

CASE STUDY

THE FRAGILE 2%

Why Profit Margins Disappear in Construction Projects

Client's Challenge

A UK-based developer working on a £10M construction project approached DDC Solutions for risk and cost-control advice. They were targeting a modest 2% profit margin—typical for the industry but extremely vulnerable to cost volatility and project overruns.

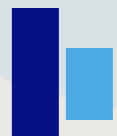


THE NUMBERS: UNDERSTANDING THE FRAGILITY OF 2%

BASELINE (IDEAL SCENARIO)

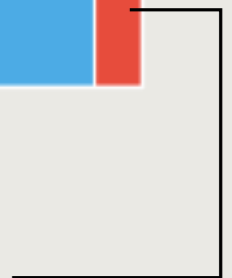
- **Project Revenue:** £10,000,000
- **Target Profit Margin:** 2%
- **Planned Costs:** £9,800,000
- **Expected Profit:** £200,000

In a perfect world, the developer walks away with £200K in profit.



£9.8M Planned Cost

£200K profit (2%)

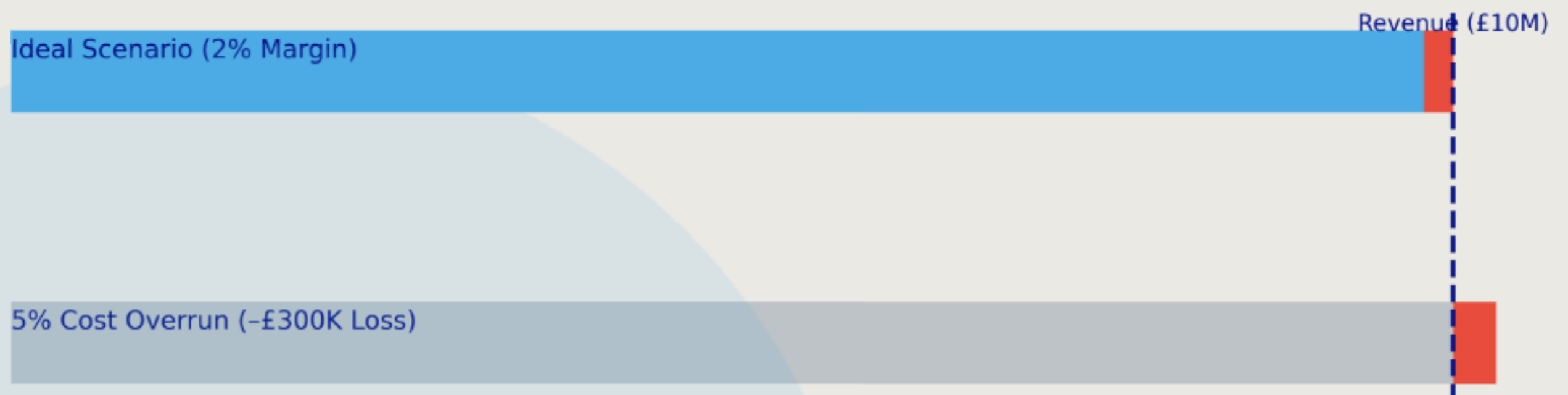


BUT WHAT IF THINGS GO SLIGHTLY WRONG?

EXAMPLE: 5% COST OVERRUN

- **Unplanned Cost Increases:** £500,000
(e.g. material spikes, delays, rework)
- **New Total Costs:** £10,300,000
- **Actual Profit:** –£300,000 loss
- **New Margin:** –3%

Just a 5% overrun is enough to turn a profit into a significant loss.
And this happens a lot.



WHERE THE MONEY SLIPS AWAY



RISK FACTOR	TYPICAL COST IMPACT	RESULT
Delays	+1–3%	Labour, overheads, and financing stack up
Material/Labour Inflation	+3–5%	Contract doesn't flex with market prices
Rework/Scope Creep	+1–3%	Cost of re-doing or adjusting work
Underbidding/Mismanagement	Varies	No buffer = no recovery from setbacks

KEY TAKEAWAY

In UK construction—where average net profit margins hover around **1–3%**—even **small unexpected costs** can eliminate the developer's profit or plunge the project into the red. Effective **risk management** (e.g., careful scheduling, buffer planning, robust cost tracking) is therefore crucial to protect that narrow margin.



PROTECT YOUR PROFIT MARGINS WITH DDC SOLUTIONS

In an industry where even a 5% cost overrun can flip your project from profit to loss, proactive planning and precision execution are non-negotiable.

BOOK YOUR FREE CONSULTATION TODAY

and discover how DDC can safeguard your next project's bottom line.



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