Profit Guidelines for Construction
Alternate Structured Approach

Factor	Rate	Weight	Value
Degree of risk	20	0.00	0
Relative difficulty of work	15	0.00	0
Size of job	15	0.00	0
Period of performance	15	0.00	0
Contractor's investment	5	0.00	0
Assistance by Government	5	0.00	0
Subcontracting	25	0.00	0
TOTAL	100		0

(b) Based on the circumstances of the procurement action, each of the above factors shall be weighted from 0.03 to 0.12, as indicated below. “Value” shall be obtained by multiplying the rate by the weight. The value column, when totaled, indicates the fair and reasonable profit percentage under the circumstances of the particular procurement.

(1) **Degree of risk.** Where the work involves no risk or the degree of risk is very small, the weighting should be 0.03; as the degree of risk increases, the weighting should be increased up to a maximum of 0.12. Lump sum items shall generally have a higher weight than unit price items. Consider the nature of subcontractors, amount and type of labor included in costs and whether the negotiation is before or after performance of the work. Modifications, settled before the fact, have a much greater risk than those settled after the fact. A weight of 0.03 is appropriate for after the fact equitable adjustments and/or settlements.

(2) **Relative Difficulty of Work**. If the work is difficult and complex, the weight should be 0.12 and should be proportionately reduced to 0.03 on the simplest of jobs. This factor is tied in to some extend with the degree of risk. Other things to consider are the nature of the work, by whom it is to be done (i.e., subcontractors, consultants), etc.

(3) **Size of Job**. Work of $100,000 shall be weighted at 0.12. Work estimated between $100,000 and $5,000,000 shall be proportionately weighted from 0.12 to 0.05. Work from $5,000,000 to $10,000,000 shall be weighted at 0.04. Work in excess of $10,000,000 shall be weighted at 0.03. It should be noted that control of fixed expenses generally improves with increased job magnitude.

(4) **Period of Performance**. Work not to exceed 1 month is to be proportionately weighted at 0.03. Durations between 1 and 24 months are to be proportionately weighted between 0.03 and 0.12. Work in excess of 24 months is to be weighted at 0.12.

(5) **Contractor’s Investment**. To be weighted from 0.03 to 0.12 on the basis of below average, average and above average. Consider the amount of subcontracting, Government-furnished property or data, such as surveys, method of making progress payments, and any mobilization payment items.

(6) **Assistance by Government**. To be weighted from 0.12 to 0.03 on the basis of average to above average. Consider use of Government-owned property, equipment and facilities, expediting assistance, etc.

(7) **Subcontracting.** To be weighted inversely proportional to the amount of subcontracting. Where 80 percent or more of the work is to be subcontracted, use 0.03. The weighting should be increased proportionately to 0.12 where all the work is performed by the contractor's own forces.