

Markup by a Different Name?

To the Editor:

While I agree with Mr. Deal's perspective that consistency and honesty are the only fair way to work, I think he's pretty hard on the percentage bidders ("How to Charge for Overhead," 9/02). Percentage bidding is brutally consistent as well as fair. The customer who asks for a more expensive product should pay a higher amount for overhead, though an equal percentage. Mercedes dealers are not expected to operate on a smaller markup than Volkswagen dealers.

By Mr. Deal's own math, his labor charges are 160% over his costs. If Home Depot charged their cost for materials but billed the customers at 160% of their stocking labor costs, people would be outraged. Mr. Deal is recouping the exact same costs we all are attempting to, just lumping it all into the labor column.

Overhead is a fact of life, and it is a percentage of the company's overall operations, not a portion thereof. Even Mr. Deal admits this in his closing paragraph when he reverts to referring to his own salary and profits as percentages of his company's annual gross, not his labor rate.

Percentage bidding permits me to completely open up my books to my customers. I have nothing to hide. I might not be so open if I charged "no markup" for materials and subs while trying to explain my 160% markup on labor.

Paul Fenner, President
Fenner Construction, Inc.
Americus, Ga.

Les Deal responds: Your statement that I am "recouping the exact same costs we all are attempting to, just lumping it all into the labor column" is in fact exactly right. I don't agree, however, that my labor charges are 160% over my

costs. Using historical data as the starting point, I have added my actual overhead costs for the year onto my labor figure. Time on the job is what I bill for, and putting overhead there assures me that I will cover my overhead expense.

When you say that percentage bidding is consistent, I partly agree: Always using the same percentage markup is consistent. But what constantly changes is the cost of subs and materials. So the amount of markup dollars you earn varies constantly over time. The percentage system charges some customers too much of your overhead costs and some too little. My method is more consistent, because it attaches overhead cost to time on the job. Each customer pays his or her fair share, according to how long we stay on the job.

Like you, I have nothing to hide, and customers respond well to this method because it allows them to upgrade to more expensive material and fixture selections without facing an additional surcharge.

Management Fee Works

To the Editor:

I've been using a job pricing structure similar to Les Deal's for the past 14 years and have discovered a few glitches along the way. The system works well for labor-driven operations but won't work smoothly for construction businesses or sometimes for specific projects that rely heavily on subcontracted labor because overhead and profit won't be funded adequately.

Take a small bath remodel. The demolition and carpentry labor account for a small percentage of the overall project cost. The plumber, electrician, plasterer, tile, custom glass installer, and painter account for the bulk of the project cost. On such a project, my estimating, selling, and management time is tremendous in relation to the labor. And I haven't found that a lead

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carpenter's time can be justified on such a trade-heavy job.

In an effort to be equitable, I budget a management fee into proposals. Jobs with heavy in-house labor have a lower management fee, while trade-heavy jobs have high management fees. I charge a flat fee based on past job performance data.

As Les mentioned, clients are receptive to an alternative system provided we show them the underlying pricing structure. And I find the system to be a good marketing and sales tool.

Regarding the matter of directly passing through material costs to clients, there is a downside when a product fails. Who is responsible for the cost to repair or remove and replace the item? Typically, a portion of material markup buys the client "insurance" that if a problem occurs, the contractor will make things right. Without a markup to offset the risk, the cost to cure comes out of the contractor's profit. I give my clients the option of either accepting materials at a direct pass-through without markup with the understanding that they carry the risk if a product fails, or paying a markup of 15% to 35% on materials for which I will assume the risk. I will always be there to assist clients in the event of a material problem, but when they choose the direct pass-through option, I will charge to expedite the repair or replacement process. In either case, it is important to be concise with clients to avoid misunderstandings about their choices and ramifications.

Mike Guertin
East Greenwich, R.I.

Les Deal responds: You are correct that this method in its pure form works best for labor-laden jobs.

Like you, I spend a lot of personal hours in sales and management on bathroom remodels. In those cases, I figure my own time into the price, expressed as an hourly rate, not as a percentage.

Replacing failed and defective products and materials hasn't been an issue for me. First, I use high-quality products. Second, if a product fails more than once, we drop it. But if I did find it necessary to provide "insurance" against product failure, I would still try to add it in as a factor of time, based on actual historical replacement costs.

Thieving Hammer Swingers

To the Editor:

Obviously, Les Deal is cut from a much more morally upstanding and intelligent mold than the rest of us thieving and ignorant hammer swingers. While I felt sufficiently berated, I am hoping in future articles you can find authors of even greater character and moral stature to guide the poor unenlightened masses.

Matt Tonn
Progressive Construction, Inc.
via e-mail

Access to Prices

To the Editor:

Thank you for your article, "How to Charge for Overhead." Les Deal is right: The battle has changed. The Big Box is the reason. "They have access to prices."

Joe Wavra
via e-mail

A Revolutionary Idea

To the Editor:

I have never responded to an article before, but the article "How to Charge for Overhead" in the September 2002 issue "hits the nail right on the head," so to speak. If there has ever been an idea that could revolutionize this industry, this is it. I have been in business for going on 11 years now and trying to make the percentage system work for the entire time. My conclusion: It doesn't! And the reasons could not have been better stated.

We need more articles like this so that this method starts to "sink in" and the old "percentage method"

quickly fades away. I truly believe that this overhead recovery method is a huge step in guiding this industry toward professionalism and fair, consistent profitability, as well as increasing owner enjoyment and reducing burnout. Thank you.

Stephen L. Nash, Jr.
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Ithaca, N.Y.

KEEP 'EM COMING!

Letters must be signed and include the writer's address. *The Journal of Light Construction* reserves the right to edit for grammar, length, and clarity. Mail letters to *JLC*, 186 Allen Brook Ln., Williston, VT 05495; or e-mail to jlc-editorial@hanley-wood.com.