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Bid / Hit Ratios: What's Yours And What's Often Overlooked

By Jayme Broudy, Contractor's Business School

Dear Jayme:
I hear about bid/hit ratios but don't really understand them. Are they important? What should mine be?
- Larry

Dear Larry:
Yes, they're enormously important: They're a Key Performance Indicator (see last month's article on KPIs) of how your business is doing and an important guide to decision-making. But a great Bid/Hit ratio can fool you into thinking all's well (or that a poor one means trouble) when it really isn't. The key is to look behind your overall ratio to see what's driving it.

Here's how to find and use your Bid/Hit ratio to help manage your business:

It's All About the Data: Go back and look at all your completed jobs for the past month, quarter, and year…more if available. *(If you don't have this data in your system, recreate it or at the very least start tracking it now. You can't be running a business without it.)*

Compare to Standards:

Subs ... Private Bid: 4-6 to 1 ... Negotiated: 3-4 to 1

Generals ... Private Bid: 4-6 to 1 ... Negotiated: 2-3 to 1

These are national averages, not the gospel, but they're a place to start. The real answer to "what's the right ratio for me?" is: whatever ratio produces the profitability you want.

Break Into Categories: Within each category, drill down to more specific groups:

Residential vs. Commercial, Large vs. Small, Metro vs. Rural, others as needed

Track Your Trends: One month of data is okay, a quarter is better, 3 years better than that. Has a particular segment's ratio been steadily dropping over time? Rising? Better find out and figure out why.

Profitability: ***This is the most important part!*** Your Bid/Hit ratio will tell you how often you won the job, but not whether you made any money doing it ("I went bankrupt but my Bid/Hit ratio was the highest in town"). Gather the profitability data for each job and see where you're making money.

This is job costing. It both requires careful tracking of labor and materials cost to each job so you can see where you made (or didn't make) money, and is one of the most powerful management tools you can have.

Tune your bidding process: Compare your bid assumptions with the actual results. Did they match up? If not, you'll need to make adjustments on the future bids. If you found that certain types of jobs were consistently unprofitable, develop a strategy to fix this.

A few tips…

Qualify the bids: Don't wasting time preparing bids for tire-kickers or flakes.

Be very careful about low-balling bids just to get the business: There are reasons to take unprofitable jobs, but this requires a solid understanding of cash-flow management and profitability

Really understand your overhead and profit assumptions: Many contractors don't include nearly enough to cover fair profit. If you can't be competitive at decent profit, you need to look at your expense structure.

Doing lots of bids isn't necessarily a good move: It may bring in more business to the top line but cost a lot in estimating costs that hurt profitability. Pick your targets.

"How'd your softball team do?" somebody asks. "We scored ten runs" you answer proudly. But ten runs don't matter if the other team scored 12 and you lost the game. That's the real answer. Bid/Hit ratios are important, but only in proper context. You want to have a strong ratio of *bidding on profitable jobs* and that means understanding what's really going on in your business.
Cheers!
Jayme

Jayme Broudy is the founder and principal of Contractor's Business School® - a coaching, training and consulting firm specializing in helping contractors produce more profit in less time. Since 1993, Jayme has worked with hundreds of contractors in many specialty areas to build successful stand-alone businesses. Visit www.contractorsbusinessschool.com or call (800) 527-7545 to get the FREE CD "10 Key Strategies to Build a Business that Works."

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