

Negotiating Overhead & Profit



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12 Ways to Negotiate Overhead & Profit

Contractors are entitled to a profit on each job, which is defined as *the difference between the cost of materials and labor and the price for which they are sold*. Overhead and profit is expressed as a percentage of the total construction cost, also referred to as “10 and 10” for 10% overhead and 10% profit. O&P is equal to an additional 20% of the total job cost. Therefore, a \$10,000 job would yield \$2,000 in overhead and profit for the general contractor.

Every insurance company has its own “rules” about rewarding overhead and profit, and often it goes by a claim-by-claim or adjuster-by-adjuster basis. Getting O&P can be tricky, but with the correct documentation, reasoning, and circumstances, in many cases it is achievable. So what does it take? Usually one or more of the following 12 requirements or strategies:

- 1) **General contractors.** Many insurance companies are glad to pay overhead and profit with the proper documentation to verify that you are operating as the general contractor coordinating the project. A general contractor is owed overhead & profit because they hire the necessary crews to perform the multiple trades, they oversee the construction project, they research zoning regulations, and acquire permits. Essentially they coordinate the entire show, thus incurring “expenses that are not associated with any one specific line item” as defined by Xactware. Providing your liability insurance, tax ID/W-9, and the work orders/pay requests/final invoices from your subcontractors will usually suffice in getting O&P paid.

When you submit subcontractor pay requests/invoices, be SURE to black out or blur out the actual prices they are charging you. It is none of the insurance company’s business what you pay your guys or what they charge for labor.

* Additional tip: avoid having “roofing” in your company’s name. For example, “Paramount Roofing, Inc.” suggests to the insurance company that you are in fact a roofing company and therefore have crews on staff who exclusively provide your roofing services. This works against you when you are making your case as a general contractor.

- 2) **Multiple trades.** Insurance companies typically require that there are 3 or more trades in a claim to warrant O&P, and some companies do not count roofing as a trade (we don’t get it either). That means if you have a job that includes roofing, siding, gutters, and awnings, you should be able to warrant O&P. That being said, you may find that the stipulation of number of trades and/or complexity is usually just a smokescreen many adjusters use, and it doesn’t matter if you provide them with 487 trades and a job more complex than the psyche of a woman. Therefore it will be more effective to use general contractor verification from above.



- 3) **Complexity** of the overall project. The scapegoat to requiring “multiple trades” that insurance companies like to use is determining whether a job is “complex in nature.” If you have a particularly messy, difficult, or complex project, documentation is key to attaining O&P. For example, a house that was thought to have two layers of shingles that turns out to have 4 layers, plus large amounts of rotten decking can warrant O&P, because the job ended up being much messier and complex than your crew was prepared for. It resulted in many additional hours of labor, cleanup, hauling and disposing. Taking many photos and being eloquent in your approach to explaining why overhead & profit is necessary for that claim is the key to attaining it.
- 4) **Interior work.** A claim that includes interior damages should automatically warrant O&P, because the contractor has to coordinate doing work and gaining access to the inside of the home at the homeowner’s convenience, often outside of regular work hours. Send the subcontractor invoice for the interior work to the insurance company to verify.
- 5) **Assisting the elderly.** Elderly homeowners who are unable to coordinate repairs on their own will rely on you as the contractor to do nearly everything. This is also a valid reason to earn O&P on a claim, and you can simply send in the “letter from the homeowner” supporting this reason.
- 6) **Commercial jobs.** Commercial jobs require many safety procedures and practices than residential jobs to protect customers, coordinate the construction times (often at odd hours), using port-o-potties, etc. The overall complexity of a commercial job should typically warrant overhead & profit, particularly as a general contractor. Again, supplying the proper documentation and invoicing is key in attaining your 20%.
- 7) **Timing.** When you make your request for overhead and profit can be just as important as how you request it. Request and settle any supplemental/O&P requests before work begins, because if you do the work and THEN try to get additional funds included, you are at a disadvantage: the insurance company can look at the situation and say, “If you *really* didn’t have enough money to do this job, you wouldn’t have moved forward with the project in the first place.” And at that point, you’re stuck, because you’ve already done the work and they never had to agree to provide additional funds, so you have no leverage.
- 8) **Wording.** The way in which you make your case for O&P is key in increasing your chances of approval. Follow the standard “Email Approach Script” for supplements as we have outlined for you in that lesson, but additionally include verbiage like this:

“Attached is the revised Xactimate requested for known repairs and damages at this time. Per your request, also included are our subcontractor verification and general contractor documentation for the inclusion of overhead and profit. Please let me know if there is any additional information I am able to provide you for approval, as we are looking to begin the insured’s repairs as soon as possible and will move forward once we have a final agreed upon estimate. Thank you!”
- 9) **Homeowner’s request.** One of the simplest ways to get O&P approved is by documenting everything as outlined above, and using the “letter from the homeowner” we have provided, keeping in mind that the adjuster will say all sorts of things to try to get you, as the contractor, off their back, but when it comes down to brass tacks, the insurance company owes the policyholder indemnification per their contract in the policy, and a standard HO3 policy states very clearly that the premiums they pay monthly or annually include costs for O&P, so when the homeowner requests it in writing AND you have supported the request with all of the above information, you make a case that’s hard to deny.

- 10) **“Playing the insurance commissioner card.”** If after all of the above, the insurance company is still playing hardball, a little homeowner involvement and blowing the whistle about involving the insurance commissioner usually does the trick. There is a full lesson about how and when to do this if it gets to level red. You’ll find everything you need within that lesson if you must take it to that level.
- 11) **Commit to negotiating exclusively via email.** It is crucial that all correspondence between you and the insurance adjuster remain in written form via email. This way you have a papertrail to fall back on and examples to show when you run into an adjuster who says things that aren’t true or are not a part of the homeowner’s policy. Remember that an adjuster’s job is to mitigate loss for the insurance company, i.e. act first and foremost in the best interest of the insurer, not the insured. Words disappear into thin air and cannot be traced back, so it is easy for an adjuster to flap their gums and throw you all sorts of bullsh*t objections that have no grounds or legal standing when it’s all verbal communication, because no one (like a lawyer or insurance commissioner) can use “he said she said” against them. When you maintain correspondence in written form via email, adjusters are less likely to give you many of the smokescreen stonewalling objections they typically give.
- 12) **Request a certified copy of the policy.** Specifically, have your homeowner request a certified copy of their policy. This is particularly effective when an adjuster gives an objection like, “Well, ABC Insurance just doesn’t pay for x (O&P).” Use a letter from the homeowner and include in it a request for a certified copy of their homeowner’s policy, because that policy will outline exactly what is included and excluded in their coverage. Standard HO3 policies state very clearly that their premiums include coverage for general contractor’s overhead and profit when the likelihood of the use of a general contractor is “reasonably likely to be necessary.” It does not say anything about complexity of the job, the number of trades, or any of the other baloney objections adjusters are trained to give.

The reality about O&P is it *can* be difficult to get, and you won’t get it every time, even if you are absolutely convinced that it is warranted. But as Michael Jordan says, you miss 100% of the shots you don’t take, so try every time! Sometimes you’ll get it, sometimes you won’t, but with the above guidelines and the proper polite arguments with desk adjusters, you have a much better shot at it and you will increase your overall approval rate.

Why should you get paid O&P, anyway?

It may be easier for you to support your case for being rewarded overhead & profit if you better understand **why you deserve it!** As a project manager (general contractor), you are facilitating the entire construction project from start to finish. You hire the subcontractors, order the materials, measure the property, research code requirements and zoning permits, handle the paperwork and final invoicing, and oversee the job site for quality control and safety, not to mention having an office where these tasks are carried out has overhead and utilities that must be factored into every job cost. A job without O&P is fine when the person who is doing the physical labor is also the person coordinating the project from start to finish, because “profit is built in.” However, not having O&P leaves the crew and the project manager in a position where the profit now has to be split and spread thin instead of applied accordingly.

This should help you understand why your role as the project manager, particularly in jobs with multiple trades or complex jobs, is deserving of overhead and profit. Use this logic and reasoning when negotiating with desk adjusters to help them understand where you are coming from. Remember, the key is to present your argument and main points in a professional, friendly, and non-confrontational way. Being a jerk and making demands will never get you anywhere. Be polite, help the adjuster understand your point of view, and you are much more likely to achieve what you want, or at least settle on a decent compromise.

That's f#%\$@ teamwork.

Approach the challenge of getting O&P approved as if you and the adjuster are a team, trying to figure out how to get it approved together. Instead of treating it like a head-on battle with you versus the desk adjuster, work together to find a solution. Ask them,

“What can we do to get this approved on this job? Where can I send you my W-9, copy of liability insurance, and our subcontractors’ final invoices to get this approved so we are able to move forward with this project and close out the claim in a timely manner?”

Your position as a salesman carries over to adjuster negotiations – the selling does not end with the customer. If you have a compelling argument, you can sell the adjuster on why a particular job is deserving of O&P through clear, sensible reasoning and supporting documents.



If a job that was supposed to take one day turned into a five day project because of complications, unforeseen damages, or other issues that may arise calling for a more involved use of resources, time, effort and energy, you can explain the situation to the adjuster and ask them if they agree it is only fair that O&P be applied to the claim. Photos and documentation are particularly helpful in these instances. Example:

to [redacted]

Hello!

Attached is the final invoice including necessary supplements for [redacted] Bradley's property claim # 00841219. Supplements include material tax, additional labor costs for multiple layers of roofing (3 layers on main roof, 4 layers on the flat roof portions - see photos for verification....this thing was a mess), a final awning amount from Carter Construction (\$3750), updated July pricing (materials were ordered and work begun on July 5th), and O&P for The Kaizen Group, Inc for coordinating all of these trades as a general contractor, plus consideration for the complexity of the job encountering so many layers of roofing (I included photos).

Overhead and profit is warranted due to the substantial increase in labor intensity, waste and dumping costs associated with removing 3-4 layers of roofing material from the house. The house is also located on a corner lot with a street in front, to the right, and directly behind the property. Great and extra care had to be taken to be sure debris and nails were not putting passing traffic in danger. The same care and precautions had to be taken to protect the homeowner's pool which is attached to the deck and house, just feet from the roofing project. The project took 3 days instead of 1 due to the large amount of debris that had to be dealt with. In addition, The Kaizen Group, Inc. coordinated and subcontracted the roofing, the gutter crew, the awning project, some interior work, and the siding items.

Feel free to call on me with any questions regarding the claim at [redacted]. If there is anything else I can provide you to help process the final transaction, please let me know. Thank you! Take care.

Regards,

Rebecca Switzer

The Kaizen Group, Inc.

ps - due to size limits on email, I may have to send a couple of emails separately including photos. Sorry for the inconvenience - I will be sure to title them with the claim #.

4 attachments — [Download all attachments](#) [View all images](#) [Share all images](#)



Photo Jul 07, 3 33 52 PM.jpg
3764K [View](#) [Share](#) [Download](#)



Photo Jul 06, 11 00 07 AM.jpg
3370K [View](#) [Share](#) [Download](#)



Photo Jul 07, 3 45 57 PM.jpg
3558K [View](#) [Share](#) [Download](#)



photo-3.JPG
154K [View](#)



Photo Jul 06,
2945K [View](#)



photo-4.JPG
39K [View](#) [Share](#) [Download](#)

Below is the finalized summary including my supplemental requests and the approval of overhead and profit based precisely on my reasoning for requesting it. You can see in the adjuster's notes that he used my exact reasoning to validate the inclusion of overhead and profit, ultimately getting me exactly what I wanted and why.

Payment Type	Date Paid	Amount	Check #	User ID
ACV	6/24/2012	\$5,396.49	0000601322	TONY1
Supplement	7/15/2012	\$3,472.28		CMS097
Total		\$8,868.77		

Actual Cash Value Benefits:

Estimate Total.....	\$13,742.52
Base Service Charges.....	\$203.68
Overhead & Profit.....	\$1,081.72
Taxes.....	\$452.57
Replacement Cost.....	\$15,480.49
Less Recoverable Depreciation.....	-\$5,611.72
Actual Cash Value (ACV) Subtotal.....	\$9,868.77
Less Deductible.....	-\$1,000.00
Less Advance Payments.....	-\$0.00
Less ACV Payments Made.....	-\$8,868.77
Outstanding ACV Settlement.....	\$0.00

Replacement Cost (RC) Benefits:

Estimated Total RC Benefits.....	
Less Deferred Payments Made.....	
Less Deferred Payments Pending.....	
Estimated Remaining RC Benefits.....	

Summary of this Payment:

ACV Payment.....	
Deferred Payment.....	
Less Overpayment.....	
Total Payment.....	

Notes
<p>ACV Payment for hail damage to home on 4/28/2012</p> <p>Received supplement request for additional layer of comp shingles and 3 additional layers of modified bitumen roofing, difficult access, Overhead and profit and replaced damaged decking to allow a nailable surface. I reviewed and allowed the additional roofing layers, decking, difficult access labor and OH&P for the additional trades less the roofing. per the photo documentation. Contractors revised estimate total: \$18,040.64 American family revised estimate total: \$15,480.49 ACV Supplement payment: :\$3,472.28</p>

Claim Summary Payments:

\$5,611.72	Loss of Use.....	\$0.00
-\$0.00	Coverage.....	\$8,868.77
-\$0.00	Total.....	\$8,868.77
\$5,611.72		
\$0.00		
\$0.00		
-\$0.00		
\$0.00		

No&problem!

If the adjuster on a claim simply will not award O&P on a claim, is it game over? Not necessarily. Here's how to respond:

"I understand, I know that in some cases your hands are tied. I appreciate you at least hearing me out. I can tell that you are a reasonable person, so if we can't get O&P approved on this job, where do you have some flexibility to get the claim amount up a little bit?"

An adjuster who "cannot" approve 20% O&P on your claim is still likely to help you out within their limitations, so ask them what they *can* do. Often you will get some things approved to increase the overall job total such as a dumpster, extra waste factored in, or additional soft metals, which easily adds in several hundred more dollars. Sometimes they will award 5 and 5 instead of 10 and 10 to meet in the middle, but you must discuss options for them to be viable solutions.

The more you practice negotiating and working with adjusters, the better you will become at figuring out what you can get approved, and where the wiggle room is with which insurance companies. Just don't let the fear of rejection deter you from giving it a shot on every claim if you believe there is a legitimate reason for O&P to be applied to your claim(s). Want more information like this? We cover more real life examples of landing O&P and huge supplements of up to \$30,000 in our Roof Sales Mastery online course so you can borrow our techniques and master them yourself to take your skills and income to the next level.

