

Contracting Business Success

Profit Bleed: The Hidden Costs Killing Contractors' Margins

Six silent issues that don't show up on your P&L but hit your bottom line hard.

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Walk into any plumbing, HVAC, or hydronic service business and ask how things are going. Nine times out of ten, you'll hear:

"We're slammed, but margins are tight."

What you won't hear is why margins are shrinking, because most of the losses don't show up in QuickBooks. They're hidden in the day-to-day: miscommunication, rework, poor follow-up, turnover, missed opportunities, and a mindset focused only on "getting the job done."

Here are six common blind spots where profit quietly disappears and what to do about them.

1. Rework: The Silent Profit Killer

Rework eats up 12–20% of project costs on average (Construction Industry Institute). That's a $1.2 million loss for a $10 million contractor.

Why it happens:

- Miscommunication between teams;
- Unclear expectations;
- Inconsistent quality checks; and
- Rushed schedules and a "just get it done" culture.

Rework doesn't just cost money; it drains morale, too.

2. Accidental Leaders = High Turnover

In the trades, most supervisors get promoted because they're great at the work, not because they're trained to lead. According to Gallup, 87% of frontline leaders have no formal leadership development.

The result?

- Low morale;
- High employee churn;
- Weak accountability; and
- Communication gaps that cost time and money.

Replacing a single technician can cost up to twice their salary (U.S. Department of Labor). Lose 10 people a year, and you're looking at $700,000 or more in replacement and onboarding costs before you even factor in lost productivity.

3. Customer Churn = More Than One Lost Job

When you lose a customer, you're not just losing one job; you're often losing years of business.

Example: A customer who spends $100,000 per year over 10 years = $1 million in lifetime value. That does not include referrals or opportunities to cross-sell other services.

Inconsistent service, lack of follow-up, and a transactional mindset are often to blame. According to Bain & Company, a 5% improvement in customer retention can increase profits by 25–95%.

Keeping a customer is always cheaper and more profitable than replacing one.

4. Margin Fade: Death by a Thousand Cuts

You estimate 30% profit, but by the time the job is done, you've shaved it down to 10 or less.

Why?

- Unbilled extras;
- Price concessions to "win" work;
- Jobsite inefficiencies; and
- Reactive project management.

Often, it's not a pricing issue but rather a value perception issue. If your customer sees you as a commodity, they'll treat you like one.

A 5% margin miss on $10 million = $500,000 gone.

5. Weak Referrals, High Acquisition Costs

Referrals should be your most profitable lead source. When they're not happening, it's worth asking why.

According to ReferralCandy and HubSpot, satisfied customers refer 3–5 new clients on average.

Ask yourself:

- Are you exceeding expectations — or just meeting them?
- Are you staying in touch after the job ends?
- Do your customers know about everything you offer?

If you're not getting referrals, you're probably overspending on advertising and missing out on warm leads.

6. Silos and Miscommunication = Wasted Time

Construction companies lose over $400,000 per year due to poor communication and misalignment (Autodesk + FMI).

Common symptoms:

- Duplicate work;
- Last-minute changes;
- Confusion around responsibilities;

Low morale in the field and office;

When departments fail to communicate, mistakes multiply, and customers feel the impact.

Bonus Blind Spot: Transactional Thinking

Many contractors treat each job as a transaction. Do the work, send the invoice, and move on.

But when your main contact leaves or gets promoted, and there's no relationship beyond that person, you can find yourself suddenly out.

Stronger companies take time to:

- Understand who else influences purchasing;
- Learn the PO and approval process;
- Build relationships across multiple contacts; and
- Look for ways to add value beyond the scope of work.

Discovery isn't just for sales; it's for longevity.

What You Can Do About It

These problems don't require massive overhauls. But they do require intention.

If you want to protect your margins and grow sustainably, focus on the fundamentals:

- Set clear expectations for service and communication;
- Invest in leadership development at every level;
- Build internal systems that support quality and accountability; and
- Shift your mindset from reactive to proactive, from transactional to relational.

You don't need more jobs to grow.

You need to stop losing money on the jobs you already have.

Frank Favaro is the president of ServeCentric Coaching and a customer service consultant for contractors. He is the host of the "Inside MCAA" Podcast from the Mechanical Contractors Association of America. Frank works with contracting businesses to improve leadership, strengthen culture, and protect margins, helping them stop the bleeding of profits and grow sustainably.