BY MELANIE HODGDON

/BUSINESS TUNE-UP/

Price the Job Right, Starting With Overhead

Many contractors have learned that it's important to separate overhead costs (expenses) from those associated with production (Cost of Goods Sold, or "COGS"). Some of the production costs are pretty obvious. If you go to your lumberyard and buy framing lumber for the Jones job, for example, it's a no-brainer to assign that cost to a COGS account. And some overhead costs are pretty obvious—office rent, utilities, office supplies, and the like (see Overhead Cost?, top left).

What about the costs that are associated with producing jobs, but are not necessarily associated with a specific job—costs such as small tools that will be used on multiple jobs, gas for the trucks, and communication plans for phones and tablets that are used on the jobsite? These are less straightforward to classify, but anything that is directly associated with the production process—even if it is not associated with a specific job—should be considered COGS, not an overhead expense.

Here's another way of looking at it. Let's suppose for a minute that you have absolutely no projects at all. It's a horrifying thought, but it's just to make a point. Pretend that you're going to switch from being a remodeler to selling ice cream. What costs would you still need to pay for in order to keep the company in existence? Thinking about it this way should make it a bit easier to decide whether a particular cost is related to production or not.

But why is it important to figure this out?

Overhead Cost?

Type of Cost	Yes	No
Rent	X	
Utilities	X	
Production vehicle insurance		X
Job materials		X
Office supplies	X	
Marketing	X	
Payroll taxes paid on production workers		X
Office communications (such as landline)	X	
Trade contractors		X
Production staff cellphone subscriptions		X
Small tools		X
Workers' comp insurance on production workers		X
Professional fees	X	
Workers' comp insurance on office workers	X	
Wages on production workers	X	X
Payroll taxes paid on office workers	X	
Job permits		X
Office staff wages	X	

Sample Job Financials

Income	Money collected as a result of producing jobs	$100,000
Cost of goods sold	Money spent as a result of producing jobs	$67,500
Gross profit	Leftover money to use for covering overhead and contributing to profit	$32,500
Expenses	Overhead costs required to maintain the company	$27,500
Net profit	The "bottom line" dollars of profit when all costs are paid	$5,000

KNOW YOUR OVERHEAD TO FIND THE RIGHT PRICE

In the uncertain world of construction, there aren't many constant and predictable figures you can put your hands on. Income (sales volume) is an unknown. Because your production costs are tied to sales, COGS is unknown. But you can predict overhead, and this becomes the basis for your figuring out how to price your work. No matter what else happens, you know you must have at least enough dollars left over when you finish producing work to cover overhead (see Sample Job Financials, bottom left).

Hopefully, you'll also have some left over for profit. The next part in this series will show you how understanding your overhead will help you price your work so profit won't be left to chance.

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Guessing What Clients Want to Spend Could Be Costing You Thousands

BY JASON HARTZ

During a recent coaching session with one of my clients, a tile installer, we were talking about how a particular sale went off the rails. He said he lost control of the sale by trying to make the customer happy. I agreed that part of his job is to make his customers happy, but pointed out that in order to do that, he must ask questions that may make them unhappy or at least uneasy. The toughest of these is about money. Everyone is reluctant to talk about it.

Whether you've been in business for two years or 20, there has been at least one time when it was difficult to convince prospective clients to communicate how much money they wanted to invest in a project. The difficulty, however, isn't in asking the question, "What do you want to spend?"

The difficulty comes from the prospects' response to your budget inquiry, which can run the gamut from "I don't know, that's why you're here" to "I'm not comfortable sharing that information with you."

Sometimes you don't have much choice but to work up an estimate for a job, guessing about the quality of work the prospects' secret budget will support and hoping that you're not so high or low that they give the job to one of your competitors. And then, if they do call you back, chances are, they'll say, "Can you sharpen your pencil and work on the price with me?" In many instances, you will have spent hours of precious time trying to guess what amount of money the prospective customer would like to invest in his or her home.

Quite often, when confronted with customers' blank stares or claimed ignorance, many remodelers don't want to sound pushy, so they move forward with the rest of the sales presentation, then write an estimate without knowing the budget. Like a house built on a shaky foundation, the sale from there could be in jeopardy.

Lack of a questioning strategy before reaching the dreaded "What would you like to spend?" can derail a great opportunity.

DEVELOPING CREDIBILITY AND TRUST

The secret to getting prospects to share their budget with you is establishing credibility and trust. The tricky part is how to do it. First, you need to use a questioning strategy before you talk money. Every time you ask a prospect a question and get the response, "That's a good question, I hadn't thought of that," your credibility as an expert goes up. You separate yourself from competitors by asking great questions.

Once you've established your credibility and addressed the project's scope—bathroom, addition, kitchen, and so on—the budget discussion can ensue. Prior to asking, "What would you like to invest?" ask, "Is there money allocated for the project?" followed by, "Would you mind sharing what that amount is with me?" Often, prospects will give you a price range, but if they still won't budge, there are four tactics or a combination of tactics to try.

They include the following:

- Bracketing
- Metaphors
- Third-party stories
- Remodeling history

Illustration: Tim Healey

BRACKETING

Often contractors provide a budget bracket that is too wide. If you say the cost will be somewhere between $20,000 and $30,000, you may unintentionally plant a low number in your prospects' minds before they receive your estimate, because they remember only the $20,000 figure. Prevent prospect "whiplash" by shrinking the range of the bracket to no more than $3,000.

Example: "This project can be done for $17,000 to $20,000 or for $27,000 to $30,000, depending on materials. Which range are you more comfortable with?" When they answer, say, "Help me understand why you picked that range."

Lack of a questioning strategy before reaching the dreaded "What would you like to spend?" can derail a great sales opportunity.

If a prospect says both brackets are out of range, and you know that you cannot do the project for less, protect your valuable time and energy and ask, "Should we end the consultation?"

METAPHORS

Paint a different picture to help prospects determine investment level.

Example: "We can do this project several different ways. How do you want to arrive at the dance: by limousine, taxi, or bike?" After the prospect responds, ask "What does that mean investment-wise?"

Or combine a metaphor with bracketing: "In my experience a limousine can cost between $27,000 and $30,000 and a taxi can run between $22,000 and $25,000. Is that what you were thinking? Help me understand why you picked that range."

THIRD-PARTY STORIES

Using a third-party story can paint a picture and tip your clients off to the size and scope of work you've done in the past. It can also further boost your credibility.

Example: "Last month I finished a similar-sized addition to the one you are proposing, and those owners spent $75,000. I'm guessing that's more than you wish to invest?" That gives them the opportunity to tell you they do have that amount of money or agree that it's more than they were planning to spend.

REMODELING HISTORY

Occasionally, you may find that prospects have never bought your type of goods or services. Discovering what prospects have done in the past that closely mirrors your quality of work or investment level can give you a good indication of not only budget but how they make decisions, too.

Example: "Given that you've never remodeled your kitchen before, but that you invested in your bathroom in your previous house, would you mind sharing your investment level on that project? Was that more or less than you had anticipated?"

DON'T WASTE YOUR TIME

Once you've implemented a successful questioning strategy and gotten the answers you need from prospective clients about their budget, your time with them won't have been wasted. They will have confidence in you, and you'll feel confident writing an estimate that's within their budget. And then, hopefully, you can work toward getting a signed contract and start the job.

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