in CAT markets extend significantly relative to normal insurance work. Adjusters are managing hundreds of claims simultaneously. Carrier backlogs mean your invoices sit longer. Dispute rates are higher because standard documentation quality drops in surge conditions. The revenue is real but the collection timeline is longer — and the carrying cost of that receivable is a real cost.

The Revenue Math That Has to Work

Before mobilizing, calculate your break-even revenue requirement for the deployment. Sum your direct deployment costs (travel, lodging, per diem) plus the opportunity cost of home market displacement (average weekly revenue per crew times weeks deployed) plus any administrative and management overhead attributable to the deployment. That total is your floor. CAT revenue must exceed that floor before you see the first dollar of net profit from the deployment.

A common break-even calculation for a 6-person crew, 3-week deployment: \$25,000 in direct costs plus \$45,000 in home market opportunity cost equals \$70,000 minimum. The deployed crew needs to generate more than \$70,000 in gross margin — not gross revenue — to justify the deployment. At 40% gross margin, that requires \$175,000 in gross CAT revenue. Is that achievable in 21 days in your target market? That's a question to answer before you leave, not after.

The Operational Risks Non-Financial Operators Underestimate

Licensing compliance. Most states require contractor licensing for restoration work performed within their jurisdiction. Working unlicensed in a disaster state creates liability, can void your insurance coverage, and in some states creates personal liability for the company owner. Check licensing requirements before deployment, not after you've already started work.

Unknown subcontractors. In a disaster market, your preferred sub network doesn't exist. You're working with whoever is available, at whatever price they're charging in a surge market, with none of the pricing discipline your home-market sub relationships provide. Sub cost overruns are significantly more common in CAT deployments — because the relationships and pricing agreements that protect you at home don't exist there.

Quality risk and callbacks. Work performed at pace in an unfamiliar market with a crew stretched thin generates more callbacks than normal work. Those callbacks may require sending someone back to the market — at additional deployment cost — to resolve work that wasn't done correctly under surge conditions.

Who CAT Work Actually Makes Sense For

CAT mobilization makes financial sense for operators with strong home-market infrastructure that can operate without the owner or senior PM for 3–4 weeks, sufficient working capital to carry extended AR from a disaster market, a trained deployment team that has done this before, and existing relationships with national carriers that prioritize their claims in the CAT queue.

CAT work is a vanity play for operators who are chasing gross revenue, who need every available crew member to run their home market, whose home-market margins are already compressed, or who have never modeled the full cost before committing. The numbers look different on a napkin than they look on a P&L three months later.

FAQ: Restoration CAT Mobilization Economics

How do I calculate whether a CAT storm mobilization will be profitable for my restoration company?

Sum all direct deployment costs (travel, lodging, per diem) plus home market opportunity cost (revenue displaced by deploying those crews). That's your floor. Divide by your expected gross margin percentage to find the gross revenue required to break even. If that revenue is achievable in the available deployment window in the target market, mobilization may be justified. If it isn't clearly achievable, stay home.

What are the hidden costs of deploying crews to a distant storm market?

Home market revenue displacement, extended AR collection timelines in disaster markets, unknown subcontractor pricing in surge conditions, management overhead for remote supervision, and potential callback costs if quality suffers under surge conditions. None of these appear in the initial gross revenue estimate — all of them affect net margin.

What licensing or compliance issues do restoration companies face when working in unfamiliar states?

Most states require contractor licensing for restoration work performed in-state. Working without the appropriate license can void insurance coverage, create liability exposure, and result in administrative penalties. Some states offer expedited disaster licensing for out-of-state contractors — check state contractor board requirements before mobilizing, and factor licensing lead time into your deployment timeline.

How does CAT work affect my home market revenue while crews are deployed?

Directly: jobs that would have been taken by the deployed crew either aren't taken (lost revenue), are subcontracted at lower margin (compressed revenue), or strain the remaining team (quality risk on all active home market jobs). This opportunity cost is real but invisible because it doesn't appear as a line item — it appears as a slower month at home while the CAT deployment looks profitable.

What's the minimum CAT job volume required to make mobilization financially worthwhile?

It depends on job size, gross margin, and deployment costs, but as a rough guide: a 6-person crew deployed for 3 weeks needs to generate approximately \$150,000–\$200,000 in gross revenue at 40% gross margin to cover direct deployment costs plus home market opportunity cost. Below that threshold, the deployment is likely a net negative or break-even — profitable in gross revenue and flat or negative in actual profit contribution.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- Storm and CAT Work for Restoration Companies
- Contents Division Economics
- Ice Dam and Winter Storm Damage

The PM Bottleneck: When Restoration Project Managers Are the Margin Problem

Source: <https://profitdetective.net/restoration-project-manager-bottleneck-margin/> Published: May 1, 2026

The PM bottleneck refers to the situation where project managers — through inadequate training, excessive job load, poor documentation habits, or misaligned compensation — become the primary constraint on both job margin and company growth. Unlike owner bottlenecks, PM bottlenecks are often invisible until a cluster of low-margin job closes reveal the pattern.

Why PM Bottlenecks Stay Hidden Until They're Expensive

The owner bottleneck is visible. When the owner is the constraint, nothing moves without them — and everyone knows it. The PM bottleneck is different. PMs are supposed to be the solution to the owner bottleneck. They're the layer that's supposed to run jobs independently while the owner runs the business. When a PM is actually the margin problem, the signal is subtle: jobs close at lower margins than estimated, client callbacks cluster around specific PMs, supplement capture is inconsistent, and closeout drags.

Without job cost data organized by PM, these patterns stay invisible. They show up as a company-level margin problem — overhead too high, pricing too low, some bad luck on a few jobs — rather than what they actually are: a specific person or two producing consistently poor financial outcomes on their portion of the job book.

How to Diagnose a PM Margin Problem

Pull your last 30 closed job cost reports and sort them by PM. Calculate average actual margin vs. estimated margin by PM. If you have three PMs and the company averages 42% gross margin, you might find one PM averaging 51%, one averaging 43%, and one averaging 31%. The 31% PM has a problem. The question is which kind.

Look for patterns in how the variance shows up. Is the underperforming PM's cost overruns concentrated in labor? Subcontractors? Equipment? Or is the revenue side the problem — low supplement capture, billing delays, missed line items at closeout? The pattern tells you where to focus the diagnostic.

Also check: what's the average job size this PM handles vs. the others? A PM running large commercial losses should be expected to have more variance than one running residential water jobs. Normalize for job type before drawing conclusions.

The Four Most Common PM Failure Modes

Over-promising to clients. A PM who tells the client “we’ll take care of that” without authorization is creating scope commitments that weren’t in the estimate and may not be recoverable. This failure mode shows up as consistently high labor and materials costs with poor explanation — the work was done, but it wasn’t in the scope, and nobody documented it as a supplement. The result: cost absorbed, revenue not captured.

Poor subcontractor management. Some PMs are conflict-averse when it comes to pushing back on sub invoices. They approve invoices that don’t match scope documentation, allow T&M overruns without authorization, and never challenge a sub billing that looks high. This shows up as sub cost overruns that never trigger a management conversation — because the PM signed off on them.

Documentation gaps. A PM who doesn’t maintain daily site notes, photo logs, and moisture readings is creating billing vulnerability on every job they run. This failure mode shows up as supplement disputes that can’t be resolved with documentation and billing lines that get cut at adjuster review. Not necessarily dishonest — often just undisciplined.

Billing avoidance. Some PMs dislike the administrative closeout process and delay it as long as possible. Jobs sit at “95% complete” for weeks. Final invoices are submitted late. Open supplements aren’t followed up. This shows up as long average days-to-close and lower-than-expected recovery on supplement billings. The work was done — the money just wasn’t collected on schedule.

Compensation Structures That Align PM Behavior With Margin

If you pay PMs a flat salary, they have no direct financial interest in job margin. They have an interest in keeping clients happy, running clean jobs, and not getting fired — but none of those incentives directly target margin. The PM who runs 31% margin and the PM who runs 51% take home the same check.

Comp structures that work: base salary plus a bonus tied to job margin performance above a threshold. For example: base salary for all jobs closed at or above 40% gross margin; bonus of 2–3% of gross margin dollars on jobs closed above 45%. This creates a direct incentive for margin discipline without penalizing PMs for jobs where scope genuinely expands beyond what’s recoverable.

The key: the margin metric used for comp should be actual job gross margin (revenue minus direct job costs), not net. PMs don’t control overhead allocation — holding them accountable for it is demotivating and inaccurate.

The PM Performance Scorecard

A simple PM scorecard covers five metrics reviewed monthly: average actual vs. estimated gross margin (target: within 3 points of estimate); supplement capture rate (supplements submitted as a percentage of jobs with discovered additional scope); average days from job completion to final invoice (target: 5 business days or fewer); client callback rate (callbacks per 10 jobs closed); and job file quality score (random sample audit of documentation completeness).

This scorecard makes the PM bottleneck visible without requiring a confrontation. When the data shows a PM at 31% margin, 40% supplement capture, and 14 average days to close, the coaching conversation starts with specific numbers — not impressions.

FAQ: Restoration Project Manager Performance and Margin

How do I tell if one of my project managers is consistently losing margin on jobs?

Sort your job cost reports by PM and calculate average actual vs. estimated gross margin by person. Any PM averaging more than 5 points below the company average — sustained across 10 or more jobs — has a margin problem worth investigating. Look for whether the variance is in costs (overruns) or revenue (billing gaps) to identify the specific failure mode.

What are the most common ways restoration PMs inadvertently destroy job margin?

Over-committing to clients without authorization, approving sub invoices that don't match scope, letting documentation gaps make billing lines indefensible, and delaying final billing while jobs sit at near-complete status. Most PM margin problems are behavioral, not ethical — they're habits that cost money without anyone intending to destroy margin.

How should I structure PM compensation to align their incentives with job profitability?

Base salary plus margin-based bonus. Set a margin threshold (e.g., 40% gross margin) below which no bonus is earned, and a bonus rate (e.g., 2–3% of gross margin dollars) for jobs closed above the threshold. This directly ties PM income to margin performance without penalizing them for factors outside their control.

What does a useful PM performance scorecard look like for a restoration company?

Five metrics reviewed monthly: actual vs. estimated gross margin variance, supplement capture rate, average days from job completion to final invoice, client callback rate per 10 jobs, and job file quality score from random audit. Track by PM over time — the trend matters as much as any single month's number.

How many active jobs can a restoration PM realistically manage without margin degradation?

For residential water damage jobs, 8–12 active jobs is the range where most PMs maintain documentation quality and billing discipline. Above 15, documentation gaps and billing delays become statistically predictable. The right number depends on job complexity — a PM with three large commercial losses may already be at capacity; a PM with 15 small residential jobs may not be.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- Training Project Managers in Restoration Companies
- The 90-Day Role Ramp
- Meeting Architecture for Restoration Companies

The Job Lifecycle Profit Map: Where Restoration Companies Lose Money

Source: <https://profitdetective.net/restoration-job-lifecycle-profit-map/> Published: May 1, 2026

A job lifecycle profit map traces the financial impact of decisions made at each stage of a restoration job — intake, dispatch, initial scope, execution, supplementing, billing, and closeout — identifying the specific points where margin is most commonly lost. Most restoration companies lose 10–20% of available margin at predictable, fixable stages before the job is ever closed.

Why Margin Dies at Predictable Points

Restoration margins don't erode randomly. They bleed at the same points, on the same types of jobs, in the same operational environments — over and over, until someone maps the lifecycle and finds the leaks. The Profit Detective diagnostic framework is built around this observation: if you can identify which stage of the job lifecycle is causing the margin problem, you can fix the right thing instead of guessing.

What follows is a stage-by-stage map of where restoration companies most commonly lose money — and what the failure mode at each stage looks like in practice.

Stage 1: Intake — The Scope That's Already Wrong

The intake call sets the financial trajectory of every job. If the intake is rushed, incomplete, or handled by someone without the experience to identify scope complexity, the job starts with a flawed estimate that the field will spend the next week trying to survive.

The most common intake failure: underestimating extent. The caller describes water in the kitchen. The intake person scopes it as a kitchen water loss. The field team arrives and finds the water migrated into the adjacent bathroom, the hallway subfloor, and the crawlspace. Everything beyond the initial kitchen scope becomes a supplement conversation — with an adjuster who already has a number in mind. You recover some of it. Not all of it.

The fix: build an intake protocol that forces scope discovery questions before dispatch. What's the affected area? Any adjacent spaces showing moisture? Has the source been stopped? Prior losses at this property? Five minutes on the phone saves two supplementing arguments per job.

Stage 2: Initial Estimate — The Margin You Set Before You Start

The initial estimate is where your margin is set. Everything that happens after is either protecting it or losing it. Estimates that are underpriced — to win the work, to avoid adjuster friction, or simply because the estimator was moving fast — cannot be fully recovered through supplements. You can supplement discovered scope. You can't supplement a low initial estimate.

Common failure modes: O&P not captured on total project, equipment not estimated at the rate your cost justifies, labor rates set to program schedule rather than actual labor cost, and mitigation scope not fully extended before the estimate is submitted.

Stage 3: Dispatch and Field Handoff — The Information That Didn't Transfer

Between the estimate and the field team is a handoff. Scope understanding, client expectations, special conditions, and billing priorities live in the estimator's head and in a job file that the lead tech may or may not have fully read before pulling up to the property.

When the handoff fails, the field team starts fresh — interpreting scope on the fly, making commitments to clients that don't match what was estimated, and setting expectations that create disputes at billing. The cost of a failed handoff accumulates across every decision the field team makes without the context the estimator had.

Stage 4: Job Execution — WIP Drift and Silent Cost Overruns

During execution, margin leaks through cost overruns that go untracked until closeout. Equipment runs longer than estimated. Sub costs come in over the verbal quote. Labor hours accumulate past the estimate without

anyone flagging it. By the time the job cost report is run, the damage is done.

This is the WIP management problem. Active weekly tracking of estimated vs. actual costs catches drift while there's still time to intervene — tighten scope, negotiate a change order, or accelerate billing to match costs incurred. Without it, you're reading the autopsy.

Stage 5: Supplementing — The Revenue You Earned and Didn't Collect

Supplements represent scope that was legitimately discovered and performed but not in the original estimate. The margin impact of not supplementing aggressively is significant: a typical water damage job with one undiscovered scope item generates a supplement opportunity of 8–15% of the original estimate. On a \$20,000 job, that's \$1,600–\$3,000 in earned revenue that never gets collected.

Supplementing fails when discovery isn't documented (no photos, no written observation), when submission is delayed (the adjuster moves on), or when the PM doesn't see supplementing as part of their job. All three are fixable with the right accountability structure.

Stage 6: Billing and Closeout — The Last Chance You Usually Miss

Billing delay at closeout has two costs: the direct cost of delayed cash collection and the indirect cost of billing items that fall through the cracks as the job ages. Final moisture readings not captured, equipment demobilization not billed, storage not reconciled, final materials not invoiced. Each missed item is small. Across 50 jobs per year, the aggregate is material.

Build a closeout checklist. Assign closeout completion to the PM. Track days from job completion to final invoice as a metric. The goal is 5 business days or fewer. Companies that close billing within 5 days of job completion collect faster, dispute less, and lose fewer line items to the fog of time.

FAQ: Restoration Job Lifecycle Profit Map

At what stage of a restoration job do companies most commonly lose margin?

Supplementing (Stage 5) and closeout billing (Stage 6) are where the most recoverable margin is lost — because the work was done and the revenue was earned, but the collection process broke down. Initial estimate underpricing (Stage 2) creates losses that are much harder to recover because the baseline was wrong from the start.

How does a poor intake process affect job profitability downstream?

An incomplete intake produces an underscoped estimate, which forces the field team to discover and supplement additional work after the adjuster already has a number. Supplements on undiscovered scope are harder to collect than initial estimate line items. Every dollar of missed scope at intake costs more to recover than it would have cost to capture upfront.

What is the average margin impact of not supplementing on a typical water damage job?

On a typical residential water damage job with at least one undiscovered scope item, the unsupplemented revenue opportunity is approximately 8–15% of the original estimate. On a \$20,000 job, that represents \$1,600–\$3,000 in earned revenue not collected. Across a company volume of \$3M/year, supplementing discipline can represent \$240,000–\$450,000 in recovered revenue.

How does billing delay at closeout affect overall job profitability?

Billing delay has two direct costs: the cash flow cost of waiting (which compounds into working capital pressure) and the revenue leakage cost of line items that don't make it onto the final invoice as the job ages. Companies that close billing within 5 business days of job completion lose significantly fewer billing items to time-based attrition.

What's the fastest way to identify where my restoration company's jobs are losing margin?

Run job cost reports on your last 20 closed jobs. Compare estimated margin to actual margin by job. For every job with more than 5% variance, identify which cost category caused the overrun — labor, equipment, subs, or materials. The pattern across 20 jobs will point to one or two stages in the lifecycle where your company consistently leaks margin.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- WIP Management for Restoration Companies
- Closeout Discipline: Why Restoration Companies Leave 8–15% on the Table at Job End
- Where Is Your Profit Hiding? A Restoration Owner's Diagnostic

Contents Division Economics: P&L Logic and Margin Leaks for Restoration Companies

Source: <https://profitdetective.net/restoration-contents-division-economics-pl/> Published: May 1, 2026

A contents division operates on different economics than structural restoration — with distinct labor costs (pack-out, cleaning, inventory, storage, pack-back), throughput constraints (facility size, pack-out capacity), and billing structures. Companies that run contents as a separate P&L consistently identify margin leaks invisible in a blended company P&L.

Why Contents Needs Its Own P&L

When a restoration company runs contents inside a blended P&L, the division's true performance is invisible. Revenue looks good because pack-outs generate significant gross billing. Costs look manageable because they're spread across the whole company. And the contents division appears profitable right up until someone runs the numbers separately and discovers that labor, storage facility overhead, and billing gaps are consuming everything they thought they were making.

A standalone contents P&L forces the discipline the blended version doesn't. Every labor hour in the contents division hits the contents P&L. Every square foot of storage facility costs the contents division. Every unbilled inventory item shows up as missing revenue. This visibility is uncomfortable at first — and necessary to fix the problems driving it.

What a Contents P&L Should Include

Revenue lines: Pack-out labor, inventory/cataloguing labor, cleaning labor by item type, storage billing (monthly per square foot or per item), pack-back labor, and specialty services (electronics restoration, textile cleaning, art handling). Each of these is separately billable and should be tracked separately in revenue. Bundled “contents handling” billing obscures which services are profitable and which are not.

Direct cost lines: Field labor for pack-out and pack-back, cleaning technician labor, cleaning supplies and consumables, packing materials (boxes, wrap, labels), and any specialty service labor or subcontracted restoration work. These costs should be captured by job, not allocated in aggregate.

Facility overhead: Rent or mortgage on the contents facility, utilities, insurance specific to the facility and its contents liability, security, and equipment depreciation (shelving, climate control, specialty cleaning equipment). These are fixed costs that exist whether or not jobs are flowing through the facility — and they must be factored into pricing to achieve actual profitability.

The Throughput Constraints Most Contents Operators Ignore

Contents divisions have a physical throughput ceiling that blended-P&L thinking makes it easy to ignore. The ceiling has three dimensions: how many pack-outs you can staff simultaneously, how much facility square footage you have for active storage, and how fast you can process items through cleaning and inventory.

When you hit the ceiling on any one of these dimensions, you have a choice: turn down work, rush existing jobs (degrading quality and billing), or expand the constraint (hire, lease more space, add equipment). All three choices have costs. The only way to make a rational decision is to know where your ceiling is before you’re already against it.

A common throughput miscalculation: accepting multiple simultaneous large pack-outs when the facility doesn’t have adequate segregated storage space for each job. Contents get mixed, inventory becomes unreliable, and the company faces liability for missing or damaged items that the billing records can’t account for. Storage capacity is a hard constraint, not a soft guideline.

Where Margin Leaks in a Contents Division

Storage billing gaps. This is the single largest source of contents revenue loss. Items sit in the facility for 60, 90, 120 days while the claim resolves. Storage should be billed monthly. In most companies, it isn’t — because no one built a system to trigger monthly billing statements per job. Build the system. A 10,000-square-foot facility with active contents inventory at \$1.50/SF/month generates \$15,000/month in storage revenue. How much of that are you actually billing?

Cleaning time underestimation. Initial estimates for cleaning labor are almost always based on volume of items, not the actual time required per item type. Electronics take significantly longer than hard goods. Textiles take longer than furniture. If your cleaning labor estimate doesn’t break down by item category with realistic time standards per category, your cleaning revenue will consistently underperform the actual labor consumed.

Inventory loss. Items that can’t be located at pack-back create liability and billing complexity. Every lost or damaged item represents either a replacement cost or a disputed billing line. A tight chain-of-custody inventory system — barcoded or photographed at pack-out with condition notation — eliminates most inventory disputes before they become financial events.

Labor spikes on large pack-outs. Large residential fire losses can require 8–12 labor hours on pack-out day with a full crew. If that labor isn't captured in real time — by job, by employee, by hour — it gets absorbed into overhead rather than billed to the job. Build daily time entry by job into the contents workflow, not weekly or monthly reconciliation.

What Healthy Contents Margins Actually Look Like

A well-run contents division with adequate facility utilization should produce gross margins of 45–55% on labor-based services and 60–70% on storage billing. Net margin after facility overhead varies significantly by facility cost, but operators running tight operations in owned or low-cost facilities routinely achieve 25–35% net on the division.

If your contents division is producing net margins below 20%, the most likely culprits are: facility overhead that hasn't been fully allocated, storage billing that's being left on the table, or cleaning estimates that aren't capturing actual labor. Run the standalone P&L and the problem becomes findable.

FAQ: Contents Division Profitability

What profit margin should a restoration contents division produce?

Gross margins of 45–55% on labor services and 60–70% on storage billing are achievable in a well-run contents division. Net margin after facility overhead typically runs 25–35% for operations with controlled facility costs. Net margins below 20% usually indicate storage billing gaps or facility overhead that isn't being fully recovered in pricing.

How do I separate my contents division into its own P&L within my restoration company?

Create a contents division cost center in your accounting system. Assign all contents-specific revenue (pack-out, cleaning, storage, pack-back) to the division. Allocate all contents direct labor, supplies, and facility costs directly. For shared overhead (admin, insurance, management time), allocate a percentage based on revenue contribution or headcount ratio.

What are the most common reasons contents divisions are unprofitable despite high volume?

Storage billing that isn't being triggered monthly, cleaning labor estimates that don't account for item-type complexity, facility overhead not fully allocated to the division, and inventory loss from inadequate chain-of-custody documentation. High volume without billing discipline produces high revenue and thin margins.

How should contents storage be billed to maximize revenue and minimize disputes?

Bill storage monthly on a per-square-foot or per-item basis from pack-out date. Automate monthly billing triggers in your job management system. Document the storage area used at pack-in with photographs. Provide storage billing statements to the carrier at each 30-day interval — don't accumulate and bill at closeout, which creates sticker shock and dispute risk.

What throughput constraints limit the growth of a contents restoration division?

The three binding constraints are pack-out crew capacity (how many simultaneous large pack-outs you can staff), facility square footage (how many active jobs you can store segregated), and cleaning processing capacity (how fast items move from inventory to cleaned and staged for pack-back). Growth requires expanding the binding constraint — typically facility space first, then cleaning staffing.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- CAT Mobilization Economics
- Contents Restoration
- Biohazard and Specialty Cleaning

TPA Fee Schedule Math: How Margin Compression Actually Works on Program Work

Source: <https://profitdetective.net/tpa-fee-schedule-margin-compression/> Published: May 1, 2026

What is a TPA fee schedule? A TPA (Third Party Administrator) fee schedule is a pre-negotiated rate structure that dictates what a restoration contractor will be paid for each line item of work on program-managed insurance claims. Fee schedules typically discount standard Xactimate pricing by 10–30%, creating a structural margin compression that most owners never fully calculate at the job level.

TPA Fee Schedule Math: How Margin Compression Actually Works on Program Work

Most restoration owners accept TPA fee schedules without running the actual math. They know the discount is there. They feel the margin squeeze. But they've never sat down and calculated — job by job, line item by line item — what program work is actually costing them. This article does that math.

How TPA Fee Schedules Are Structured

A TPA fee schedule is essentially a price ceiling on every line item you can bill. The structure varies by program, but the mechanics are consistent: the TPA negotiates a master agreement with carriers that sets maximum reimbursement rates — typically expressed as a percentage of Xactimate's regional pricing database, or as flat-dollar caps on specific line items.

The discount range is wide. Aggressive program fee schedules run 25–30% below standard Xactimate pricing. More moderate programs run 10–15% below. A few programs are at or near parity on some line items — and substantially below on others. The variance within a single fee schedule is important: mitigation equipment line items may be at 90% of Xactimate while demolition labor runs at 75% and reconstruction at 80%.

What the fee schedule doesn't show you is the full cost of program participation. The visible discount is only part of the compression.

The Full Margin Compression Stack

To calculate your true net margin on TPA program work, you need to account for five layers of cost, not one.

Layer 1: The fee schedule discount. The visible part. If your standard water mitigation job invoices at \$8,500 on standard Xactimate pricing and the TPA fee schedule pays 80% of those line items, you're starting at \$6,800 before you've done a single thing wrong.

Layer 2: Hold-back and compliance fees. Many TPA programs withhold a percentage of each invoice — typically 2–5% — until compliance requirements are met: documentation uploaded to the portal within a set window, customer satisfaction scores above a threshold, response time certifications. If you miss a portal upload deadline, that hold-back may become permanent. On a \$6,800 job, a 3% hold-back is another \$204 gone.

Layer 3: Administrative and portal overhead. Program work requires more administrative time than direct billing. Portal uploads, compliance documentation, cycle-time reporting, and invoice reconciliation are real labor costs that don't show up on the job cost report but absolutely come out of your margin. A conservative estimate: 1.5–2 hours of admin time per program job. At a fully-loaded admin cost of \$35/hour, that's \$52–\$70 per job — before anything else.

Layer 4: Supplement restrictions. Most TPA programs have supplement limitations — either caps on what can be supplemented, pre-approval requirements that slow the process, or adjuster relationships that make supplement approval harder than on non-program work. On a complex water job, foregone supplement revenue can be \$500–\$1,500. Not every job, but the pattern matters across a portfolio.

Layer 5: Payment timing. Program work almost always pays slower than direct billing — 45–75 days is typical. If you're carrying a line of credit at 7–8% interest to fund the working capital gap, the financing cost on that \$6,800 receivable sitting for 60 days is real. Not enormous on a single job, but meaningful at volume.

Running the Actual Math

Here's what a real program job cost calculation looks like on a \$10,000 standard-Xactimate water mitigation job:

Standard Xactimate billing: \$10,000. TPA fee schedule (80%): \$8,000. Hold-back (3%): –\$240. Portal admin labor: –\$60. Foregone supplement revenue (average): –\$400. Financing cost (60-day carry at 7.5% annual): –\$100. Net collected revenue: approximately \$7,200.

Now run your job costs against \$7,200 instead of \$10,000. If your direct labor, materials, subcontractors, and equipment cost \$4,500 on that job, your gross margin on standard billing is 55%. Your gross margin on the program job is 37.5%. That's a 17.5-point margin compression — not the 20% discount the fee schedule implies.

At volume, that math is devastating. A company doing \$3M in program work that should run at 50% gross margin is running at 32–35%. The gap — \$450,000–\$540,000 in annual gross profit — is sitting in the TPA's structure.

Which Line Items Suffer the Most

Fee schedule compression is not uniform. In my experience across 150+ restoration companies, the most compressed line item categories are consistently: demolition labor (often 70–78% of Xactimate), reconstruction

labor (75–82%), contents pack-out and storage (variable but frequently capped), and overhead and profit (the single most contested item — many programs pay reduced or no O&P on mitigation work). Equipment rental line items tend to hold better, because equipment rates are harder to dispute.

The Operational Levers That Move EBITDA on Program Work

If you're going to do program work, here's where the recoverable margin lives. First: cycle time. Most programs have bonus or penalty structures tied to how fast you complete work. Faster cycle time means lower hold-back risk, earlier payment, and sometimes bonus credits. The companies that run 18-day average cycles on water jobs outperform the ones running 28-day cycles on the same fee schedule. Second: documentation discipline. Missed portal deadlines and incomplete documentation are the most avoidable source of margin loss in program work — they turn hold-backs into permanent write-offs. Third: equipment utilization. Every dehu or air mover that's on-site and properly documented is revenue. Equipment days that aren't logged don't get paid. Fourth: supplement capture on the items that are eligible. Not every program restricts supplements equally — knowing exactly what's supplementable under your specific agreement and building the workflow to capture it consistently is worth real money.

FAQ

What is the average discount on TPA fee schedules compared to standard Xactimate pricing?

Most TPA fee schedules discount standard Xactimate regional pricing by 10–30% depending on the program, the market, and the negotiating leverage of the contractor. The visible discount understates the true margin compression once hold-backs, admin costs, and payment timing are included.

How do I calculate my true net margin on TPA program work?

Start with fee-schedule-adjusted revenue, then subtract hold-back amounts, admin and portal labor, foregone supplement revenue, and financing cost on slow payment. Compare the result to your job costs. Most operators find their true program margin is 15–20 points lower than their standard-billing margin on comparable work.

Can I negotiate TPA fee schedules?

Yes, but leverage matters. Large-volume operators with strong cycle-time metrics and low re-do rates have meaningful negotiating position. Small operators with modest volume have less. The best time to negotiate is at contract renewal, with data — your cycle times, customer satisfaction scores, and supplement approval rates — that demonstrate you're a low-cost, high-quality vendor for the program.

At what revenue mix does TPA program work start hurting overall company profitability?

There's no universal threshold, but companies with more than 60–70% of revenue from TPA program work typically struggle to maintain healthy net margins because the compressed gross margin doesn't leave enough room to cover overhead and produce acceptable net profit. The healthiest operations tend to run 40–60% program, 40–60% direct — enough program volume to maintain carrier relationships, enough direct work to keep margins alive.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- Program vs. Non-Program Portfolio Strategy
- The TPA Trap: Are Managed Repair Programs Costing You More Than They're Worth?
- Signs a Restoration Company Is Burning Your Insurance Program (For TPAs and Adjusters)

Case Study: How a 3-Month Engagement Added \$180K to Net Profit

Source: <https://profitdetective.net/case-study-3-month-engagement-180k-net-profit/> Published: May 1, 2026

Can a 3-month restoration consulting engagement actually add \$180K to net profit? Yes. In a real engagement with a Midwest restoration company doing \$4.2M in revenue, a structured 90-day operations engagement recovered \$180,000 in annualized net profit through five specific changes: tighter supplements, supplier renegotiation, AR cleanup, equipment utilization discipline, and a fired underperforming TPA program.

Case Study: How a 3-Month Engagement Added \$180K to Net Profit

Details have been changed to protect client confidentiality. The numbers are real. The findings are real. The actions are real. This is what an actual 90-day engagement looks like when it works.

The Company

We'll call them Apex Restoration. Independent. Midwest. Family business, second generation. Doing \$4.2M in revenue: 60% mitigation (water, fire, mold), 35% reconstruction, 5% specialty. The owner — Dave — had grown from \$2.8M to \$4.2M in six years. Real growth. But net profit was almost exactly the same as it had been at \$2.8M. He'd hired more people, added trucks, opened a second location. The bottom line wasn't moving.

Starting Numbers

Revenue (TTM): \$4,180,000. Gross margin: 36%. Operating expenses: 30% of revenue. Net profit: 6% (\$250,800). AR days outstanding: 73. Owner hours per week: 65+. Manager turnover (last 24 months): 3. Gross margin was 6–8 points below where it should be. AR was 25–30 days too high.

The Diagnostic Findings

Finding 1 — Supplements were a disaster: Apex was filing supplements on 35% of insurance jobs. Industry-best: 75–85%. Supplements that did get filed were weak — missing line items, missing photos, missing scope justification. Estimated annual recovery: \$85,000–\$110,000.

Finding 2 — One TPA program was actively unprofitable: About \$480K in annual revenue running at 22% gross margin after all program concessions and hold-back. After accounting for allocated overhead, the program was actually losing money. Dave had never run the math. Estimated annual recovery: \$40,000–\$65,000.

Finding 3 — Equipment was being given away: Air movers, dehus, scrubbers not making it onto invoices consistently. Crew chiefs billing three days when equipment was on-site four nights. Estimated annual recovery: \$20,000–\$30,000.

Finding 4 — AR was managed reactively: No weekly cadence, no escalation protocol. Some invoices 120+ days outstanding because nobody had ever called the carrier. Estimated annual recovery: \$15,000–\$25,000 in collections headed for write-off.

Finding 5 — Subcontractor margins were thin: Dave hadn't pushed pricing in three years while subs quietly passed along their own cost increases. Estimated annual recovery: \$20,000–\$35,000.

The 90-Day Result

Gross margin: 39% (up from 36%). AR days outstanding: 51 (down from 73). Supplements rate: 78% (up from 35%). Annualized run-rate net profit: \$431,000 (up from \$250,800). Net profit improvement annualized to roughly \$180,000. Dave was working about 50 hours a week instead of 65+. The leadership team had a working operating cadence. The owner had visibility into the business he'd never had before.

FAQ

Is the \$180K number representative of typical engagements?

It's representative of engagements at this revenue level (\$3M–\$5M with 6–8 points of margin gap to fix). Smaller companies have smaller dollar opportunities but similar percentages. Larger companies often have bigger absolute numbers — I've run engagements where the first-year recovery was \$400K+.

How long did it take to recover the cost of the engagement?

The engagement paid for itself by week 7 in identified margin recovery, before any changes had been fully implemented. By day 90, the ROI was over 4x. By end of year one, over 10x.

What was the hardest change to implement?

Walking away from the bad TPA program. Dave had been in it for years. The program manager was a friend. The trucks were rolling and it felt like real work. Looking at the math and accepting that “busy” was actually “unprofitable” was emotionally hard. The other changes were easy by comparison.

Mike McCabe is The Profit Detective — 36-year restoration veteran and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- Why Your Last Restoration Consultant Didn't Work (And What That Says About the Engagement)
- What to Expect from a Profit Detective Diagnostic Engagement
- What Happens in the First 90 Days of a Restoration Business Engagement?

The Profit Detective Diagnostic: How It Works, What It Finds, What Changes

Source: <https://profitdetective.net/profit-detective-diagnostic-how-it-works/> Published: May 1, 2026

What is the Profit Detective Diagnostic? The Profit Detective Diagnostic is a structured 2–3 week engagement that examines a restoration company's financials, job costing, KPIs, operational systems, and leadership team to identify hidden margin leaks, build a prioritized action list, and quantify the gap between current and achievable profitability.

The Profit Detective Diagnostic: How It Works, What It Finds, What Changes

A financial audit looks at the numbers. A diagnostic looks at why the numbers are what they are. The fundamental insight after 36 years and 150+ companies: every restoration company that's underperforming is underperforming for a small number of identifiable reasons that almost always live in the same handful of places.

The Five Domains the Diagnostic Examines

Domain 1: Financial reality. 24–36 months of monthly P&L, balance sheet, AR aging, job cost reports for the last 30–50 jobs, year-end financials. Looking for gross margin trend by service line, overhead growth relative to revenue, owner compensation vs. contribution, working capital efficiency, hidden labor costs, and subcontractor leakage.

Domain 2: Job-level economics. This is where most of the real money is hiding. Pull 30–50 jobs and run a structured review: estimated vs. actual gross margin, scope vs. actual scope, supplements not filed, equipment days not charged, materials without a PO, TPA adjustments and what they cost. In most engagements I find 8–15 points of recoverable gross margin in this domain alone.

Domain 3: Operating system and KPIs. Is there a weekly KPI cadence? Are KPIs the right ones? Is there a clear org chart and does it match how decisions actually get made? Are job costing reviews happening systematically? This is where structural issues live.

Domain 4: People and leadership. One-on-one conversations with the owner, operations manager, lead estimator, office manager, project managers, and frontline crew chiefs. Looking for clarity of strategy, how decisions actually get made, who owns what, and what everybody is pretending not to know. The people side surfaces conversations that have been postponed — promoted, coached, or exited.

Domain 5: Owner role and bandwidth. Walk me through a typical week hour by hour. Then sort every activity into four buckets: owner work (only you can do it), executive work (a COO should do it), manager work (a manager should do it), and doing the work (the team should do it). The pattern is almost universal: owners are spending 70%+ of their time in the bottom two buckets.

What the Diagnostic Produces

A written diagnostic document with three sections: Findings (what's actually happening, quantified where possible), The Gap (specific dollar estimates of the difference between current and achievable performance — typically \$100K to \$700K of annual upside depending on company size), and The Action List (10–15 prioritized actions with the top three recommended for immediate execution).

FAQ

How long does the Profit Detective Diagnostic take?

Most engagements run 2–3 weeks from start to debrief. That includes the financial deep-dive, job cost analysis, on-site or virtual interviews, document review, and the written deliverable.

Do I need to give you access to my books?

Yes. The diagnostic requires access to the P&L, balance sheet, AR aging, and a sample of recent job cost reports. A mutual NDA is signed at the start of every engagement and all documents are returned or destroyed at the owner's preference.

Can I use the diagnostic as a one-time engagement without hiring you for follow-on work?

Absolutely. About 40% of diagnostic clients implement on their own after the diagnostic, and that's a perfectly good outcome. The diagnostic stands on its own.

Mike McCabe is The Profit Detective — Master Cleaner, Master Restorer, 36-year restoration industry veteran, and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- What Happens in the First 90 Days of a Restoration Business Engagement?
- Why Your Last Restoration Consultant Didn't Work (And What That Says About the Engagement)
- What to Expect from a Profit Detective Diagnostic Engagement

What to Expect from a Profit Detective Diagnostic Engagement

Source: <https://profitdetective.net/profit-detective-diagnostic-what-to-expect/> Published: May 1, 2026

What is a Profit Detective diagnostic engagement? A Profit Detective diagnostic is a structured forensic review of a restoration or service business — examining job-level cost data, cash flow patterns, pricing structure, operational systems, and leadership architecture — to identify the specific profit leaks that explain why the bank account doesn't reflect how hard the business is working.

What to Expect from a Profit Detective Diagnostic Engagement

The worst thing I can do for a restoration owner is take their time and money on an engagement that was never going to produce what they needed. So let me tell you exactly what a Profit Detective engagement is, what it isn't, and how to know if it makes sense for your business.

Who This Is For

The Profit Detective methodology works best for service business owners who feel the gap (revenue is healthy but the bank account doesn't reflect it), are ready to see what's there (willing to hear honest findings), have enough history to analyze (at least 12 months of P&L and job-level cost data), and are ready to act on findings. Owners who engage out of curiosity but aren't ready to change how they operate won't see the ROI.

What a Diagnostic Engagement Involves

Phase 1 — Data Collection (Weeks 1–2): 24 months of financial statements, job cost reports for the past 12 months, AR aging report, pricing model and estimate documentation, current org chart and compensation structure, and any existing operational procedures. I review all of this before our first substantive conversation and come to that conversation with specific questions.

Phase 2 — Operational Assessment (Weeks 2–3): Time with the team — in the office, on job sites, in the field — looking for the gap between the documented process and the actual process, which is where most of the

money goes. For remote clients, this phase happens through structured interviews.

Phase 3 — Diagnostic Report (Weeks 3–4): The specific profit leaks quantified where data allows, root causes of each leak, prioritized recommendations ranked by impact and implementation difficulty, and a 90-day implementation roadmap for the highest-priority changes.

Phase 4 — Implementation Support (Optional): Some clients implement independently after the diagnostic. Others engage for ongoing fractional operations support — staying involved through the implementation, regular review calls, and management team development.

FAQ

How long does a Profit Detective diagnostic take?

The initial diagnostic typically takes 3–4 weeks from first data receipt to delivery of the diagnostic report. Ongoing implementation support runs on a monthly engagement basis.

What does a Profit Detective engagement cost?

Engagement fees depend on company size and scope. I price engagements to produce clear ROI — the diagnostic should identify more in recoverable margin than the engagement costs, typically within the first year of implementation. Book a free 30-minute call to discuss specifics.

What if I don't have good job cost data?

Part of the diagnostic involves building the framework to capture it going forward and working with whatever historical data is available. It's a limitation, not a barrier.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration industry veteran. He is a Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- The Profit Detective Diagnostic
- Why Your Last Restoration Consultant Didn't Work (And What That Says About the Engagement)
- Case Study: How a 3-Month Engagement Added \$180K to Net Profit

Scope Creep in Restoration: How to Manage Change Orders and Protect Your Margin

Source: <https://profitdetective.net/restoration-company-scope-creep-change-order-management/> Published: May 1, 2026

What is scope creep in restoration? Scope creep is the unplanned expansion of work beyond the original estimate — often discovered during demolition or drying when hidden damage is revealed. It represents a revenue and margin opportunity when properly documented and submitted as a supplement, and a margin loss when performed without additional billing.

Scope Creep in Restoration: How to Manage Change Orders and Protect Your Margin

Scope creep kills restoration margins in two ways. The first: additional work is performed without billing, and the cost is absorbed into a job already priced at target margin. The second: additional work is identified but the supplement is submitted so poorly — without documentation, without scope narrative — that the adjuster denies it. The solution to both is the same: a discipline around scope change identification, documentation, communication, and billing.

Step 1: Identify Scope Changes Immediately

Scope changes happen at specific moments: when demolition reveals hidden moisture, when a Category 1 loss shows Category 3 conditions behind a wall, when structural damage is discovered. Every technician and PM must stop, document, and notify before doing additional work. Photograph the discovery from multiple angles before any additional demolition. Take moisture readings immediately. Record the date, time, and who was present. Discovery documentation taken at the moment of discovery is credible — documentation assembled after the fact is not.

Step 2: Communicate Before Acting

The ideal sequence: discover additional scope -> document -> contact adjuster and homeowner -> receive authorization -> proceed. In emergency situations where delay would cause additional damage, proceed for safety and document and notify within 24 hours. The communication-before-action approach creates a record of adjuster awareness, avoids authorization disputes, and builds the relationship as a collaborative partner rather than an adversary.

Step 3: Submit the Supplement Promptly with Complete Documentation

A supplement submitted within 48–72 hours of scope discovery with complete documentation has a significantly higher approval rate than one submitted two weeks later. The package needs: a cover letter, photos from moment of discovery, moisture readings, a scope narrative explaining why additional work was necessary (with IICRC standard references), specific Xactimate line items with quantities, and the total additional cost. The scope narrative is the most important element for approval.

Change Orders for Non-Insurance Jobs

For direct commercial or residential jobs: written change order identifying the additional scope, reason, and cost — with customer signature before additional work begins. A handshake agreement that the customer “said it was fine” is not a change order. It’s a billing dispute waiting to happen.

FAQ

What is a supplement in restoration insurance claims?

An additional charge submitted to an insurance carrier after the initial estimate for work not included in the original scope — typically discovered during mitigation when hidden damage is revealed. Properly documented supplements are a normal and expected part of complex restoration claims.

What supplement approval rate should restoration companies target?

Well-managed restoration companies with strong documentation disciplines achieve 80–90% supplement approval rates. Below 60% indicates a documentation quality or communication problem. Track your

supplement approval rate by estimator to identify where the problem is.

What is a scope narrative in restoration?

A written explanation of why specific work was performed — not just what was done, but the technical or circumstantial reasoning that makes the work necessary. It translates technical restoration decisions into language an adjuster can understand and approve.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran who has developed supplement management systems for restoration companies across North America.

Related reading

- WIP Management for Restoration Companies
- Category 3 Water Damage
- Closeout Discipline: Why Restoration Companies Leave 8–15% on the Table at Job End

The Restoration Margin Scorecard: Grade Your Company Line by Line

Source: <https://profitdetective.net/restoration-company-profit-margin-benchmarks-2/> Published: May 1, 2026

Owners ask me what a good margin is. The honest answer is a scorecard, not a number — because a restoration company isn't one business. It's four or five businesses sharing a roof, and they grade very differently. Pull your last twelve months and grade each line. **A** means top-quartile discipline. **B** is healthy. **C** is where money leaks quietly. Anything in the red-flag band is a diagnostic appointment, not a rounding error.

Gross Margin by Service Line

Water mitigation (residential): A = 62–70%. B = 55–62%. C = 45–55%. Red flag: below 45% — pricing or cost control is broken. **Fire and smoke:** A = 58–65%. B = 50–58%. C = 42–50%. Material costs — cleaning supplies, specialized PPE — compress this line versus water work. **Mold remediation:** A = 52–60%. B = 45–52%. C = 38–45%. Containment is the most commonly missed expense; if your mold grade surprises you, look there first. **Reconstruction:** A = 38–45%. B = 30–38%. C = 24–30%. Lower percentages, but big jobs produce serious absolute dollars — grade the dollars as well as the rate. **Commercial large loss:** A = 48–55%. B = 40–48%. C = 32–40%.

Net Margin by Company Size

Under \$2M: healthy is 5–12%; best performers run 10–12% against a high overhead-to-revenue ratio.

\$2M–\$5M: healthy is 8–15% — the sweet spot for restoration profitability when overhead is managed and job costing is real; best performers 12–18%. **\$5M–\$10M:** healthy is 7–14%; expect temporary compression while you build management infrastructure, but name it as temporary and watch it monthly. **Over \$10M:** healthy is 8–15%, with best performers at 12–15%+. Across every tier: below 8% net means there is room; below 5% is a red flag wherever you sit.

The Five Things That Separate A Companies from C Companies

Job costing discipline — A companies measure margin at the job level, C companies measure it at the year level. Pricing from cost up, rather than copied from competitors. Honest mix — program work at wrong rates

drags a good book down. Supplement capture — 85%+ approval rates versus inconsistent follow-up. And overhead reviewed monthly instead of discovered annually. Two notes for the grading: franchise royalties of 5–10% are a real overhead cost that lowers net margin versus an independent with the same gross — whether the brand earns it back is your calculation, not an assumption. And if you want outside data to grade against, the RIA’s Cost of Doing Business survey publishes these benchmarks annually by company size.

The full benchmark tables, with the drivers behind the variation, are in Restoration Company Profit Margin Benchmarks: Where Do You Actually Stand?

Related reading

- Restoration Company Profit Margin Benchmarks
- Where Is Your Profit Hiding? A Restoration Owner’s Diagnostic
- The Job Lifecycle Profit Map

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran who has benchmarked restoration company performance against industry data across 150+ consulting engagements.

Category 3 Water Damage: The Scope and Pricing Mistakes That Kill Your Margin

Source: <https://profitdetective.net/category-3-water-damage-scope-pricing-restoration/> Published: May 1, 2026

Category 3 water damage (also called “black water”) involves grossly contaminated water containing pathogenic agents, including sewage, flooding from rivers or streams, and water that has been left standing long enough to support microbial growth. It requires the highest levels of PPE, the most extensive material removal protocols, and the most rigorous documentation — and is consistently under-scoped by restoration companies that apply Category 1 thinking to Category 3 losses.

Category 3 Water Damage: The Scope and Pricing Mistakes That Kill Your Margin

Category 3 water damage is where restoration companies lose the most margin they didn’t know they had. It’s not that they don’t know the work is harder — they know. It’s that they estimate the harder work at rates calibrated for easier work and miss the additional scope items that Category 3 jobs require by definition. The result: a mitigation job that costs 60% more to execute than a comparable Category 1 loss, priced at Category 1 rates.

What Makes Category 3 More Expensive

PPE requirements: Full PPE — N95 or higher respiratory protection, eye protection, chemical-resistant gloves, Tyvek suits — at real per-job cost. **Material removal:** IICRC S500 generally requires removal of porous materials (drywall, insulation, carpet, padding) that would be dried in place on Category 1 jobs. **Antimicrobial treatment:** Required on all affected surfaces after material removal — often estimated at Category 1 rates or missed entirely. **Disposal:** Contaminated materials require bagging and disposal as potentially infectious waste — significantly more expensive than standard construction debris. **Containment:**

Contaminated areas require containment during remediation — frequently missed or underestimated.

The Five Most Commonly Missed Category 3 Scope Items

(1) **Contaminated content disposition** — documenting, photographing, and disposing of non-restorable contents. (2) **Negative air and containment** — labor for setup/breakdown, negative air machines, poly barrier materials. (3) **Decontamination station** — materials and labor for the PPE clean-off station at the containment barrier. (4) **Post-remediation verification** — third-party testing or internal verification protocol cost. (5) **Additional monitoring visits** — Category 3 requires more frequent monitoring due to microbial proliferation risk.

Building a Category 3 Scope Checklist

The solution to systematic under-scoping is a job-type-specific checklist reviewed on every Category 3 loss before the estimate is submitted. Include: source remediation confirmation, structural drying equipment appropriate to contaminated materials, antimicrobial type and application rate, photo documentation requirements specific to Category 3, and communication to customer and adjuster about Category 3 implications for scope and timeline.

FAQ

Can Category 3 water damage be dried in place?

Generally no. IICRC S500 requires removal of Category 3 contaminated porous materials rather than drying in place, because drying does not eliminate microbial contamination in porous materials. The specific protocol depends on the material type and degree of contamination.

What PPE is required for Category 3 water damage restoration?

Minimum PPE includes N95 respiratory protection, safety glasses or goggles, chemical-resistant gloves, and protective clothing (Tyvek suits). Higher-risk scenarios may require higher-level respiratory protection. PPE requirements should be documented in the job file.

Who determines water damage category on a restoration job?

The restoration company's certified technician determines the water category based on the source of water, the degree of contamination, and the time elapsed since the loss event. The determination should be documented in the initial assessment with the reasoning explained in the scope narrative.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration industry veteran who has consulted on Category 3 scoping and pricing for restoration companies across North America.

Related reading

- WIP Management for Restoration Companies
- Scope Creep in Restoration
- Water Damage Restoration Margins

Biohazard and Specialty Cleaning: The High-Margin Niche Most Restoration Companies Avoid

Source: <https://profitdetective.net/restoration-company-biohazard-specialty-cleaning/> Published: May 1, 2026

What is biohazard remediation in restoration? Biohazard remediation includes the cleanup and decontamination of properties affected by traumatic events, communicable disease outbreaks, hoarding situations, and infectious waste. It is a specialty service requiring specific OSHA training, PPE, and disposal protocols, with gross margins typically exceeding 65%.

Biohazard and Specialty Cleaning: The High-Margin Niche Most Restoration Companies Avoid

Biohazard cleanup is uncomfortable to talk about. That discomfort is exactly why it's one of the highest-margin, lowest-competition specialty services available to a restoration company. The barriers to entry — training, licensing, equipment, and the willingness to do the work — keep most competitors out. Restoration companies that develop biohazard capability add a revenue stream that typically runs 65-75% gross margin with minimal ongoing marketing cost, because most work comes through referrals from law enforcement, coroners, and property managers who have nowhere else to send it.

What Biohazard Remediation Includes

Crime scene and trauma cleanup, unattended death cleanup, hoarding remediation, communicable disease decontamination, and methamphetamine lab cleanup. Each category has distinct compliance requirements, pricing, and referral channels. Typical pricing: \$3,000-\$8,000 for standard residential trauma scenes, \$15,000-\$40,000 for large-scale unattended death scenes, \$2,000-\$20,000+ for hoarding cleanouts depending on scope.

Compliance Requirements

OSHA Bloodborne Pathogen Standard (29 CFR 1910.1030) requires annual training for all employees who may contact biohazardous materials. Biohazardous waste must be disposed of through licensed medical waste haulers — not standard dumpsters. Some states require specific contractor licensing for biohazard work. Vehicles may require specific markings and secondary containment.

Building the Referral Network

Biohazard work comes through law enforcement (victim services coordinators and detectives), coroner and medical examiner offices, property management companies, social services agencies, and funeral homes. Developing relationships in these channels — not consumer marketing — is the business development model for biohazard work.

FAQ

What certifications are needed for biohazard cleanup?

OSHA Bloodborne Pathogen training is required annually for all employees who may contact biohazardous materials. The American Bio Recovery Association (ABRA) offers a Certified Bio Recovery Technician

(CBRT) credential. Some states require specific licensing — verify state requirements.

Is biohazard cleanup covered by homeowner insurance?

Coverage varies by policy. Some homeowner policies cover crime scene cleanup under liability provisions. Unattended death cleanup is sometimes covered under dwelling coverage. Many families pay out-of-pocket.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- CAT Mobilization Economics
- Contents Restoration
- Contents Division Economics

Busy Is a Schedule, Not a Margin: Inside a 40-Job Month

Source: <https://profitdetective.net/profit-detective-files-mold-company-turnaround-2/> Published: May 1, 2026

Forty jobs a month. Revenue \$2.4M and climbing. An accountant who said the business was profitable. And a bank account overdrawn twice in one quarter — both times covered quietly out of personal savings.

“I’m not losing money,” she told me. “The P&L says I’m making money. So where is it going?” Let me walk her month the way I walked it — because in a company this busy, the money doesn’t leave in one place. It leaves in four.

Leak One: Prices Borrowed from Competitors

Her actual cost on a standard residential remediation was \$11.40 per square foot. She was pricing some jobs at \$15 and some at \$22 with no consistent logic — sharper on price where she wanted volume. Blended, she ran 29% gross margin. She believed she was running 38%. Pricing from what the competitor charges, instead of from what the work costs, doesn’t feel like a leak. It feels like being competitive.

Leak Two: Containment, Estimated at Half Its Cost

Her technicians spent 4–6 labor hours on containment setup and breakdown per job. Her estimates allowed 2. Containment materials ran 40% below actual on complex jobs. At 40 jobs a month, that one estimating habit was leaving \$18,000–\$22,000 a month of cost unrecovered — every month, on schedule, like a bill she was paying herself.

Leak Three: The Reliable Accounts Were the Worst Ones

Her two most dependable commercial accounts — flat per-square-foot rates negotiated two years earlier — contributed about 14% gross margin. The residential work she sometimes turned away to protect commercial capacity ran 35–42%. She was prioritizing her worst-margin work because it was her most predictable work. Busy and broke is usually this, underneath: the calendar full of the wrong jobs.

Leak Four: Growth with No Bridge

Commercial payment cycles ran 60–70 days. She was floating \$180,000–\$220,000 of completed, unpaid work at any moment with no line of credit at all. Growth had outrun her working capital, and the gap was being bridged by her personal savings — the most expensive and least sustainable financing in the industry.

What the Next Months Looked Like

Pricing rebuilt from cost up. Containment allowances reset by room count and square footage. Both commercial accounts repriced — one accepted on the spot; the other pushed back, then accepted when she held her floor. A \$250,000 revolving line of credit put a real bridge under the payment cycle. Revenue ended up similar. Gross margin moved from 29% to 41%. Her personal savings haven't been touched since.

Well-executed mold remediation should return 45–60% gross margin. Below 35%, the problem is pricing or cost control — and it is findable. The complete case file is *The Profit Detective Files: The Mold Company That Was Busy and Broke*.

Related reading

- *The Mold Company That Was Busy and Broke*
- *What I Found in a \$2.3M Alberta Restoration Company With No Cash*
- *The Franchise Owner Who Didn't Know What His Company Was Worth*

Mike McCabe is *The Profit Detective* — a Master Cleaner, Master Restorer, and 36-year restoration business veteran.

Contents Restoration: The High-Margin Service Most Restoration Companies Give Away

Source: <https://profitdetective.net/restoration-company-contents-division-profit/> Published: May 1, 2026

What is contents restoration in property damage restoration? Contents restoration is the cleaning, deodorizing, inventorying, packing, storing, and restoring of personal property and business contents damaged by fire, water, mold, or smoke. It is a \$5 billion annual revenue segment frequently subcontracted by general restoration companies, representing significant margin leakage.

Contents Restoration: The High-Margin Service Most Restoration Companies Give Away

Contents restoration generates approximately \$5 billion in annual revenue across the restoration industry. Most of that revenue is captured by specialty contents companies and franchise networks with in-house contents capabilities. The independent restoration operator who responds to the loss, dries the structure, and refers the contents work to a specialty house captures a fraction of the total job value while doing most of the customer relationship work. That referral is a margin leak.

What Contents Restoration Actually Involves

Pack-out, cleaning and restoration, storage, inventorying, and return and installation — each phase is separately billable. A contents job on a significant fire or water loss can run \$15,000–\$80,000. Pack-out alone on a residential fire runs \$2,000–\$8,000 and requires only a vehicle, packing materials, and an inventory system to

capture in-house.

The Economics of Contents vs. Structural Work

Contents restoration margins are strong because labor is specialized but not licensed, facility leverage allows multiple jobs to be processed simultaneously, storage is passive recurring revenue, and pack-out captures the customer relationship during the longest phase of reconstruction — a referral generation opportunity most companies give to a third party.

The Build-vs-Refer Decision

Building an in-house contents division requires \$75,000–\$150,000 in startup investment. For a \$3M+ restoration company with regular fire and water losses, the contents revenue opportunity typically exceeds \$300,000–\$500,000 annually, making payback 6–18 months. The first step for companies not yet ready to build: capture pack-out in-house immediately. Startup cost under \$10,000; revenue per significant residential fire pack-out \$2,000–\$8,000.

FAQ

What is ultrasonic cleaning in contents restoration?

Ultrasonic cleaning uses high-frequency sound waves in a liquid medium to clean hard goods — electronics, metals, glass, ceramics — removing soot, smoke residue, and contamination without abrasive contact. It's a specialty capability that justifies premium pricing on electronics and valuables restoration.

How is contents storage billed in restoration?

Contents storage is typically billed monthly per cubic foot of climate-controlled storage occupied. Rates vary by market but typically run \$1.50–\$3.00 per cubic foot per month.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- CAT Mobilization Economics
- Biohazard and Specialty Cleaning
- Contents Division Economics

Water Damage Restoration Margins: Closing the Gap Between Estimate and Profit

Source: <https://profitdetective.net/water-damage-restoration-gross-margin-improvement/> Published: May 1, 2026

What gross margin should water damage restoration produce? Water damage mitigation should generate 60–75% gross margin on properly priced, efficiently executed work. Companies running below 50% typically have labor deployment inefficiencies, equipment utilization problems, or are underpricing relative to their actual cost structure.

Water Damage Restoration Margins: Closing the Gap Between Estimate and Profit

Water damage mitigation is structurally the best margin service in restoration. Equipment does most of the work. Labor intensity is concentrated in setup and teardown. Once the equipment is running, a single technician can monitor multiple jobs. The margin potential is 60–75% gross on properly executed work.

Most companies don't achieve it. Here's why, and how to close the gap.

The Four Margin Gaps in Water Mitigation

Gap 1: Over-Deployment of Equipment

Equipment deployment decisions should be driven by IICRC S500 psychrometric calculations — the right number of air movers and dehumidifiers for the measured moisture load. Companies that deploy equipment by habit or “more is better” intuition rather than psychrometric calculation are doing two things wrong: they're providing substandard drying (incorrect equipment mix for actual conditions) and destroying margin on unnecessary equipment days.

Gap 2: Slow Job Cycle Times

Equipment that sits on jobs longer than necessary because monitoring visits aren't scheduled, moisture readings aren't taken on time, or technicians don't have authority to pull equipment independently is a direct margin problem. Every unnecessary day of equipment time is equipment depreciation and lost opportunity cost with no corresponding revenue.

Gap 3: Incomplete Documentation

Water mitigation revenue that can't be collected because documentation doesn't support billing is margin destruction at the collection stage. The most common documentation gaps: incomplete psychrometric logs, missing equipment serial numbers in billing, no photos of moisture readings, and absent scope-of-work documentation for each demo and pack-out action.

Gap 4: Underpriced Initial Scope

Water mitigation scopes written at first response, before full moisture mapping, consistently miss affected areas — especially in multi-story buildings, finished basements, and structures with complex assemblies. A proper first-response protocol includes full moisture mapping before scope commitment, even when that delays the initial estimate by a few hours.

FAQ

What is the IICRC S500 standard?

IICRC S500 is the Standard and Reference Guide for Professional Water Damage Restoration. It establishes the protocols for water damage assessment, moisture mapping, equipment deployment calculations, drying validation, and documentation. It is the foundational technical standard for the water damage restoration industry.

How do I improve my water damage restoration gross margin?

The highest-impact actions are: (1) implement psychrometric-based equipment deployment, (2) reduce average job cycle time through proactive monitoring scheduling, (3) standardize documentation to eliminate billing disputes, and (4) train estimators to complete full moisture mapping before initial scope commitment.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Master Restorer who has improved water damage mitigation margin for restoration companies across North America.

Related reading

- WIP Management for Restoration Companies
- Category 3 Water Damage
- Mold Remediation Profit Margins

Overhead Control in Restoration: The Expense Lines That Kill Profit

Source: <https://profitdetective.net/restoration-company-overhead-control/> Published: May 1, 2026

What is the right overhead ratio for a restoration company? A well-managed restoration company should run overhead at 22–28% of revenue. Companies above 30% are typically overstaffed in administrative roles, over-invested in facilities, carrying underutilized equipment, or spending excessively on vehicles relative to their revenue base.

Overhead Control in Restoration: The Expense Lines That Kill Profit

Overhead is the silent profit killer in restoration. Unlike direct job costs, which scale with revenue, overhead is largely fixed — and when revenue plateaus or dips, overhead doesn't shrink with it. Companies that grew into their overhead structure during high-revenue periods often find themselves in serious profit trouble when volume normalizes.

The Five Overhead Categories to Audit

1. Administrative Payroll

Administrative payroll — office staff, coordinators, estimating support, bookkeeping — should run 8–12% of revenue in a well-structured company. Above 15% is a warning sign. Common problems: too many low-productivity administrative roles, owner family members in salaried positions without commensurate output, and administrative staff hired ahead of revenue that then didn't materialize.

2. Vehicle Fleet

Vehicle cost — payments, insurance, fuel, maintenance — is one of the most commonly over-scaled overhead categories in restoration. A useful benchmark: vehicle fleet cost should not exceed 6–8% of revenue. Companies with more vehicles than active crews are carrying overhead without corresponding revenue capacity.

3. Equipment Depreciation and Financing

Restoration equipment — air movers, dehumidifiers, specialty drying equipment — depreciates rapidly and requires regular replacement. Companies that have financed equipment purchases beyond their revenue base carry financing costs that compress margin. Benchmark: equipment-related costs (depreciation + financing)

should not exceed 4–6% of revenue.

4. Facilities

Office and warehouse space costs should run 2–4% of revenue. Companies in expensive commercial real estate markets often find facilities costs at 6–8% — this is a structural overhead problem that's difficult to reduce quickly but worth addressing at lease renewal.

5. Owner Compensation vs. Profit Distribution

Many restoration company owners take total compensation (salary + distributions) that's appropriate for their business size but incorrectly categorize the distribution component as profit. If owner compensation is understated relative to a market salary for their role, the P&L will show phantom profit. Proper analysis requires benchmarking owner salary to market and treating excess draws as profit.

FAQ

How do I reduce overhead in my restoration company?

Overhead reduction follows a diagnostic sequence: identify the specific categories running above benchmark, determine whether the excess reflects scale mismatch (infrastructure built for revenue that didn't materialize) or inefficiency (duplicate roles, unused space), and then address the largest variances first. Administrative payroll and vehicle fleet are typically the two categories with the most actionable reduction potential.

What should overhead be as a percentage of revenue in restoration?

Target overhead of 22–28% of revenue for a stable, mature restoration operation. During active growth investment phases, 28–32% is acceptable. Consistently above 30% in a stable-revenue environment indicates an overhead problem requiring diagnosis.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran who has identified and resolved overhead structure problems for 150+ restoration companies.

Related reading

- WIP Management for Restoration Companies
- Overhead Allocation in Restoration
- Water Damage Restoration Margins

Mold Remediation Profit Margins: Why This Service Line Underperforms

Source: <https://profitdetective.net/mold-remediation-business-profit-margins/> Published: May 1, 2026

What are typical mold remediation profit margins? Mold remediation gross margins should run 55–65% on properly scoped and priced work. Companies consistently running below 45% typically have scope underestimation, containment cost overruns, or subcontractor dependencies that erode margin. The service is inherently high-margin when executed with cost discipline.

Mold Remediation Profit Margins: Why This Service Line Underperforms

Mold remediation is a specialty service that commands premium pricing — customers pay for expertise, certification, and the assurance that the job is done correctly. The gross margin potential is exceptional. Yet most restoration companies that offer mold remediation run margins below what the service should produce. Here's the diagnostic.

The Four Margin Killers in Mold Remediation

1. Scope Underestimation

Mold scope is often larger than what's visible. Mold behind drywall, inside wall cavities, in subfloor assemblies, and in HVAC systems is invisible at the time of initial assessment. Scopes written before exploratory demolition consistently miss containment and remediation extent — and mid-job scope additions are harder to collect than initial estimates.

The fix: Build phased scope protocols that explicitly flag exploratory demolition as a required first step before final scope commitment. Charge for the exploratory phase. Set adjuster and customer expectations upfront that initial scope is provisional.

2. Containment Cost Overruns

Proper mold containment — critical barriers, negative air pressure, decontamination chambers — is expensive in labor and materials. Companies that underprice containment to win jobs then discover the actual cost during execution. Every hour of containment setup and teardown that isn't priced correctly is margin erosion.

3. Third-Party Testing Dependency

Many states require or customers demand third-party clearance testing, which is controlled by an industrial hygienist the company doesn't employ. When clearance testing delays job close — because the IH isn't available for two days, or because the first clearance test fails — those delay costs come out of margin.

4. Subcontractor Dependency

Companies that subcontract mold remediation work pay 50–70 cents of every dollar to the subcontractor while bearing the client relationship, overhead, and liability. The margin on pass-through work is structurally limited.

The Margin Recovery Protocol

To recover mold remediation margin, companies need to: (1) build phased scope protocols with exploratory allowances, (2) cost-engineer containment setups by job type and size, (3) develop preferred IH relationships that provide reliable clearance timing, and (4) bring remediation in-house with certified technicians rather than subcontracting.

FAQ

What certifications are required for mold remediation?

IICRC AMRT (Applied Microbial Remediation Technician) is the industry standard certification for mold remediation technicians. Many states have additional licensing requirements. Some states require a separate mold remediation contractor license distinct from a general contractor license.

What is a mold clearance test?

A mold clearance test is a post-remediation air quality or surface sample test conducted by an independent industrial hygienist to verify that mold levels have been reduced to acceptable background levels following remediation. Clearance testing is required in some states and recommended as standard practice in most professional remediation work.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Master Restorer who has diagnosed mold remediation margin problems for restoration companies across North America.

Related reading

- WIP Management for Restoration Companies
- Water Damage Restoration Margins
- Pricing by Job Type in Restoration

The 30-Minute Profit Leak Self-Test: Score Your Restoration Company in 8 Zones

Source: <https://profitdetective.net/where-is-your-profit-hiding-restoration-diagnostic-2/> Published: May 1, 2026

Most restoration owners I meet can tell me their revenue to the dollar. Far fewer can tell me where the profit went. This self-test is the fast version of the diagnostic I run in the first half hour of an engagement. Eight zones. For each one, score yourself honestly: **2** if you can produce the number today, **1** if you could get it within a week, **0** if you are guessing.

Zone 1 — Estimating Accuracy

What is your estimate-to-actual variance by job type, and does anyone track it? Every missed line item and every labor hour figured at the wrong burden rate is a margin problem that starts before the job does. Companies that close the estimating gap typically see 3–7% improvement in gross margin within 60 days.

Zone 2 — Job Costing Discipline

Can you state your actual gross margin on your last 10 jobs — not the estimate, the actual? Most companies track revenue by job. Far fewer track actual cost by job, including labor burden, equipment depreciation, and subcontractor margin.

Zone 3 — Cash Flow Timing

What is your AR aging by payer type, and how does your cash position track against your P&L? In TPA-driven work, the average time from job completion to payment runs 45–90 days. Profitable on paper and broke in practice is a timing problem before it is anything else.

Zone 4 — Labor Productivity

Labor is 30–40% of revenue in a typical restoration company — the single largest cost you carry. What is your billable hours ratio this month, and how does it compare to the same period last year?

Zone 5 — Sales Conversion and Pipeline

Emergency calls close themselves. The real conversion problem is commercial accounts, referral networks, and program work. When did you last lose a commercial account — and do you actually know why?

Zone 6 — Leadership Bottlenecks

In companies under \$5M, the owner is usually the primary estimator, salesperson, quality control, and problem-solver. List the decisions that can only you make. Then mark the ones that shouldn't require you.

Zone 7 — TPA and Carrier Relationships

Program rates were often negotiated years ago and no longer reflect your cost structure. Do you know your actual margin on program work versus non-program work, broken down by carrier?

Zone 8 — Overhead Bloat

As restoration companies grow, overhead tends to grow faster than revenue. What is your overhead as a percentage of revenue today versus two years ago — and which line items drove the increase?

Scoring Your Test

13–16: You are running on instruments. Your leaks, if any, are small and specific. **8–12:** You have real visibility in some zones and blind spots in others — the blind spots are where the money is going. **0–7:** You are flying on revenue and a bank balance. That works until the month it doesn't, and it always picks a bad month. In my experience, most owners who take this test find one or two zones where the gap is significant — and where closing it is straightforward once they can see it. The hardest part isn't the fix. It's being willing to look.

The longer version of this framework — including how to run the full five-step diagnostic on your last 12 months of jobs — is in *Where Is Your Profit Hiding? A Restoration Owner's Diagnostic*.

Related reading

- *Where Is Your Profit Hiding? A Restoration Owner's Diagnostic*
- *The Job Lifecycle Profit Map*
- *Restoration Company Profit Margin Benchmarks*

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration business consultant. He has worked personally with 150+ restoration companies across North America.

Restoration Company Profit Margin Benchmarks: Where Do You Actually Stand?

Source: <https://profitdetective.net/restoration-company-profit-margin-benchmarks/> Published: April 7, 2026

What is a good profit margin for a restoration company? Well-managed restoration companies achieve 8–15% net margin and 45–60% gross margin on water mitigation services. Margins vary significantly by service type, business mix, and operational discipline. Below 5% net margin indicates structural problems requiring diagnostic attention.

Most restoration owners don't know how their margins compare to well-run competitors. This isn't because the information doesn't exist — the RIA publishes Cost of Doing Business Survey data annually, franchise networks share performance benchmarks, and industry consultants track the data across their client portfolios. The problem is that most owners are too busy running the business to access the data, and when they do access it, they don't know how to apply it. Here are the benchmarks that matter, what drives variation, and how to use the data.

Gross Margin Benchmarks by Service Type

Gross margin is revenue minus direct costs (labor, materials, equipment, subcontractors), before overhead. It measures whether the core work is profitable at the job level.

- **Water mitigation (residential):** 55–70% gross margin for well-executed residential water mitigation. Below 45% indicates pricing or cost control problems.
- **Fire and smoke restoration:** 50–65% gross margin. Fire jobs typically have higher material costs that compress margin vs. water work.
- **Mold remediation:** 45–60% gross margin. Containment costs are the most commonly missed expense that compresses mold margins.
- **Reconstruction:** 30–45% gross margin. Lower than mitigation, but the absolute dollar margin on large reconstruction jobs can be significant.
- **Commercial large loss:** 40–55% gross margin. More subcontractor cost and management overhead compresses unit margins but can produce high absolute profit on large jobs.

Net Margin Benchmarks by Revenue Tier

Net margin is what's left after overhead — the actual profit the business produces. Industry benchmarks from the RIA COBD survey and industry consulting data suggest:

- **Under \$2M revenue:** 5–12% net margin. Small companies have high overhead-to-revenue ratios. Best performers at this size run 10–12%.
- **\$2M–\$5M revenue:** 8–15% net margin. The sweet spot for restoration profitability if overhead is managed and job costing is in place. Best performers run 12–18%.
- **\$5M–\$10M revenue:** 7–14% net margin. Growing companies often see temporary margin compression as they invest in management infrastructure. Well-managed companies maintain 10–14%.
- **Over \$10M revenue:** 8–15% net margin. Scale provides overhead leverage. Best performers achieve 12–15%+.

Overhead Benchmarks

Overhead (indirect costs not tied to specific jobs) typically runs 30–45% of revenue. The major overhead categories and their typical ranges:

- Indirect labor (management, admin, sales): 12–18% of revenue
- Facility costs (rent, utilities, storage): 3–6% of revenue
- Vehicle and equipment overhead: 4–8% of revenue

- Marketing and business development: 2–5% of revenue
- Insurance (GL, auto, umbrella): 2–4% of revenue
- Technology and software: 0.5–1.5% of revenue

Overhead above 45% of revenue indicates structural problems. The most common: too much facility for the revenue level, excessive vehicle fleet, or indirect labor that hasn't scaled appropriately.

What Drives Margin Variation

The gap between top performers (15%+ net margin) and average performers (5–8%) comes from five factors: job costing discipline (top performers measure margin at the job level and use the data to improve), pricing from cost up (top performers know their cost per job type and price above it consistently), commercial vs. residential mix (commercial accounts with negotiated rates often run lower margin than residential insurance work), supplement management (top performers capture 85%+ supplement approval rates), and overhead management (top performers review overhead monthly and eliminate costs that don't produce revenue).

Frequently Asked Questions

Where can restoration companies find industry benchmark data?

The Restoration Industry Association (RIA) publishes the Cost of Doing Business (COBD) survey annually, providing benchmark data on revenue, gross margin, overhead ratios, and net margin by company size. It's the most comprehensive restoration-specific financial benchmark available and worth reviewing annually against your own numbers.

What is the difference between gross margin and net margin?

Gross margin is revenue minus direct job costs, expressed as a percentage of revenue. Net margin is gross margin minus overhead expenses. Gross margin measures job-level profitability — “what's left after paying for the work?” Net margin measures company-level profitability — “what's left after paying for everything?” Both matter, and understanding the difference between them is the foundation of restoration financial management.

Is a 10% net margin good for a restoration company?

A 10% net margin is at the lower end of good for a well-run restoration company. Best-in-class operators achieve 12–18%. Below 8% indicates opportunities for improvement. Below 5% is a diagnostic red flag — typically indicating a combination of pricing problems, cost control gaps, and overhead that hasn't been optimized for the current revenue level.

How does franchise affiliation affect restoration margins?

Franchise royalties (typically 5–10% of revenue) are a direct overhead cost that reduces net margin compared to independent operators with the same gross margin. The franchise benefit — brand recognition, TPA access, support systems, and peer network — should produce enough revenue premium to offset the royalty cost. Whether it does is a company-specific calculation that deserves annual review.

What is the RIA Cost of Doing Business Survey?

The RIA COBD survey is an annual industry benchmark report compiled from financial data submitted by participating restoration companies. It provides averages and ranges for revenue, margins, overhead categories,

and other key financial metrics by company size. It's the standard benchmark reference for the restoration industry and is available to RIA members.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration business consultant. He has worked personally with 150+ restoration companies across North America, diagnosing the profit leaks that most owners never see on a P&L. He serves as Fractional Operations Manager at Floodlight Consulting Group and speaks at major industry events including the DKI Canada AGM. Book a free diagnostic conversation at calendly.com/profitdetective.

Related reading

- Where Is Your Profit Hiding? A Restoration Owner's Diagnostic
- The Job Lifecycle Profit Map
- Red Flags Bankers Should Notice in Restoration Company Financials

Subcontractor Management for Restoration Companies: Protecting Margin on Every Job

Source: <https://profitdetective.net/restoration-company-subcontractor-management/> Published: April 7, 2026

What is subcontractor management in restoration? Subcontractor management is the process of selecting, contracting, supervising, and paying specialty trade contractors — electrical, plumbing, flooring, framing, painting — who perform reconstruction work on restoration jobs. Poor subcontractor management is one of the most common causes of margin erosion on reconstruction projects.

Reconstruction jobs live or die on subcontractor management. In water mitigation, you control the crew, the equipment, and the daily work directly. In reconstruction, a significant portion of the work is performed by specialty subcontractors — each with their own labor rates, material costs, and scheduling priorities. Every subcontractor relationship introduces margin risk: subs who underbid and invoice above their quote, subs who create scheduling delays, subs without proper insurance, subs whose work quality generates callbacks. Here's how to build the system that minimizes these risks.

The Subcontractor Qualification Process

Every subcontractor you use on a job is an extension of your company in the eyes of the customer and the insurance carrier. Their insurance, licensing, quality, and professionalism all reflect on you. Minimum qualification requirements before a subcontractor works on your jobs:

- **Insurance verification:** Certificate of insurance showing current general liability (minimum \$1M per occurrence/\$2M aggregate) and workers' compensation coverage. The certificate must name your company as an additional insured. Maintain a tracking system that alerts you when certificates are expiring.
- **Licensing verification:** Verify current state licensing for the applicable trade through your state's contractor licensing board. Unlicensed subcontractor work creates liability exposure for your company as the general contractor.
- **Reference check:** Two or three references from other restoration or general contractors. Ask specifically about invoicing accuracy, schedule adherence, and quality.

- **Trial job:** The first job with a new subcontractor should be a lower-complexity assignment where the risk is manageable. Evaluate performance before using them on complex or high-value projects.

The Subcontractor Agreement

Every subcontractor should sign a written subcontractor agreement before starting any work. At minimum, the agreement should specify: scope of work for the specific project, payment terms (Net 30 from invoice approval is standard), insurance requirements with your company as additional insured, change order requirements (no additional charges without written approval), warranty for their work (typically 1 year for labor), dispute resolution process, and indemnification clause. A subcontractor who refuses to sign an agreement is not a subcontractor you should use.

Protecting Margin on Subcontracted Work

The GC Markup

As the general contractor on reconstruction, you are entitled to a markup on subcontractor work that covers your general condition costs — job oversight, coordination, insurance, warranty liability, and profit. In Xactimate, this is the overhead and profit line item (O&P), typically 10% overhead and 10% profit. Many TPA programs attempt to eliminate or reduce O&P on reconstruction. If your coordination and oversight cost is 12% of subcontractor invoices, accepting 0% O&P means you're losing money on every subcontract you manage. Know your actual coordination cost before you negotiate program terms.

Change Order Discipline

No scope changes without written change orders. This is the single most important rule of subcontractor management. When a framing subcontractor encounters additional structural damage during demo, they should stop, notify the PM, and not proceed until a change order is written and approved — by you, not by the customer directly. Train your subcontractors explicitly: all scope changes go through the PM. Customers do not authorize scope expansions. Subcontractors who take direction from the customer and invoice you for the additional work create scope and billing chaos that is almost impossible to resolve after the fact.

Invoice Review Before Payment

Every subcontractor invoice should be reviewed line by line against the approved scope of work, any approved change orders, and the quantities in the estimate vs. actual quantities installed. Subcontractor invoices that include unapproved scope or quantities that don't match the job should be disputed before payment. Once paid, recovering overpayments from subcontractors is difficult and often impossible.

Frequently Asked Questions

What is a certificate of insurance in construction?

A certificate of insurance is a document issued by an insurer that verifies a contractor's current insurance coverage, including coverage types, limits, and effective dates. Requiring certificates from all subcontractors — with your company as additional insured — protects you from liability for subcontractor accidents and negligence on your job sites.

What is additional insured status in construction insurance?

Additional insured status means your company is listed on the subcontractor's insurance policy as a protected party. If a subcontractor causes damage or injury on your job site, their insurance covers the claim as if you were an original insured. This protection requires explicit additional insured endorsement — a certificate of insurance alone is not sufficient.

What is a subcontractor lien waiver?

A lien waiver is a document signed by a subcontractor acknowledging receipt of payment and waiving their right to file a mechanic's lien against the property for the amount paid. Collecting lien waivers at payment prevents subcontractors from filing liens against your customer's property for amounts you've already paid — a situation that creates legal complications for the property owner and damages your relationship.

How do you handle a subcontractor who invoices above their quote?

Review the original quote and approved change orders. Pay only the approved scope at the approved rates. Dispute any line items not covered by the original quote or approved change orders in writing before payment. Subcontractors who consistently invoice above quote are candidates for replacement. Pattern behavior tells you everything you need to know about how a subcontractor manages their business.

What is a mechanic's lien in construction?

A mechanic's lien is a legal claim against a property filed by a contractor or subcontractor who has provided services or materials but hasn't been paid. Mechanic's liens can complicate property sales and refinancing, damage your customer relationship, and expose you to legal liability. Managing subcontractor payments and collecting lien waivers at each payment prevents lien exposure on your projects.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration business consultant. He has worked personally with 150+ restoration companies across North America, diagnosing the profit leaks that most owners never see on a P&L. He serves as Fractional Operations Manager at Floodlight Consulting Group and speaks at major industry events including the DKI Canada AGM. Book a free diagnostic conversation at calendly.com/profitdetective.

Related reading

- Equipment and Fleet Economics for Restoration Companies
- Subcontractor Management System for Restoration Companies
- Equipment Management for Restoration Companies

The Profit Detective Files: The Commercial Restoration Company Bleeding Cash on Its Best Client

Source: <https://profitdetective.net/restoration-company-profitdetective-files-commercial-turnaround/>

Published: April 7, 2026

Can a commercial restoration account be unprofitable? Yes — commercial accounts with below-cost TPA rates, high compliance overhead, and slow payment cycles can be margin-negative even at significant revenue volume. Companies that grow their commercial book without job-level cost tracking often discover their largest accounts are their least profitable.

The Profit Detective Files is a series of case studies from 36 years of restoration business diagnostics. Details are changed to protect client confidentiality. The numbers and the outcomes are real.

The owner was proud of this client. A national property management company with 180 commercial properties across three states. The account had taken 18 months to develop and had been the centerpiece of his commercial growth strategy for three years. It represented \$1.4M of his \$6.1M annual revenue. “It’s our flagship relationship,” he told me. When I asked what his margin was on this account, he paused. “About the same as our other commercial work. Maybe a little lower because of the volume discount we gave to win the contract.” I asked to see the job cost reports for the account for the previous 12 months. He didn’t have job cost reports segmented by account. We built them together. It took two weeks. What we found changed his understanding of his own business.

What the Analysis Revealed

Finding 1: The Account Was Running 11% Gross Margin

When we allocated actual labor burden, equipment depreciation, vehicle cost per job, and the compliance overhead required by this client’s reporting standards, the \$1.4M account was generating \$154,000 in gross profit — 11% gross margin. His other commercial work — non-program, relationship-driven jobs — was running 41% gross margin. The flagship account was his worst-performing revenue segment.

Finding 2: Compliance Cost Was Never Accounted For

This client’s contract required daily photo uploads to a proprietary portal, weekly written progress reports, a specific reporting format requiring 2–3 hours of PM administrative time per job, and quarterly account review meetings. None of this compliance cost had ever been included in the pricing model. When we calculated it: approximately \$12,600 annually that was absorbed as invisible overhead on every job.

Finding 3: Payment Was Running 94 Days Average

The client’s AP process routed invoices through a three-tier approval system. The contract specified Net 60. The reality was 94 days average. On \$1.4M annual revenue with 94-day payment cycles, the company was floating an average of \$360,000 in outstanding AR from this single account. The working capital cost of financing this gap at their 8% line of credit rate: approximately \$28,800 per year — also never included in the account’s profitability analysis.

The Real Margin

- Gross profit before adjustments: \$154,000 (11%)
- Compliance overhead: -\$12,600
- Cash flow cost: -\$28,800
- **Adjusted contribution: \$112,600 (8%)**

His flagship account was contributing 8 cents of profit for every dollar of revenue. At 41% margin, that same \$1.4M would have produced \$574,000 in gross profit. The account was costing him \$461,400 in margin opportunity annually — not counting the owner time invested in the relationship.

What Changed

Reprice: He went to the client with documentation of his actual cost structure, requesting a 12% rate increase. After negotiation, he received 9% — still below his other commercial work but meaningfully better. Gross margin improved to 19%.

Reduce: He applied a policy of declining jobs from this account below \$8,000 in value — small jobs with disproportionate compliance overhead. This reduced volume by 15% while improving average margin.

Redirect: He stopped actively investing in growing this account and redirected his commercial development effort toward fee-based direct commercial relationships with better economics. Within 18 months, the new commercial work was delivering 35%+ margins.

The Lesson

You cannot manage what you don't measure. This owner had three years of financial data. He had no account-level profitability data. The most important financial fact about his business was invisible to him because he'd never built the system to see it. Job-level cost tracking, allocated by account, is not an advanced financial practice. It's the minimum you need to know which of your clients are actually making you money.

Frequently Asked Questions

How do you calculate account-level profitability in restoration?

Aggregate all job cost reports for jobs attributed to a specific client over 12 months. Calculate total revenue, total direct cost, and gross profit. Then subtract account-specific overhead (compliance cost, account management time, reporting requirements) to calculate true account contribution. Don't forget the cash flow cost of long payment cycles — this is real economic cost that rarely appears in standard analysis.

Is it acceptable to fire a commercial restoration client?

Yes. Walking away from below-cost relationships is a strategic decision, not a failure. The most common approach is price renegotiation first — present actual costs and request rate adjustment. If the client won't accept a price that produces acceptable margin, declining renewal is the rational outcome. You cannot grow a profitable business by accumulating unprofitable accounts.

How often should restoration companies review account-level profitability?

Annually at minimum. Semi-annually for your top 5–10 clients by revenue. The accounts you believe are most important deserve the most scrutiny — because the assumptions that made them attractive may no longer be true. Cost structures change, compliance requirements expand, and payment cycles drift over time.

What is compliance overhead in commercial restoration?

Compliance overhead is the administrative cost of meeting a commercial client's reporting, documentation, and communication requirements beyond standard restoration practice. This includes proprietary portal management, custom report formats, required meetings, and any certification or training requirements specific to that client's program. It is a real cost that must be priced into the work.

Can a restoration company grow revenue while profitability declines?

Yes — and this is one of the most common patterns in growing restoration companies. Revenue can grow through low-margin accounts and high-volume TPA work while actual profit dollars grow more slowly or even

decline. Revenue growth without margin discipline is an operational trap that can take years to recognize and is typically only visible through account-level profitability analysis.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration business consultant. He has worked personally with 150+ restoration companies across North America, diagnosing the profit leaks that most owners never see on a P&L. He serves as Fractional Operations Manager at Floodlight Consulting Group and speaks at major industry events including the DKI Canada AGM. Book a free diagnostic conversation at calendly.com/profitdetective.

Related reading

- The Franchise Owner Who Didn't Know What His Company Was Worth
- How Restoration Companies Keep Their Best Commercial Accounts
- What I Found in a \$2.3M Alberta Restoration Company With No Cash

Cash Flow vs. Profit: The Difference That Kills Restoration Companies

Source: <https://profitdetective.net/cash-flow-vs-profit-restoration-companies/> Published: April 7, 2026

What is the difference between cash flow and profit in restoration? Profit is the difference between revenue and costs on a P&L. Cash flow is the actual movement of money into and out of your bank account. In restoration, the gap between the two — driven by slow TPA payment cycles and front-loaded job costs — is the most common financial crisis in the industry.

I've sat across the table from restoration owners who had profitable companies that were out of cash. Not struggling. Not declining. Profitable — growing, even — and unable to make payroll without drawing on a line of credit they were paying 8% interest on.

This is the most misunderstood financial dynamic in the restoration industry. And it's the reason I spend more time on cash flow management in my diagnostic work than almost any other topic.

Why Restoration Is Structurally Prone to Cash Crises

The cash flow problem in restoration isn't a failure of management. It's a structural feature of the business model. Consider what happens on a typical water mitigation job:

- **Day 1:** Emergency call. Crew dispatched, equipment deployed. You begin spending money.
- **Days 1–14:** Daily labor, equipment, materials. Costs accumulate.
- **Day 14:** Job complete. Invoice submitted to TPA or carrier.
- **Day 30:** Invoice reviewed. Supplement request submitted.
- **Day 45:** Supplement approved (optimistically). Final invoice confirmed.
- **Day 75–90:** Payment received.

That's 75–90 days from the first dollar spent to the first dollar received. On a \$15,000 mitigation job, you may have spent \$8,000–\$10,000 in direct cost before you see any revenue. Multiply across 20, 30, or 50 simultaneous jobs — all in different stages — and you have a structural working capital requirement that grows proportionally with revenue. The faster you grow, the more cash you need to fund the gap.

The Profitability Trap

Here's what makes this particularly dangerous: your P&L looks fine. Revenue is accruing as jobs are completed and invoiced. Costs are posting as incurred. The bottom line shows a profit. But cash doesn't flow at the speed of accrual accounting. Cash flows at the speed of payment — which, in restoration, is slow.

Owners who manage their business by looking at the P&L are managing a financial picture that is 60–90 days ahead of their cash reality. They make hiring decisions, equipment purchases, and growth investments based on profit that hasn't converted to cash yet. When growth accelerates, this gap widens — which is why fast-growing restoration companies often experience their most acute cash crises at the moments of their greatest revenue success.

The Four Cash Flow Killers in Restoration

1. TPA Payment Cycles

60–90 day cycles are the baseline, and anything that triggers an invoice dispute or supplement review can extend them significantly. Understanding your actual average days-to-payment by TPA program is the foundation of cash flow management.

2. Front-Loaded Labor Cost

Emergency response, water extraction, and equipment setup happen in the first 24–48 hours — before a single dollar of revenue has been approved. This front-loading means your cash outflow precedes your cash inflow by the full duration of the job.

3. Reconstruction Milestone Billing

In reconstruction work, invoicing at project milestones rather than continuously means you can carry \$200,000 of work-in-progress for weeks without revenue. If your next milestone is three weeks away, you're funding that cost with working capital.

4. Equipment Investment Without Utilization Tracking

Drying equipment sitting in a warehouse is paying for itself without generating revenue. Poor equipment utilization is both a cash flow problem and a profitability problem — two compounding drains from the same root cause.

What Cash Flow Management Actually Looks Like

Cash flow management is not the same as watching your bank balance. It's the practice of forecasting, monitoring, and actively managing the timing of cash inflows and outflows to maintain adequate liquidity. Here are the five essential tools:

- **The 13-Week Cash Flow Forecast:** Project expected cash inflows (based on AR aging and historical payment timing) and outflows 13 weeks forward. Update weekly. This gives you visibility into cash shortfalls before they become crises.
- **AR Aging by Payer Type:** Track accounts receivable separately by payer type — TPA program, homeowner insurance, direct commercial, residential self-pay. Each has a different payment profile. The gap between them is your working capital drain.

- **Invoice Immediately:** Invoices go out within 24 hours of job completion. Every day of delay is money you're lending the insurance company for free.
- **Manage Your Supplement Process:** Supplements over \$500 should be submitted within 72 hours of scope identification. Assign ownership. Set deadlines. A supplement sitting in queue is cash sitting unpaid.
- **Negotiate Payment Terms Where You Can:** Direct commercial accounts often have more flexibility than TPA programs. Net-30 from invoice submission is achievable with clients who value your relationship. Each day you shorten the cycle is a day of working capital freed.

Frequently Asked Questions

What is a 13-week cash flow forecast?

A 13-week cash flow forecast is a rolling weekly projection of expected cash inflows and outflows for the next quarter. It's the standard tool for managing working capital in service businesses with variable payment timing. It catches shortfalls 4–8 weeks before they hit your bank account — when you still have options.

How do I improve cash flow in my restoration company?

The highest-impact actions: invoice immediately upon job completion, submit supplements within 72 hours, negotiate shorter payment terms with direct accounts, and build a 13-week cash flow forecast to anticipate shortfalls. Establishing a revolving line of credit before you need it is also essential — apply during a cash-positive period, not during a crisis.

What is AR aging in restoration?

AR aging is a report showing your outstanding invoices organized by how long they've been unpaid — 0–30 days, 31–60 days, 61–90 days, 90+ days. It's the primary tool for monitoring collection performance and forecasting when cash will be received. Any invoice in the 90+ bucket requires active intervention.

Can a profitable restoration company run out of cash?

Yes — and this is common in fast-growing restoration companies. When growth accelerates, the working capital required to fund the gap between job costs and payment receipt grows proportionally. Without adequate capital or credit facilities, a profitable company can experience acute cash crises that look identical to a failing business from the outside.

What is a good accounts receivable turnover for a restoration company?

Target average days-to-payment of 45 days or less for a well-managed restoration AR. TPA program work typically runs longer; direct commercial and residential insurance work can be managed to shorter cycles with active AR management. Above 75 days average is a red flag requiring immediate action.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration business consultant. He has worked personally with 150+ restoration companies across North America, diagnosing the profit leaks that most owners never see on a P&L. He serves as Fractional Operations Manager at Floodlight Consulting Group and speaks at major industry events including the DKI Canada AGM. Book a free diagnostic conversation at calendly.com/profitdetective.

Related reading

- Where Is Your Profit Hiding? A Restoration Owner's Diagnostic
- The Job Lifecycle Profit Map
- Restoration Company Profit Margin Benchmarks

Overhead Allocation in Restoration: How to Stop Guessing at Your Real Costs

Source: <https://profitdetective.net/restoration-company-overhead-allocation-job-costing/> Published: April 7, 2026

What is overhead allocation in restoration? Overhead allocation is the process of distributing indirect business costs — rent, admin salaries, insurance, vehicles, software — across individual jobs so each job bears its proportional share of the total cost of running the business. Without overhead allocation, job-level gross margin calculations overstate true profitability.

Here is a question I ask in every diagnostic engagement:

“When you look at your job margin, does it include overhead?”

Nearly every time, the answer is no. The job margin they're looking at shows revenue minus direct costs — labor, materials, equipment, subcontractors. Overhead sits in a separate bucket on the P&L and is never connected to individual jobs.

This disconnect produces a fundamental misunderstanding of what each job actually costs — and some dangerous business decisions as a result.

Why Overhead Allocation Matters

Imagine a water mitigation job that generates \$12,000 in revenue with \$5,400 in direct costs. The gross margin is 55% — strong by any measure. But the company has \$85,000 per month in overhead and runs 25 jobs per month. That's \$3,400 in overhead per job.

Subtract overhead from the gross profit (\$6,600) and the actual job contribution is \$3,200 — a 27% net margin. Not 55%. 27%.

Now run the same analysis on a \$4,000 emergency service job with a 58% gross margin:

- Gross profit: \$2,320
- Overhead allocation: \$3,400
- Job contribution: **-\$1,080**

This job is losing money on a fully-allocated basis. It generates gross profit but doesn't cover its share of overhead. Without overhead allocation, the owner sees a 58% gross margin and thinks the job is profitable. With allocation, they see the truth.

The Three Overhead Allocation Methods

Method 1: Per-Job Equal Allocation

Divide total monthly overhead by number of jobs. $\$85,000 \div 25 \text{ jobs} = \$3,400 \text{ per job}$.

Advantage: Simple and easy to implement immediately. **Disadvantage:** Doesn't account for job duration or size. A \$4,000 emergency call gets the same overhead allocation as a \$40,000 mitigation job. **Best for:** Companies at early stages of job costing who need any allocation model rather than none.

Method 2: Revenue-Proportional Allocation

Allocate overhead as a percentage of job revenue. $\$85,000 \text{ overhead} \div \$250,000 \text{ monthly revenue} = 34\%$ overhead rate. A \$12,000 job carries \$4,080 in overhead. A \$4,000 job carries \$1,360.

Advantage: Proportional to job value — larger jobs carry more overhead. **Disadvantage:** Doesn't account for job complexity or duration. **Best for:** Most restoration companies as a strong starting point.

Method 3: Labor-Hour-Based Allocation

Allocate overhead based on field labor hours per job. $\$85,000 \text{ overhead} \div 2,800 \text{ field labor hours/month} = \$30.36$ overhead per labor hour. A job requiring 80 field hours carries \$2,429 in overhead. A job requiring 200 hours carries \$6,072.

Advantage: Most accurate for companies where field labor time drives most overhead consumption.

Disadvantage: Requires accurate labor hour tracking by job. **Best for:** Companies with good labor hour tracking and significant variation in job size.

Implementing Overhead Allocation in Practice

You don't need a sophisticated accounting system to start. Here's the five-step implementation:

- **Calculate your total monthly overhead** — all costs except direct job costs (labor, materials, subs, equipment).
- **Choose your allocation method.** Revenue-proportional is the best starting point for most restoration companies.
- **Apply the allocation to your job cost reports monthly.** Add an overhead line to each job cost summary.
- **Review fully-loaded job margins by job type.** Which job types are profitable on a fully-loaded basis? Which aren't?
- **Act on the findings.** Reprice unprofitable job types. Decline work that can't be priced to cover fully-allocated costs.

What Overhead Allocation Usually Reveals

In my 36 years of running diagnostics, overhead allocation produces three consistent findings:

- **Emergency service calls are often money-losers** on a fully-allocated basis. They generate gross profit but are too short in duration to cover their overhead share. Companies that do high volume of small emergency calls subsidize them with larger mitigation and reconstruction jobs — often without knowing it.
- **Reconstruction margin is thinner than it looks.** Reconstruction jobs are long, labor-intensive, and heavily subcontracted. Their overhead allocation is substantial. The 35% gross margin that looks reasonable on a mitigation-adjusted P&L often becomes 8–12% on a fully-loaded basis.
- **Overhead as a percentage of revenue creeps upward during growth phases** — and owners don't notice until the allocation model makes it visible.

Frequently Asked Questions

What is the difference between gross margin and net margin in restoration?

Gross margin is revenue minus direct job costs, expressed as a percentage of revenue. Net margin is revenue minus all costs — direct and overhead — expressed as a percentage of revenue. Gross margin answers “what’s left after paying for the work?” Net margin answers “what’s left after paying for everything?”

What overhead rate is typical for restoration companies?

Restoration companies typically run overhead at 25–35% of revenue. Below 20% is unusually lean, common in owner-operator businesses with minimal admin. Above 40% indicates overhead is growing faster than revenue and requires immediate attention.

Should restoration companies include owner salary in overhead?

Yes — at market replacement rate, not at actual owner compensation. If the owner pays themselves \$180,000 but a qualified operations manager would cost \$110,000, the overhead allocation should use \$110,000. The \$70,000 difference is owner return on equity — a separate category.

How does overhead allocation affect pricing decisions?

Overhead allocation reveals the true minimum price for each job type. Pricing above the fully-allocated cost floor produces real profit. Pricing between direct cost and fully-allocated cost produces gross profit but consumes overhead without covering it — which only works if higher-margin jobs in the same period compensate.

What should I do if overhead allocation shows certain jobs always lose money?

This is exactly the finding overhead allocation is designed to produce. When fully-allocated analysis shows a job type is consistently margin-negative, the choices are: reprice (raise rates to cover allocation), reduce (do fewer of these jobs), or restructure (reduce the overhead that makes them uneconomic).

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Fractional Operations Manager. He has conducted overhead allocation audits for restoration companies across North America. Book a free diagnostic conversation.

Related reading

- WIP Management for Restoration Companies
- Overhead Control in Restoration
- Restoration Company Pricing Strategy

Where Is Your Profit Hiding? A Restoration Owner’s Diagnostic

Source: <https://profitdetective.net/where-is-your-profit-hiding-restoration-diagnostic/> Published: April 7, 2026

What is a profit leak in a restoration company? A profit leak is any operational gap between the revenue a restoration company earns and the profit that actually reaches the bottom line — including estimating errors, job costing failures, cash flow timing, and unbilled work that never gets invoiced.

Here's a question I ask every restoration owner I work with in the first 30 minutes:

"Your revenue is growing. Are you getting richer?"

The honest answer, more often than not, is: not as fast as they expected.

That gap — between what a restoration company earns and what the owner actually captures — is the most common business problem in this industry. And it's almost never what the owner thinks it is.

After 36 years working inside restoration businesses — as an owner, a network operations manager, and a consultant to 150+ companies across North America — I've developed a diagnostic framework for finding exactly where that money goes. It comes down to eight hiding places.

Why Revenue and Profit Are Not the Same Thing in Restoration

Restoration is a high-revenue, operationally complex business. A \$3M company can easily have \$2.4M in costs that are difficult to see until you're looking at the right numbers. The industry's economics create specific structural vulnerabilities:

- **Insurance-driven pricing** means rates are often set by TPAs and Xactimate price lists, not by your actual cost structure
- **Multi-week job cycles** mean labor and material costs accumulate for weeks before an invoice goes out
- **Emergency response demand** creates overtime, rush equipment deployment, and inefficient scheduling that erodes margins without appearing as a line item
- **Subcontractor dependency** on reconstruction phases often means you're GC-ing jobs at margins that don't reflect your overhead

The result: a business that looks healthy on a top-line basis and quietly underperforms on the bottom line. The diagnostic finds the specific version of this problem in your specific company.

The 8 Profit Leak Zones

1. Estimating Accuracy

Every missed line item, every underscoped contingency, and every labor hour calculated at the wrong burden rate is a margin problem that begins before the job starts. In my experience across hundreds of restoration companies, inaccurate estimating is one of the three most consistent sources of margin erosion — and one of the most fixable. Companies that close the estimating gap by developing disciplined Xactimate proficiency and scope review processes routinely see measurable improvement in gross margin within the first 60 days.

The diagnostic question: *What is your estimate-to-actual variance by job type, and does anyone track it?*

2. Job Costing Discipline

Most restoration companies track revenue by job. Far fewer track actual cost by job — and almost none track labor burden, equipment depreciation, and subcontractor margin at the job level. When you don't have job-level cost actuals, you can't know which job types are profitable and which ones are eroding your overall margin. You make decisions based on revenue when you should be making them based on contribution.

The diagnostic question: *Can you tell me your actual gross margin on your last 10 jobs — not the estimate, the actual?*

3. Cash Flow Timing

Profitable on paper, broke in practice. This is the restoration industry's defining financial paradox. The average time from job completion to payment in TPA-driven restoration work runs 45–90 days. That gap is funded by your working capital — which means profitable companies routinely experience cash crises that have nothing to do with profitability.

The diagnostic question: *What is your current AR aging by payer type, and how does your cash position track against your P&L?*

4. Labor Productivity

Labor is the single largest cost in a restoration company — typically 30–40% of revenue. Crew utilization, dispatch efficiency, overtime rates, and the ratio of billable to non-billable hours determine whether your labor model makes money or consumes it.

The diagnostic question: *What is your billable hours ratio this month, and how does it compare to the same period last year?*

5. Sales Conversion and Pipeline

Most restoration companies close high percentages of inbound emergency calls — because the customer has no choice. The real conversion problem is commercial accounts, referral networks, and program work where competitors are actively working the relationship and you're assuming loyalty.

The diagnostic question: *When did you last lose a commercial account, and do you know why?*

6. Leadership and Decision Bottlenecks

In companies under \$5M, the owner is usually the primary estimator, the primary sales person, the primary quality control officer, and the primary problem-solver. That model caps growth at the physical limit of one person's time and bandwidth.

The diagnostic question: *What decisions can only you make — and of those, which ones shouldn't require you?*

7. TPA and Carrier Relationships

Managed repair programs offer volume and predictability. They also often set rates that were negotiated years ago, don't reflect your current cost structure, and include compliance requirements that add cost without adding margin.

The diagnostic question: *Do you know your actual margin on program work vs. non-program work, broken down by carrier?*

8. Overhead Bloat

As restoration companies grow, overhead tends to grow faster than revenue — equipment financing, facility costs, administrative staff, software subscriptions, and vehicle costs accumulate without being tracked against job-level profitability.

The diagnostic question: *What is your overhead as a percentage of revenue today vs. two years ago, and do you know which line items drove the increase?*

How to Run Your Own Diagnostic

You don't need a consultant to start this process. Here's the five-step framework:

- **Pull your last 12 months of job cost reports** — not P&L, job-level actuals. If you don't have them, that's your first finding.
- **Calculate your actual gross margin by job type** — water, fire, mold, reconstruction, commercial, residential. Look for variance. Consistent underperformance in one type is a signal.
- **Pull your AR aging.** Sort by payer type. Calculate your average days-to-payment for TPA vs. direct-pay vs. homeowner insurance. The gap is your working capital drain.
- **List every decision made in the last week that required your personal involvement.** Circle the ones that should have been made by someone else. That's your leadership gap.
- **Compare your Xactimate estimates to your actual job costs** on the last 20 jobs. Where are you consistently over? Consistently under? That variance is money on the table.

What Happens After the Diagnostic

In my experience, most restoration owners who go through this process find one or two areas where the gap is significant — and where closing it is operationally straightforward, once you can see it clearly.

The hardest part isn't the fix. It's being willing to look.

If you want to run this diagnostic with someone who has done it 150 times across every type of restoration company in North America, that's what I do.

Book a free diagnostic call with The Profit Detective ->

Frequently Asked Questions

What is a profit leak in a restoration company?

A profit leak is any gap between the revenue a restoration company earns and the profit that reaches the bottom line — from estimating errors and unbilled work to TPA rate compression and labor productivity losses.

How much profit are restoration companies typically losing to operational gaps?

Based on industry data and direct consulting experience, restoration companies commonly lose 5–15% of gross revenue to operational inefficiencies that a structured diagnostic can identify and close.

What is job costing in restoration?

Job costing is the practice of tracking actual labor, material, subcontractor, and equipment costs at the individual job level — as opposed to tracking costs only at the company level on a P&L. Without job-level data, you cannot know which work types are actually profitable.

How do TPA programs affect restoration company profitability?

TPA programs provide volume and predictability, but rates are often set below the true cost of compliant service delivery. Understanding your actual margin on program work vs. non-program work is essential to evaluating these relationships correctly.

What is the first step in a restoration profit diagnostic?

The first step is pulling job-level cost actuals for the last 12 months and comparing them to estimates by job type. If job-level cost data doesn't exist, building that reporting infrastructure is the first priority.

Related reading

- The Job Lifecycle Profit Map
- Restoration Company Profit Margin Benchmarks
- Cash Flow vs. Profit

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