

CASE STUDY

Construction Contractor Finds an Easy Way to Increase Their Bottom Line by 8%

No Bigger Challenge Than Pricing

In all his years working with construction contractors, [Steve Ball, CPA, CVA, CCIFF](#), has rarely seen a challenge bigger than pricing. If you're like most contractors, you often find yourself bidding against competitors who do not have a good grasp of their cost structure. Those competitors typically bid on jobs from which they probably can't profit.

When you go up against low ballers, you often don't stand a chance to win. Unfortunately, it can take a long time for these low-balling companies to be weeded out of the market, but in the meantime they sure can wreak havoc with your profit margins.

Pricing Case Study – How Low Can I Go?

One of Steve's construction clients, a residential exterior home improvement contractor, asked him, "What flexibility do I have in bidding work?" They were entering the winter months, which are typically a slow time for them because of the

nature of their work and with fewer opportunities comes increased pressure to lower prices to obtain work.

Even when this particular contractor took steps to lower overhead during slow times, pricing challenges remained. If you want to keep good people around during downtimes, perhaps the real question is, "What is the lowest I can bid on a particular job?" The contractor was slashing off-season bids by as much as one-third to obtain contracts.

Solving the Pricing Problem

Steve worked with the contractor to help him answer this question. The [Construction Group](#) at Gross Mendelsohn worked with the business to break down historical and current financial information between variable and fixed costs. This helped them arrive at the fully loaded burdened cost per hour for each man in the field on an annual basis, while still allowing for the desired 10% pre-owners compensation profit.

These were, on average, the normal rates to be used in the bidding process. They were fairly close to what this contractor had already been using. Factored into the rates were:

1. The overhead and profit that typically is captured by labor
2. The mark-up on materials, the other area where overhead and profit is captured in their business

The Solution

Steve determined how much of the normal rate was related to direct costs, overhead and profit per man on an hourly and percentage basis. From here, he was able to identify a general range of pricing rates that would at least cover all their direct costs and some agreed-to minimum overhead percentage. Steve's analysis revealed that this particular contractor should not cut rates more than 25%, not the 33% they had been working with. As a result of the analysis, the

contractor adjusted their rate flexibility and experienced a noticeable increase to their bottom line in the ensuing year, some of which Steve believed was attributable to the decision on pricing. This particular contractor uses Gross Mendelsohn's [burdened hourly rate calculator](#) to prepare more accurate, reliable bids.

What's a Contractor to Do?

Pricing is a difficult part of running a successful construction business. The more confidence you have in your rates, and the more knowledge you have in how to work with them, the more likely you will be successful. Remember, often what determines success and profitability is knowing which jobs to bid on, and which jobs to pass on.

Need Help?

Contact us [here](#) or call 800.899.4623 for help.