



# Intentional Bidding

# INTENTIONAL BIDDING

**Why do we bid jobs? If you answered “to get the work,” that’s only part of the answer. We bid jobs to get profitable work, and bidding profitable work requires intentional bidding.**

If you are not as profitable as you would like to be, it may be due to one or more of four reasons:

1. Lack of a target
2. Confusion about margin and markup
3. Confusion about price vs cost, and
4. Lack of confidence

In this article we’ll look at bidding with a target in mind.

## UNDERSTANDING MARGINS

Margins are our share of each sales dollar. They are what’s left over from each dollar of sales after we subtract variable expenses (such as material and labor) that increase with each new dollar of sales.

Your target should be the total margins, or “gross profit,” necessary to pay overhead expenses PLUS enough to pay debt and grow our companies. What’s the target for your business? Most of us don’t have one. Let’s look at why targets matter.

Suppose your margin is \$.50 of each sales dollar, your overhead is \$100,000/month, your debt payments are \$10,000 per month, and your profit goal (in addition to debt) is \$10,000. Your target is \$120,000 of gross profit. How much do you have to sell to earn \$120,000 gross profit?

$\$120,000 \text{ target gross profit} / \$.50 \text{ margin per sales dollar} = \$240,000 \text{ of work per month}$

You would have to do \$240,000 of work each month at a \$.50 margin per sales dollar to hit your target. Maybe that sounds reasonable at your company.

But what if doubt creeps in? What if you really, really need the work to "keep the guys busy?" You decide to come down on your original bid in order to get the sale. What happens if you drop your margins to \$.30 or \$.20 or even \$.10 of each sales dollar?

$\$120,000 \text{ target gross profit} / \$.30 \text{ margin per sales dollar} = \$400,000 \text{ of work per month}$

$\$120,000 \text{ target gross profit} / \$.20 \text{ margin per sales dollar} = \$600,000 \text{ of work per month}$

$\$120,000 \text{ target gross profit} / \$.10 \text{ margin per sales dollar} = \$1,200,000 \text{ of work per month}$

Can you do \$400,000 or \$600,000 or \$1.2 million of work each month? If you can't, winning the bid at a \$.30, \$.20, or a \$.10 margin per dollar of sales would be fruitless because you don't have sufficient capacity to do the work.

## SET A TARGET

To come up with an achievable target for bidding, start with an estimate of your capacity. Suppose you can do about \$500,000 of work in a month. With a target of \$120,000 and your \$500,000 capacity, what's the lowest margin you could use to have even a chance of hitting your target gross profit?

$$\text{\$120,000 target margin} / \text{\$500,000 maximum capacity} = \text{\$.24 minimum margin per sales dollar}$$

To bid with intent, you need a target gross profit and an estimate of your capacity. Use the examples above and give it a try. What's your target gross profit and what's your minimum margin for bids? In my next article we'll look at how to use your margins and cost estimates to price bids. If you're interested in working together to improve your margins, bidding for jobs, and more, please get in touch.

If you have any further questions, please don't hesitate to mail me at [Martin@annealbc.com](mailto:Martin@annealbc.com) or visit [www.annealbc.com](http://www.annealbc.com)



## **Martin Holland**

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.