

Charging for Estimates

by Paul Eldrenkamp

I hear a lot of contractors these days talking about charging for services that we used to give away without a second thought — services like estimating and design. This trend is healthy, but some of the talk is shortsighted when it obscures more profitable goals. Remember that the estimate is one small step of many in the whole construction process. In my experience, you will make more money selling construction than you will ever make selling estimates. So if you view charging for an estimate as a victory in and of itself, I think you're shortchanging yourself.

Selling Estimates

Do this exercise: Calculate the gross profit you need in a year, then divide by the number of sales hours you have available. That answer shows how much you need to charge per sales hour. For example, say I need \$150,000 a year in gross profit to cover my overhead, salary, and profit. If I have 10 hours a week that I can spend on sales efforts (initial visits, estimating, specifications, contract writing, whatever), that's about 500 hours a year to sell \$150,000 in gross profit. At that rate, I need to bring in \$300 for each hour of sales effort — or \$1,500 for an estimate that takes 5 hours to produce.

Although you will meet with occasional success selling estimates at this rate, it's not sustainable because it's the *work* that you're after. And if you sell estimates at less than the required rate, you're not optimizing your time.

Selling Relationships

I prefer to shift the focus from selling the estimate (or even the job) to marketing a long-term relationship. This means going to the initial client meet-

ing looking to learn whether I can work with this person, over time, to our mutual benefit. Working for this person without going nuts would be an obvious benefit. From this client, I could get referrals, repeat work, and a job I can be proud of. On the client's side, there is a very real benefit in forming a lasting relationship with a builder who will protect and advise, while increasing the value of the property.

Once the client and I agree we can equally and fully commit to this long-term relationship, how I charge for my services becomes secondary. I can get \$500 in earnest money up front, or \$5,000, or nothing. As long as I continue to add value and handle the project with integrity, I can charge in almost any fashion I wish, because I've gotten an emotional commitment from the client.

This is the same sort of emotional commitment you maintain with your best subcontractors — you never bid out

adding enough value to the project.

Some clients will be incapable of making any sort of serious emotional commitment to a contractor. You can still work for these people, often profitably, but it will typically be much more work to land the job. It will also be harder to gain their loyalty over time, so you can expect to bid against other contractors on each project. More to the point, this sort of client would be delighted to pay you \$500 for an estimate — then suck dozens of hours out of you leaving you high and dry at construction time. These are usually very nice people, but you've made it okay for them to take advantage of you — they believe that privilege is what they're paying for.

Long-Term Goals

Most prospective clients, however, are prepared and even eager to make the emotional commitment I'm talking about, but we contractors don't usually

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their subtrades, and you regularly schedule a key project around their availability. An emotional commitment like this is more powerful and more useful than a mere financial commitment. After all, people renege on financial commitments all the time, but they rarely renege on an emotional commitment. If they do, it's likely to be because the contractor betrays the commitment first by not keeping promises and not

recognize it. Too often we assume that the client wants us to work really hard to prove our worthiness for their job, that we need to spend a huge amount of time impressing them, and that they will only value our time if we ask them to pay for it up front.

But interviewing and selecting contractors is no less tedious for most clients than it is for you. How many of you full-line residential contractors out there

interview several subcontractors for each subtrade? Not many, I would guess — who has the time and the energy for that? Homeowners feel the same way, so much so that trying too hard to impress them can backfire. If you come well recommended by someone they trust (a key point), and if it's a job you are suited to, one of the *worst* things you can do is work too hard to sell your company and the value of your time in order to convince the customer they should pay for your estimate.

Instead, interview the client with an eye to the long term. You should be asking the questions; they should be doing

the talking. Remember you're a service provider, just like a doctor or a lawyer — you need to find out as much as possible about this case before deciding how, and whether, to proceed. The more time you spend trying to impress them, the less time you will have to listen to them.

So don't push it. Be confident in your expertise, work on your listening skills, and learn how to ask questions. Keep in mind that I have been able to get upfront deposits for substantial projects by coming to an initial sales meeting with nothing but a pen and a folded-up piece of notebook paper in my pocket

— that and the ability to conduct an effective interview. I'm not alone — I could name ten colleagues who could say the same thing.

So stop worrying about getting paid for the estimate. What you really want to get is the emotional commitment, because then you'll get paid for the estimate, the design, the contract and specifications, and the construction. You'll probably even land another several dozen projects for that client and for that client's friends. 

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