



Job Pricing & Estimating

by Jon Hardie

If you bid on jobs simply by taking all your materials, adding up your subs and labor and tacking on 15 percent to cover your overhead and profit, you aren't bidding your jobs right—and you probably aren't making any money, either.

Take another look at your tax return—and don't be surprised if you find that you paid your foreman twice as much an hour as you actually ended up paying yourself. (The foreman, meanwhile, leaves at the end of the day, while you spend three more hours doing bids, the books and the working drawings!)

Part of the problem is that most contractors and remodelers are basically honest and caring folks, and the help and the customer come first. Translated, that means you come last on payday. After you've been standing at the end of the line for as many years as you have, it becomes habitual.

There are two main reasons why people don't charge enough for their work. First,

how much an hour you need to add to your bids.

Here's an example: Say that you want to make \$35,000. \$35,000 times 1.35 is \$47,250. By looking at your tax return, you discover that you paid yourself \$15,000. (By the way: \$15,000 divided by 2,000 hours is \$7.50 an hour! If you divided by the hours you *actually* worked—probably more like 2,800 hours—it would show that you raked in a whopping \$5.36 an hour!)

Next, take the \$47,250 and subtract the \$15,000 you made last year, which gives you \$32,250. Divide this by 2,000, and you get \$16.13—indicating that you need to add \$16.13 per hour to your time. Finally, \$16.13 plus \$7.50 comes to \$23.63. This is the amount you need to charge per hour for your time—not including any profit!—when you bid a job.

Figuring Subs & Materials

So much for covering *your* labor costs;



they think that if they charge more, customers will say no. Second, they really don't know how to bid a job profitably.

Let's deal with the first problem. If you're wondering why you have so much work and still aren't making any money, look again. Most customers can see when they are getting a bargain—you're it! As for the second problem, read on.

What Are You Worth?

If you consistently are coming up short, you can fix it immediately by:

- Deciding what you want to make each year;
- Multiplying it by 1.35 to cover fringe benefits (pension, health insurance, disability and life insurance, IRAs, vacation, etc.);
- Looking at your tax return for this year and subtracting what you paid yourself from what you *want* to be paid (it always will be less until you decide to run your business like a business and not a bread line); and
- Dividing what's left by 2,000 hours. The figure you come up with shows

subs and materials come next.

According to R. S. Means Inc., a union carpenter in Boston is billed at a rate of more than \$32 per hour. For a non-union shop, a billing rate of \$15 to \$20 per hour per person for a crew of four (including a foreman) doing remodeling work seems about right in New England urban areas; figure about 15 percent less in the North Country. (If you want more information, contact R. S. Means for its "Residential Remodeling Estimating Guides.")

Generally, a markup of 10 to 15 percent will help you cover your management costs. You have to line up subs, go over the job, get quotes and bids, schedule their time, and handle on-site problems and change orders. You can cover some of your unbillable administrative time here, too.

Next come your overhead costs. These fixed and variable expenses—the costs of doing business 12 months a year—typically can run 15 to 30 percent of your gross billing. (You can check it by asking your accountant to prepare a simple profit-and-loss statement for your business

over the past three years.) If your actual overhead is 20 percent, then that's what you have to add to each job quotation. And remember: we still are not talking about making a profit!

Multiply the corrected total of your labor and materials by 1.2 or 1.3 to cover your overhead and determine your billing cost before profit. If you aren't sure, use 1.3 to cover the unknown and unexpected problems you always find on every job.

Finally, to add your profit margin, add up the total of labor (for example, \$20 per hour for each member of your crew), subs and materials plus 15 percent, and add on 20 to 30 percent for your overhead. To this grand total, multiply by 20 percent to get your profit (and still stay competitive).

(While we're on the subject, be sure to bill out change orders at a premium of at least 15 percent. After all, keeping other customers waiting while you finish the job with all the last-minute changes just ain't the way to run the show.)

Still Having Problems?

If you still come up short, you are estimating poorly. You can solve that problem by looking at your last 10 jobs. Add up how much you lost on each job compared to what you *thought* you would make, and divide it by 10. Then divide the average amount lost into the total gross income for all 10 jobs. Add that percentage to every job you do in the future.

This last method is easier than learning how to estimate properly. It allows you to

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continue "estimating" the way you always have in the past as long as you add in a fudge factor to cover your assets.

There is no magic to pricing jobs properly—it just takes a little discipline and profitable hard work. And pricing it right so that you can enjoy it on a beach in the islands next winter is a much better alternative than eating pork and beans in the blizzard in February.

Avoiding the Tax Man

Finally, once you get your system in order and start making all that money, you need to figure out how to shelter it so you don't pay taxes on all of it.

One thing you can do is pay your spouse a salary, which cuts down on your self-employment tax. It also will make him or her feel much better—finally getting something back for all those years donated to your nonprofit organization.

Second, put the maximum away in an IRA or Keogh retirement plan, or start a self-employed pension (SEP) or a company pension plan (see your accountant). You can pay taxes on it after you retire, when your tax bracket will be lower than when you are making money hand over fist like today. ■

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