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From: J.R. Huston Enterprises, Inc.

POC: Jim Huston

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Markets are dynamic. Markets are always changing due to the various forces which influence them. Contractors tend not to realize or be aware of the subtle and often not so subtle changing tides and currents which lie beneath the seemingly tranquil surfaces of the markets in which they operate. The ebb and flow of market forces escape them. Profits and margins erode while market opportunities slip by. Like a blind sailor on the ocean, the chances of reaching port safely are slim at best.

Sailors have tools to help them navigate the waters upon which they sail. In like manner, there are objective, quantifiable reference points available for the contractor to help him along his way if he knows what to look for. But one must be trained in the art of observation. Seasoned captains of the sea do not get that way by treading water. They get that way by spending a lot of time monitoring and studying the oceans upon which they sail. Before they become masters of the sea, they are first students of the sea and the forces which influence it. Contractors must do the same. They must know how to study their markets and the hidden signs contained therein. Fortunately, there are tools and training available to teach them how to do so. But these tools and methods must be studied and they must be applied. As contractors study their markets and

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jobs being bid, they need to continually ask, “Can I play this game and win? Does this job or market adaptation add to my company’s bottom line”?

Market adaptation assumes prerequisites. Adapting to the marketplace assumes certain prerequisites. The first prerequisite is that you have a clear vision of what to adapt to. You have a definite “port” in mind, so to speak. This leads to the second prerequisite. The destination must be one worth going to for you and your company. There must be a “payoff” for taking the trip. It might be increased or maintained market share. Or it might be to realize increased margins due to expansion into a new market. Thirdly, you must have measuring devices and tools to help you stay on course and to navigate the waters safely as you attempt to reach your chosen port of destination.

An **irrigation contractor** recently called me. He had a market opportunity to add a lawn maintenance division to his company.

I know this client well. We talked for almost an hour. We ran the numbers. When we finished, I was convinced that this contractor knew clearly where he wanted to go, that there was a quantifiable benefit to his company for doing so, and that he would successfully reach his chosen destination. This contractor did his homework. Unfortunately, most don’t because they do not know how.

Markets become predisposed. Even though markets are dynamic, trends usually can be

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identified within them. One of the objectives of an owner and/or estimator, and a good estimating system, is to identify these trends. Once identified, they can sharpen your estimating skills. Market predisposition can be seen in certain indicators if observed closely. Unit prices and gross profit margins are two tools that can readily indicate market predisposition.

For instance, let's assume that the going price for installed brick pavers in the residential market in your part of the country is between \$8 to \$10 per square foot. If you tell your potential customer that you are going to charge them \$15/SF you had better have a good reason why or be a terrific salesperson. Otherwise, you might as well not waste your time giving that customer a quote for the job. On the other hand, if you can reduce your costs and make an acceptable profit charging \$6/SF, why charge \$6 when the market will allow you to get \$8 or \$10. That's using market predisposition to your advantage.

A **commercial landscape Installation** contractor in New England has tracked his gross profit margins (GPMs)* religiously for the last seven years. Three years ago he knew that if his GPM was above 18% on a job being competitively bid by other contractors that he would have no chance of getting the job. He might as well not waste his time bidding it. However, he knew that if he was negotiating the job and that it was not being put out to competitive bid, he could put 22 to 25% GPM on the job and still get it. Today, this contractor consistently puts 22 to 25% GPM on competitively bid jobs and 25% to 30% on negotiated ones because the market has recovered from the recession of a few years back. This contractor monitors his market by tracking GPM as

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it reacts to market forces. He then adapts his pricing accordingly.

The **commercial lawn maintenance** market displays some very interesting trends around the country. The primary indicator of its predisposition takes the format of a unit price. It is the man-hour rate. You determine the man-hour rate by dividing the billing price of a job by the total man-hours (including drive, load, unload time, etc.) required to perform it. This number averages \$22 to \$27 around the country. However, some markets realize \$30-35 per man-hour. These markets are usually found in industrial parks near major metropolitan areas. Certain cities in New England, San Francisco, and pockets in the Midwest see these types of prices. However, the Southern California market sees its man-hour rate drop to the mid to low teens (\$13-16/MH). In one area, rates of \$11 to \$12 per man-hour are not uncommon. This is understandable due to intense competition, low labor rates and the ability to spread overhead costs over a twelve-month season rather than a nine-month one. GPMs in the lower man-hour markets usually ranges from 20-35% and from 35-45% in the higher ones.

Municipal lawn maintenance markets in Southern California have displayed some interesting trends over the last ten years. At one time, the man-hour rates were consistently hitting the high teens to low twenties. Presently they are in the low to mid teens. Gross profit margins have fallen as well. This once very lucrative market was realizing 30-40% GPMs. Now it is lucky to see these margins hit the low to mid twenties. Margins and rates have dropped partly due to the economic doldrums of the Southern California economy. However, municipalities have become

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much wiser in overseeing the contractors performing the work in the field. Partly due to budget constraints, quality control inspectors look for areas where contract specifications and standards are not being met. Deductions are then subtracted from the contractor's monthly billings. One contractor client of mine recently found himself in a major catch 22. He saved a city more than \$100,000 on a rather large contract. To show its appreciation, the city went out and hired another inspector to help oversee the contract. The contractor had a fit. He beat his brains out trying to improve production, reduce margins, be more competitive, save the city money, and keep one inspector happy. Now he had to keep two inspectors off his back who were trying to save as much money as possible for the city--at his expense.

These are the type of situations and realities reflected in market forces that influence margins and drive prices up and down and to which the contractor must adapt. And we should add, in spite of which he must survive.

I consistently see **residential landscape installation** work realizing 30-40% GPMs throughout North America. An East Coast contractor had an installation division which did both commercial and residential work. However, profits were very slim at the end of the year. Upon reviewing several completed jobs, I noticed that the GPM bid on these jobs was rarely over 27%. This was OK for commercial work but it was too low for residential work. The designer/estimator admitted that he could have raised the GPM on these residential bids 5% to 10% and still have won the jobs had he been aware of that market's predisposition and had he used an estimating

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system which clearly identified the GPM to him during the bidding process. He underbid his residential jobs and left money on the table because he did not pay attention to market forces and trends.

It is imperative that contractors be able to identify direct and indirect costs as well as profit margins in the bidding process. Doing so will help you identify the market trends mentioned above. It will also help you identify what I call a bidding envelope or range (e.g., 25-35% GPM) within which you can safely bid. You need to know how high can you go with your GPM and still get the job. You also need to know how low you can go with the GPM and not hurt yourself. How high is the easy part. If you are too high, the market will tell you to take your price and get lost. How low to bid is much more challenging. As a general rule, you want to bid above your break-even point (BEP). The BEP is the total of your direct costs plus the overhead to be recovered on a job. Rarely do you want to bid below BEP.

Conclusion: Adapting to the marketplace requires that you be able to measure it. It is necessary to have the right tools and methods in order to do so. Once you have the right tools and methodology, you can measure and adapt to just about any marketplace. However, the critical question to ask is, “Can you play this game and win? Does this job add to your bottom line and does it fit into your bidding envelope”?

Seasoned captains of the sea are not rudderless victims of the waves. They consistently reach

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their chosen destinations because they have mastered the tools of their trade and have adapted them to each course they navigate. Contractors who employ similar tactics not only have the ability to adapt to their markets today, but they insure that they will be able to sail into the markets of tomorrow as seasoned profitable contractors.

*Gross profit margin equals net profit margin plus general and administrative overhead costs included in a bid. Put another way, GPM equals sales price minus direct costs.

This article was adapted from James Huston's new book and audio book, *How to Price Landscape & Irrigation Projects*, released in July 2003 and his previous book, *Estimating for Landscape & Irrigation Contractors*. The author is president of J.R. Huston Enterprises, Inc., which specializes in construction and services management consulting to the Green Industry. Mr. Huston is a member of the American Society of Professional Estimators and he is one of only two Certified Professional Landscape Estimators in the world. For further information on the products and services offered by J.R. Huston Enterprises, call 1-800-451-5588, e-mail JRHEI at jrhei@jrhuston.biz or visit the J.R. Huston Enterprise web site at <http://www.jrhuston.biz>.