

Choosing the right projects to bid on

A computer program called 'Work in Progress' helps keep this company's focus.

by Kent Miller

■ Sales for sales' sake are not necessarily good for anyone. How does one decide what to bid, when to bid, and at what gross profit it should be bid at? There are no simple answers to these questions.

What you decide to bid is influenced by many factors, among them:

- your expertise;
- current resources;
- current work under contract;
- other bidders; and
- market conditions.

A simple management tool for plotting when production will occur has been very useful to our organization. Based on budget and current backlog of contracts, it's easy to see if a project that is out to bid fits into your current construction schedule.

We have created a simple computer program on Lotus called "Work in Progress." The program lists every job under contract, the job names, estimated total labor hours, and contract amounts (see chart). The program then calculates the average sales revenue per labor hour. From there, we plot the estimated hours we expect to expend each month. The plotted hours help us calculate the monthly revenue, average labor force required, and current backlog of work.

At the bottom of each month, the monthly production amount I've targeted in my annual construction budget is listed, to remind me of the company's goals.

Like all management tools, this is not failsafe. But it has allowed us to seek work that best fits our construction schedule.

As a subcontractor, you have very little control over the actual construction schedule. As a prime contractor, you maintain a little more control over your destiny. If the basis of your work is as a prime contractor, these forecasts will probably be a little more stable than a sub-contractor's. We're about half-and-half.

As a construction manager, I find

myself reviewing and adjusting these forecasts a couple of times a week.

Pitfalls, benefits—There are pitfalls: one is that larger jobs appear to be easier to plot and are quicker in obtaining the budget projections. They can also carry the greater risk if you're a subcontractor and do not control the construction schedule.

Imagine for a moment that—through no fault of your own—you forecasted production in the month of December at \$200,000 on a state highway job. On November 30th, the inspector rejected the installation of the primary water source that was a key to starting your work. Your work is delayed 30 days while the water source work is being corrected. As a specialty subcontractor with only one large contract on the books, you have no other choice than to send your workers home until January.

Had this same thing occurred to you when your sales consisted of four \$50,000 contracts, however, you would have forced some production in the other three contracts to get you through the month.

A benefit of this program is projecting the future assignments of foremen. We also provide our foremen with a copy of the "Work in Progress" forecast on a monthly basis, to assist them in reviewing what is expected of them. That way, they're better prepared to look ahead to upcoming projects, gauge manpower requirements, and interact with the demands on resources from the other foremen.

A management tool—I began this article by stating that "sales for sales sake are not necessarily good." Review this forecast each time you're considering submitting a bid. Take the upcoming project you're bidding and plot it on your current

"Work in Progress" forecast. It's a quick test to see if you really want the work, and how it will fit in among your current budget projections. After that comparison, then place a value on the gross profit the work deserves, based on your needs.

This management tool will allow you to monitor and react to the day-to-day changes of field work. In most cases, it'll put you on notice to take action.

If it's 60 days from when you run out of work and you need to win a contract on a job that's going during that time frame, you submit your lowest bid.

If you're bidding the same job and you've got your budget covered, you should increase your direct costs, gross

'Work in progress'

REVISED		DATE: AUGUST 1, 1992		EXPENDED	
"TUCSON" JOBS		FOREMAN'S INITIAL		HOURS	
	EST HRS	CONT. AMT	\$/HOUR		AUG 92
COUNTY ANNUAL CONTRACT	J	600	\$25,000	\$42	0
RODEO GROUNDS MAINT.	J	1200	\$35,000	\$29	50
CITY IRRIGATION REPAIRS	J	1500	\$60,000	\$40	100
100 STREET LANDSCAPE	J	8528	\$295,371	\$35	0
SOFT BALL FIELD/COLLEGE C	T	1	\$0	\$0	1200
UNIVERSITY BUFFER	T	2200	\$150,000	\$68	0
WALNUT SHOPPING CENTER	T	500	\$15,000	\$30	0
CARSON MIDDLE SCHOOL	T	2942	\$90,000	\$31	500
DUFFY ELEMENTARY SCHOOL	T	1700	\$54,765	\$32	0
MODULAR SCHOOL	T	1300	\$43,600	\$34	500
HOSPITAL ADDITION	T	1000	\$30,000	\$30	800
PENDING CONTRACTS	T	550	\$22,871	\$42	40
FOUNTAINS @ SA CHOLLA	T	1	\$0	\$0	0
PLEASANT RIDGE RETIREMENT	T	1	\$0	\$0	700
TOTAL HOURS/BACKLOG		800	\$0	\$0	0
MONTHLY REVENUES		1325	\$35,000	\$44	0
AVE. WORKFORCE			\$55,000	\$42	0
CONSTRUCTION BUDGET		24150	\$911,607	37.74	0
				3330	3890
				\$110,965	\$142,415
				18.1	23.2
					\$125,000

With a computer print-out like the kind Kent Miller uses, you can keep much closer track of what projects you should and should not bid on.

profit and net profit accordingly.

We have found that a company is increasingly inefficient with additional sales above and beyond its optimum capabilities.

But this simple method of plotting contracted work helps identify the work we want to bid, when to bid, and at what gross profit it should be bid at. It also helps keep managers and foremen focusing on day-to-day objectives, when they should be more attentive to the long-term objective—which is meeting our budget projections.

—Kent Miller is owner of The Groundskeeper in Tucson, Ariz. and president of the Arizona Landscape Contractors Association.