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ACCOUNTING | TECHNOLOGY | WEALTH ADVISORY

Case Study

Contractor Finds Easy Way to Increase Bottom Line by 8%

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Baltimore, MD | Fairfax, VA

In all my years working with construction contractors, I've rarely seen a challenge bigger than pricing, especially in the down market we have been in for several years.

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 are therefore bidding 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 my construction clients, a residential exterior home improvement contractor, asked me, "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

I worked with the contractor to help him answer this question.

We broke down historical and current financial information between [variable and fixed costs](#). This helped us 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, and (2) the mark-up on materials, the other area where overhead and profit is captured in their business.

Yearly \$ 65,534.00

Contractors Burdened Hourly Rate Calculator

(enter amounts in blue only)

Convert to Yearly
Hours paid per year

Burdened Hourly Rate
Total estimated hours paid
Estimated billable hours

Health insurance
Dental/vision
401K match
Cell phones
Office supplies
Vehicle costs
General liability
Other

Hourly Costs
Gross pay rate
Social Security
Medicare
SUI
FUTA
Workers' comp
Liability insurance
Holiday - # of days
Vacation - # of days
Total hourly

limit
\$ 8,500
\$ 7,000

4.0%
0.80%

340
56

6.20%
1.45%
0.65%
0.11%
5.00%
3.00%
3.85%
5.77%

\$ 25.00
\$ 1.55
\$ 0.36
\$ 0.16
\$ 0.03
\$ 1.25
\$ 0.75
\$ 0.96
\$ 1.44

2,080
1,700

\$ 31.51

The Solution

We then 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, we were 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. Our 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 we believe 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.

For Help or More Information

Gross Mendelsohn's Construction & Real Estate Group provides audit, review, compilation, tax, business valuation, succession planning and consulting services to construction contractors, architects and engineers. If you would like to contact the Construction & Real Estate Group please click [here](#).

Other Resources:

**Improve Profitability
and Cash Flow**

**FREE Contractor's
WIP Calculator**



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