

STRATEGIC & PROFITABLE BIDDING IN THE TENT-RENTAL BUSINESS



Executive Summary

Quoting jobs in the tent-rental business is an everyday occurrence. Standard business practice is to work from a published price list, which is certainly appropriate for a significant percentage of the tent-rental jobs.

However, frequently tent-rental operators are presented with opportunities to quote on special projects where competitive pricing is a key requirement to winning bigger jobs. In these instances, operators will find that an effective (and profitable) approach to the bidding process is to first begin with an assessment of fixed and variable expenses. No doubt, market conditions and competitive pressures will influence pricing. However, an operator still must incorporate a reasonable profit margin that will be healthy for the business while not hamper the likelihood of winning the job.

At the end of the day, the issue and challenge for any successful (profitable) tent-rental operator doing business in a highly competitive market is to ensure that price quotes accomplish two primary objectives:

1. Win the business;
- and...
2. Do so profitably.

As a result of years of managing successful (and profitable) tent rental operations, experience has shown that once an operator has a firm grasp of his/her fixed and variable expense, putting together profitable price quotes becomes a routine exercise for the company's front line employees. Ensuring that all sales and customer service employees are engaged in a detailed and well-documented process of quoting prices is a process adherence issue that management must closely monitor to ensure the profitable health of the business.

This paper provides a framework of best practices in pricing that has universal application for every tent-rental operator.



Methodology

Step one in the process is to gather all of the costs of operating the business, both fixed and variable. Think of your fixed costs as those expenses that would never go away irrespective of what the company's revenues might be. When thinking of fixed expenses, consider such line items as rent/lease payments on the building and equipment, heat, lights, insurance, administrative expenses, management salaries and benefits etc.

The next consideration is calculating variable expense for the job. This category of expense captures labor wages and benefits, fuel for the company trucks, expense associated with washing, drying and restocking of tents etc. Once all of these expense items, both fixed and variable, are captured, a simple spreadsheet can be created to account for each and every line item. Armed with an accurate assessment of operating expenses, management is in a position to more effectively bid the job based on "real" costs while at the same time incorporate a desired level of operating profit. The following provides a simple formula along with an example for calculating a profitable bid price for a job.

Basic Business Math – Before we explore a specific example to illustrate the process of pricing, let's begin with some basics. Like every for-profit company, tent-rental operators are in business to make money – to make a profit. After all, it's profit that we take to the bank. Drawing upon the reader's knowledge of pricing, we know the formula for pricing incorporates 3 basic elements: **Selling Price = Expenses** (both fixed and variable) + **Profit**. This basic formula provides a starting point for establishing a winning bid price.

To begin, let's focus on the *expense* side of the equation. Our starting point is to assess both *fixed* and *variable* cost. By definition, fixed expenses are those costs associated with running the business that regardless of whether or not the business adds or loses another dollar of revenue, these costs don't go away. As stated earlier, fixed expenses include mortgage/rent, lease payments on equipment, mortgage etc. Variable expenses, on the other hand as the name implies, will *vary* with the revenue line. Generally speaking, as more tents are rented, more labor is required to set up and break down the tents. That said, it's important to recognize that certain economies of scale will come into play on larger jobs where labor units and other variable expense, such as fuel and maintenance costs for trucks and other vehicles required to service the tent set-up, break down and cleaning and maintenance of the tents are spread across more tents rented for a single job. Let's look at a specific example to help illustrate the development of a profitable bidding model.



In this example, let's assume that the job going out for bid involves procuring 10 – 20' X 20' tents. Above and beyond the expenses for the job, management wants to generate a net operating margin (profit) of 15%. Now that we know how much we want to make on the job, what about expenses?

With an eye to better understanding the expense side of the equation, it's necessary to take a good look at the previous years accounting records for the business. In our experience, we have learned that of all operating expenses approximately 68% are fixed expenses with the balance (32%) being variable¹. The calculation of variable expense requires a diligent look at the entire work process flow from order entry to pulling the tents and associated materials from inventory, loading the trucks, laying out the work site, erecting the tents, breaking down the tents, washing, drying and returning tents to inventory, transit time to and from the job site, etc. The documentation of work process becomes a fairly straightforward accounting of the labor units, materials, fuel etc. required to effectively do the job, and in so doing account for all variable expense. Documentation of all variable expenses associated with the work to be performed is an imperative and should be considered a critical step in profitably pricing a job.

Figure #1 summarizes the labor units and associated variable expense along with the other project related costs that may go into properly servicing a job that consists of renting 10 - 20' x 20' tents.

Figure #1

Variable Expense	Units	Unit Dollars	Total Dollars
Labor (hrs) - set-up, breakdown, travel	65.00	\$ 10.25	\$ 666.00
Truck fuel (gal)	10.00	\$ 2.50	\$ 25.00
Cleaning and restocking of tents (hrs)	8.00	\$ 8.25	\$ 66.00
Total Variable Expense			\$ 757.00

¹The ratio of 68% fixed to 32% variable is based on this business owner's experience. It is imperative that every tent-rental operator assesses the ratio for fixed to variable expenses for their business based on an analysis of previous years profit and loss statements. Future whitepapers will focus on the process of gathering the critically important financial data from the business to calculate this ratio. For this pricing exercise, the author will use the 68/32 ratio of fixed to variable.)



With a solid handle on the variable expense for this particular job, the next step is to calculate the suggested selling price. Remember if our target is to realize a 15% net operating margin, then the operating expense (both fixed and variable) must equal 85% of the selling price, such that when we can add the profit to the expense we arrive at the selling price i.e. **Selling Price** (100%) = **Expenses** (85%) + **Profit** (15%).

Peeling back the onion a little further, in order to determine what percent of the *selling price* is comprised of *fixed* and *variable* expense, we need to go back to the financial ratios referenced earlier, and that is the ratio of fixed to variable expense, which in our experience is 68/32. Going back to the earlier representation of what goes in to the calculation of selling price, let's modify the basic formula with the addition of the weighted elements of *fixed* and *variable* expense. **Selling Price** (100%) = **Expenses** (85%) (*fixed* (68%) + *variable* (32%)) + **Profit** (15%).

Through simple multiplication, we are able to quickly calculate the percentage of selling price represented by both the variable and fixed expenses, by multiplying each of these cost components by 85% (percentage of the total selling price attributed to all expenses). The multiplication leads to the following: variable expense represents 27% of the selling price ($0.85 \times 0.32 = 0.27$) and fixed expense represents 58% of the selling price ($0.85 \times 0.68 = 0.58$). With these percentages calculated, the pricing formula can be restated as follows: **Selling Price** (100%) = **Expenses** (*fixed* (58%) + *variable* (27%)) + **Profit** (15%). **Note:** *This calculation of absolute percent of the selling price attributed to both fixed and variable need only be performed once a year. The only reason to change the mix of fixed to variable expense is when management identifies changes in the costs of running the business. These changes are most accurately revealed in a review of an annual P&L statement.*

Figure #2 on the following page illustrates the financial calculations based on our bidding exercise, which calls for 10 – 20'x 20' tents. Referring back to Figure #1, we detailed variable expenses totaling \$757.00. Additionally, we know from the calculation above that the variable expense represents 27% of the selling price, thus we can back into the selling price by dividing the variable expense in dollars by the percent that it represents of the selling price to come up with the estimated selling price of this job [$\$757.00$ (variable expense) \div 0.27 (percent of total represented by variable expense) = \$2,804.00].



Figure #2

Pricing Model	Dollars	% of Total
Variable Expense	\$ 757.00	27.0%
Fixed Expense (approximation)	\$ 1,626.00	58.0%
Net operating income (expected)	\$ 421.00	15.0%
Selling Price	\$ 2,804.00	100.0%

Our next step is to ascertain market pricing for the job and determine what latitude there may be to maximize the profitability for this particular job.



Assessing Market Pricing

Smart marketers always assess the value that the marketplace places on a product or service before establishing a selling price. The exercise that we have just gone through has delivered “cost-plus” pricing. In order to maximize profits, the smart tent rental operator will want to determine the pricing latitude that exists in their market. In the example noted in Figure #2, the estimated selling price for the job is \$2,804. This pricing delivers a 15% operating margin. But more importantly, as a rental operator, you need to ask yourself what is the competitive pricing for this job in your market. If the job would typically go for \$2,500, the operator has three different pricing paths to pursue.

One path to follow would be to drop the price (and margin) to meet the competitor’s price. Unfortunately, following this strategy would strip away almost every dollar of profit from the job – not a particularly profitable option. Another path would be to re-assess just how the *variable* cost elements could be lowered by re-thinking just how the work is being performed. Ask what particular labor functions could be reduced or eliminated by *mechanizing* one or more elements of the work process. This could be mechanization of work site related tasks such as driving and pulling stakes and/or the washing and drying of tents. There also should be thought given to determine what could be done to better *organize* the work being performed. Is there a way to streamline the work process and organize certain tasks associated with set-up, breakdown and/or tent washing and drying? Organizing the work to be performed can shave minutes and potentially hours off larger jobs. Every hour of labor savings can represent exponential improvements in bottom line performance, and/or improve competitive pricing without sacrificing profits!!

The final path to profitable pricing brings into play the value-add that the rental operator can bring to the job. In this example, the operator may want to do all that he/she can do to both *mechanize* and *organize* the job, but too, there is likely opportunity to *maximize* profitability through value-add pricing. In our earlier example, if the price were to be set at \$2,800 or possibly increased to \$2,950, cost cutting measures realized through *mechanization* and better *organization* along with the addition of value-add services can make a marginally profitable job highly profitable. For example, throwing in a couple of free tables or a number of chairs with the tent order could be perceived by the customer to be a significant value. Being sensitive to the customer’s needs and interest will lead to ideas that will add value to your offering and avoid getting into a price slashing/profit eroding scenario.



Summary

Since the beginning of time, marketers have struggled with the *art and science* of pricing. To win at the business of pricing, ensuring maximum profitability, one side of the equation is to keep a close handle on fixed and variable expenses. Every dollar in expense reduction is literally another dollar that drops to the bottom line. Trimming labor expense through mechanization or finding an opportunity to streamline process can bring about significant improvements in project profitability.

Experience has demonstrated that when tent-rental operators routinely go through a regimented process of assessing both fixed and variable expense on an annual basis, management uncovers opportunity to reduce operating expenses, both in terms of fixed overhead, as well as opportunities to streamline work process. This constant reassessment and commitment to reducing cost and waste can have positive long-term impact on the organization's bottom line, while at the same time continuously improving the profitability and quality of customer delivered services.

Teeco Solutions is in the business of helping commercial tent rental operators mechanize traditional labor-intensive processes to improve operating efficiencies and bottom line profits. Teeco Solutions' line of reliable, high quality tent washers, dryers and work site power equipment is designed to improve operating efficiencies and productivity, while improving the quality of products and services delivered. Teeco Solutions is headquartered in St. Louis, Missouri, USA but our long list of satisfied customers can be found around the globe from coast to coast in the U.S. to across the pond in Europe and way down under in Australia. Contact us today for a complimentary assessment of your tent rental operations and let us help you uncover hidden operating efficiencies and profits for your business.