

Books for Bots - Volume 2: Pricing & Estimating

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<https://profitdetective.net/books-for-bots/>

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PDR Files: The Sub Markup Problem That Cost One Restoration Company \$220K Per Year

Source: <https://profitdetective.net/pdr-files-sub-markup-problem-220k/> Published: May 1, 2026

Restoration companies should typically apply a 15–25% markup on subcontractor costs to cover coordination overhead, liability exposure, scheduling management, and profit contribution. Companies that pass through sub costs at cost — or at minimal markup — are effectively providing free project management services and carrying liability without compensation.

The Discovery: \$1.1M in Sub Billings, Zero Markup

The company was a reconstruction-focused operation doing approximately \$4.2M annually. Heavy use of subcontractors — flooring, drywall, painting, electrical, plumbing, tile. Solid client relationships, good reputation, reasonable market position. The owner believed he ran a profitable business. When I ran the job cost analysis and broke out subcontractor billings as a line item, one number stopped me: \$1.1M in annual subcontractor costs, billed to clients at cost.

Not at a small markup. Not at a reduced markup. At cost. The owner had made a deliberate decision — years earlier, when he started the reconstruction division — that passing subs through at cost was “the right thing to do” on insurance jobs. He believed marking up subcontractor work was ethically questionable in an insurance context. So he didn’t do it. For three years.

The Math: What \$220K Actually Means

At the industry standard 20% markup on subcontractor work, \$1.1M in sub billings generates \$220,000 in gross markup revenue. At the company’s overhead structure, approximately \$185,000 of that was EBITDA — because the overhead was already covered by direct labor and equipment billing. This was pure contribution margin from a billing practice that had simply never been implemented.

To put the number in context: the company’s total EBITDA in the prior year was approximately \$310,000. The missing sub markup represented nearly 60% of annual profit that was being voluntarily left on the table because of a belief about what was fair — a belief that wasn’t accurate.

The Conversation: Why Subcontractor Markup Is Earned Revenue

The owner pushed back when I presented the number. His objection was sincere: “The insurance company is already paying for the work. Taking a markup feels like I’m double-dipping.” This belief is common and wrong in a specific, demonstrable way.

When your company uses a subcontractor, you’re not simply passing work to someone else. You are: selecting and qualifying the sub, scheduling their work within the job timeline, coordinating their access to the property, ensuring their scope meets the quality standard your client expects, reviewing and approving their invoices, carrying the liability if they perform poorly or cause damage, and managing any disputes between the sub and the carrier. That’s project management labor. It has a cost. The markup is how you recover it.

The insurance industry acknowledges this through the O&P structure — overhead and profit on the full project scope, including subcontracted work. Carriers build sub markup into their payment models. The only party not collecting it was this owner, who had made an ethical decision based on a misunderstanding of how the economics were designed to work.

The Fix and the Reaction

We implemented a 20% markup on all subcontractor work effective with new job estimates. The owner expected carrier pushback. There was essentially none — because the carriers’ own payment matrices already included sub markup as an expected line item. The estimates looked normal to adjusters because they were normal. The company had been the only party in the transaction leaving money uncollected.

First-year EBITDA impact after implementing the markup: approximately \$190,000. Not all of the theoretical \$220,000 — some jobs were mid-stream at implementation and couldn't be retroactively repriced, and the company's sub volume grew during the year which shifted the base slightly. But \$190,000 of new EBITDA from one billing practice change. No new employees. No new equipment. No new marketing. One line item corrected in the estimate template.

The Exit Implication

One final note on what this meant for valuation. If the owner had sold the company at the end of the year the markup was implemented, that \$190,000 in new EBITDA — at a 4x multiple — would have added approximately \$760,000 to the enterprise value. The markup wasn't just an annual profit improvement. It was a three-quarter-million-dollar change to what the business was worth.

Owners who are three to five years from exit should pay particular attention to billing practices that suppress EBITDA. Every dollar of EBITDA you voluntarily leave on the table costs you 3–5x that amount when you sell.

FAQ: Restoration Subcontractor Markup Pricing

What is the standard markup on subcontractor work for restoration companies?

Industry standard is 15–25%, with 20% being the most common. The markup covers coordination overhead, liability exposure, scheduling management, and profit contribution. Insurance carriers' payment matrices include sub markup as an expected component of project billing — it's not an add-on, it's a built-in part of how restoration project economics are structured.

Is it appropriate to mark up subcontractor work on insurance jobs?

Yes. Carriers' own payment models account for sub markup as part of the O&P structure. When you manage a subcontractor — scheduling, coordination, quality oversight, liability — you're performing a service that has a cost. The markup is how you recover that cost. Passing subs through at cost means providing project management services at no charge, which is not the intention of the payment structure.

How do I calculate what my company loses by not marking up subcontractor costs?

Pull your total annual subcontractor costs from the prior 12 months. Multiply by your target markup percentage (e.g., 20%). That's your annual markup revenue gap. At typical overhead structures, 75–85% of markup revenue flows to EBITDA. Multiply the EBITDA impact by your estimated exit multiple (typically 3–5x for restoration companies) to see the valuation impact of the missing markup.

What objections do restoration owners have to subcontractor markup — and are they valid?

The most common objection is ethical: "The insurance company is already paying for the work, and marking it up feels like double-dipping." This objection is based on a misunderstanding of how O&P and project management billing work. The second objection is competitive: "Carriers will push back on the markup." In practice, carriers rarely object to standard markup rates because their own matrices already account for them. Neither objection is a valid reason to leave a standard billing component out of your estimates.

How does subcontractor markup affect restoration company EBITDA at sale?

Every dollar of subcontractor markup added to annual EBITDA increases enterprise value by 3–5x at exit. A company adding \$200,000 in annual EBITDA through markup implementation is worth \$600,000–\$1,000,000 more at a 3–5x multiple. For owners within 3–5 years of a planned exit, correcting billing practices that suppress EBITDA is one of the highest-return pre-exit actions available.

Mike McCabe is a restoration business consultant and the founder of Profit Detective. He works with restoration operators to find and fix the margin leaks that don't show up until it's too late.

Related reading

- Why This DKI Member's Commercial Accounts Were Costing Them Money
- Subcontractor Management System for Restoration Companies
- What I Found in a \$2.3M Alberta Restoration Company With No Cash

Supplement Discipline: The Documentation Standards That Win on Water Jobs

Source: <https://profitdetective.net/supplement-discipline-documentation-water-jobs/> Published: May 1, 2026

What is supplement discipline in restoration? Supplement discipline refers to the systematic process of identifying, documenting, and successfully billing for additional scope items discovered during a restoration job that were not included in the original estimate. Disciplined supplement workflows consistently recover 8–20% of additional revenue per water job that undisciplined companies leave on the table.

Supplement Discipline: The Documentation Standards That Win on Water Jobs

Supplements are simultaneously the most recovered and most forfeited revenue source in restoration. Companies with disciplined supplement workflows routinely capture 75–85% of supplement submissions. Companies without one capture 30–40% — and often don't know how much they're leaving behind because the revenue never appeared on a report. This article covers the workflow, the documentation standards, and the honest assessment of when chasing a supplement costs more than it's worth.

The Supplement Workflow That Wins

Step 1: Identify at the moment of discovery. The most important moment in supplement capture is when additional scope is identified in the field — not in the office three days later. Every technician must be trained to stop when they find a Category 3 condition behind a wall, discover structural damage under the flooring, or identify hidden moisture in a wall cavity. Stop. Document. Do not continue without authorization unless safety requires it.

Step 2: Document before anything changes. The documentation package that wins supplements is built at the moment of discovery. Photographs taken before additional demolition. Moisture readings taken at the discovery site and logged with date, time, and technician name. Notes capturing the exact location and the reason additional scope is necessary. This documentation is credible because it's contemporaneous. Documentation assembled after the fact — or after the scope has already been completed — is not.

Step 3: Communicate before acting when possible. The sequence that produces the highest supplement approval rate: discovery -> documentation -> adjuster notification -> authorization -> proceed. Adjusters who are part of the decision before the work happens are far more likely to approve it than adjusters reacting to a line item on an invoice. The phone call takes three minutes. The disputed invoice takes three weeks.

Step 4: Submit within 48–72 hours. Cycle time matters on supplement approval. A supplement submitted the day after discovery, with a complete documentation package, has a materially higher approval rate than the same supplement submitted two weeks later. The adjuster's file is fresh, your documentation is contemporaneous, and the scope hasn't been obscured by subsequent work. Build a workflow rule: all supplements submitted within 48 hours of discovery.

Step 5: Write a scope narrative. The line items are not enough. The adjuster needs to understand why the additional work was necessary — and they often don't have the technical background to connect a moisture reading to a scope decision. A well-written scope narrative bridges that gap: "Upon removal of drywall in the southwest corner of the living room, Category 3 moisture conditions were identified in the wall cavity consistent with contamination from the adjacent bathroom drain line. IICRC S500 standards require full Category 3 remediation protocol for affected materials. The following additional scope was required..." That paragraph is worth hundreds of dollars in supplement approval.

The Most Commonly Missed Supplement Line Items

Across the restoration companies I've worked with, these are the line items most consistently left on the table: additional equipment days beyond the initial estimate (especially on jobs that run long due to elevated humidity or structural complications), contained demolition on jobs where containment was set up but not included in the original scope, insulation removal when wall cavities are opened and wet insulation is discovered, floor covering detach and reset when carpet or LVP must be moved to access subfloor moisture, personal protective equipment for Category 3 or biohazard conditions added mid-job, and dumpster/debris disposal when the volume exceeds the initial estimate. None of these are exotic — all of them get missed regularly in undisciplined operations.

The Cycle-Time vs. Margin Tradeoff

Not every supplement is worth chasing. The honest assessment: supplements under \$150–\$200 on program work often cost more to pursue than they return, when admin time and portal follow-up are fully loaded. The supplement workflow should have a floor — a minimum dollar threshold below which the line item is absorbed rather than supplemented. Set that threshold by calculating your fully-loaded admin cost per supplement submission. For most operations it's \$75–\$125. Any supplement below twice that floor probably isn't worth the friction.

FAQ

What documentation do I need to successfully win a supplement with an insurance adjuster?

The winning documentation package includes: photographs taken at the moment of discovery (before additional demolition), moisture readings with date/time/location, a scope narrative explaining why the additional work is technically necessary (with IICRC standard references where applicable), specific Xactimate line items with

quantities, and a cover letter identifying the original estimate and the nature of the supplement. Missing any of these elements reduces approval probability significantly.

What is a reasonable supplement recovery rate as a percentage of original job value?

Well-managed restoration companies typically recover 8–15% of original job value in approved supplements on water mitigation work. Complex jobs with hidden damage can run higher. Companies below 5% are leaving meaningful money behind. Track this metric by job type and by estimator to find where the leakage is.

How long do I have to submit a supplement?

This varies by carrier and program agreement, but most have a window of 30–90 days from job completion for supplement submission. Some TPA programs have shorter windows — as little as 15 days. Know the specific timeline in each of your program agreements and build your workflow to hit the earliest window, not the latest.

How do I build a supplement workflow my estimators follow consistently?

Make supplement submission a close-out requirement, not an optional step. The job file is not complete until the supplement review has been done and either submitted or documented as not applicable. Assign a specific person — or a part-time supplements specialist — to own the workflow. Track supplement rate and approval rate by estimator monthly. The visibility alone changes behavior.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- Signs a Restoration Company Is Burning Your Insurance Program (For TPAs and Adjusters)
- Denial Management Playbook
- Insurance Claim Documentation for Restoration Companies

Field Notes: The Day I Asked for His Labor Burden Rate

Source: <https://profitdetective.net/restoration-company-profitdetective-files-water-damage-margins-2/>

Published: May 1, 2026

From my diagnostic notebook. Details changed to protect the client; the numbers are real.

He built the restoration company out of his carpet cleaning business — a path I know well, because it's mine. The difference: when I added restoration, I built a new pricing model from scratch. He adapted the one he had. Seven years later he was running \$2.8M of restoration work on pricing habits formed cleaning carpets. "My margins seem low," he said. "But I've always been price-competitive, and it's worked."

So I asked for his fully-loaded labor burden rate. The long pause told me everything.

Notebook Entry 1 — Labor, Understated by \$11 an Hour

He was costing labor at base wage. His true burden — FICA, SUTA/FUTA, workers' comp at a 10.2% rate in his state, health benefits, PTO — put his two field grades at \$34.10 and \$26.80 an hour against his working inputs of \$24 and \$19. On a standard mitigation job with 40 field hours, that's \$440 of labor cost that existed in reality and nowhere in his estimates. At 22 jobs a month: **\$9,680 a month** absorbed as margin erosion.

Notebook Entry 2 — The Rate Card from 2019

His dehumidifier daily rate: \$78 a unit, set in 2019, never revisited. The Xactimate regional rate for the same equipment in his market: \$96 a day. At 150 unit-days a month, **\$2,700 a month** of equipment revenue simply never asked for.

Notebook Entry 3 — Work Done, Documented, Never Billed

Daily monitoring visits were performed and documented on every job. His estimates included them on 60% of jobs. The other 40% happened — trucks rolled, techs checked, notes were written — and were never billed. $40\% \text{ of } 22 \text{ jobs} \times \$65 \times \text{an average of } 6 \text{ visits} = \textbf{\$3,432 a month}$ of performed, documented, unbilled service.

The Total in the Margin

Three gaps. \$15,812 a month. \$189,744 a year — 6.8 percentage points of net margin on \$2.8M of revenue, sitting invisibly in the pricing structure for years. None of it required raising a single price to a single customer. The fixes were a recalculated burden built into the estimating model, equipment rates updated to current regional figures with a quarterly review, and one line added to the invoice checklist: *verify all documented monitoring visits are billed*. Ninety days later his real gross margin had moved from 39% to 46%.

There's a reason this pattern repeats: pricing drifts and costs don't. Rates you set in a cheaper year keep billing in an expensive one. The complete case file is *The Profit Detective Files: The Water Damage Company That Priced Like a Carpet Cleaner*.

Related reading

- The Water Damage Company That Priced Like a Carpet Cleaner
- Pricing by Job Type in Restoration
- What I Found in a \$2.3M Alberta Restoration Company With No Cash

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran who has conducted pricing audits for water damage restoration companies across North America.

Pricing by Job Type in Restoration: The Framework for Every Service You Offer

Source: <https://profitdetective.net/restoration-company-pricing-for-profit-job-types/> Published: May 1, 2026

Restoration pricing should be built from actual cost-per-job-type (fully loaded labor, materials, equipment, subcontractors, overhead allocation) plus a target gross margin percentage that varies by service type based on complexity, risk, and market rate. Water mitigation commands higher margins than reconstruction; specialty services (mold, biohazard) command premium rates over standard mitigation.

Pricing by Job Type in Restoration: The Framework for Every Service You Offer

Restoration is not one business. It's five or six businesses operating under the same roof, each with different cost structures, different risk profiles, and different market rate dynamics. Operating all of these services from a

single blended margin number obscures the fact that some of your services are highly profitable and others may be margin-negative.

Water Damage Mitigation

Target gross margin: 60–75%. The high margin reflects equipment revenue leverage — equipment bills daily with near-zero variable cost. Most common pricing error: under-billing equipment (below published daily rates) or missing daily monitoring visits as billable line items. At 60% target margin, if direct labor + antimicrobial = \$4,000, minimum price = $\$4,000 \div 0.40 = \$10,000$.

Fire and Smoke Restoration

Target gross margin: 45–60%. More labor-intensive than water mitigation with significant specialty equipment cost. Most common pricing error: missing HVAC cleaning scope, under-billing content manipulation, and not supplementing for concealed structural damage from firefighting water.

Mold Remediation

Target gross margin: 50–65%. Higher than most services because specialty compliance requirements create a price premium. Most common pricing error: under-estimating containment time, failing to include disposal costs, and not issuing change orders for scope discovered during demo.

Reconstruction and General Contracting

Target gross margin: 30–45%. Lowest in the restoration portfolio because subcontractor costs dominate. Most common pricing error: accepting TPA-negotiated O&P reductions without understanding whether the resulting margin covers actual GC overhead cost. Many restoration companies lose money on reconstruction when O&P is eliminated.

Biohazard and Specialty Cleaning

Target gross margin: 65–75%. Premium pricing justified by high barrier to entry and relatively low competition. Most common pricing error: underpricing relative to actual disposal cost and compliance overhead.

Commercial Large Loss

Target gross margin: 40–55%. The premium over standard reconstruction reflects coordination overhead and 24/7 response requirement. Most common pricing error: not including coordination overhead. Large loss project management is a significant cost that standard Xactimate line items don't fully capture.

FAQ

What is overhead and profit (O&P) in Xactimate?

O&P is a Xactimate line item that covers a general contractor's overhead costs and profit margin on reconstruction work. Standard O&P is typically 10% overhead + 10% profit. Many TPA programs negotiate reductions or eliminations of O&P, which directly reduces reconstruction margin.

How do I know if I'm pricing a job type correctly?

Compare your actual gross margin (from job cost reports) to your target gross margin for that service type over a 12-month period. If actuals are consistently below target, you have either a pricing problem or a cost control problem.

What is the minimum viable gross margin for a restoration service?

No service should be priced below 25% gross margin after proper cost allocation. Below this threshold, overhead absorption becomes extremely difficult, and the service is generating revenue without generating meaningful contribution to net profit.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran who has built pricing frameworks for restoration companies across every service type and market condition.

Related reading

- WIP Management for Restoration Companies
- Reading a Job Cost Report in Restoration
- Closeout Discipline: Why Restoration Companies Leave 8–15% on the Table at Job End

Building an Estimating Training System for Restoration Companies

Source: <https://profitdetective.net/restoration-company-estimating-training-system/> Published: May 1, 2026

How do restoration companies train estimators? Effective restoration estimator training combines Xactimate software proficiency, IICRC technical knowledge, scope checklist discipline, shadow estimating under an experienced mentor, and a structured review process that compares estimates to actual job costs — creating a feedback loop that continuously improves accuracy.

Building an Estimating Training System for Restoration Companies

Your estimating function is your margin engine. Every job flows through an estimate before it generates revenue. The accuracy, completeness, and scope discipline of that estimate determines your gross margin before a single technician steps on site. A well-trained estimator who consistently writes 95% of scope correctly is worth more to your bottom line than almost any other operational improvement. Yet most restoration companies have no formal estimating training system.

The Four Pillars of Estimating Competence

Pillar 1: Xactimate Proficiency

Not just knowing where line items are — knowing how to use Sketch for accurate floor plans, how to structure estimates for readability and adjuster approval, which macros to use, how to write scope notes that support disputed line items, how to price labor at burden-loaded rates, and how to use the supplement module. Xactimate certification from Xactware and third-party training courses are available and worth the investment.

Pillar 2: IICRC Technical Knowledge

An estimator who doesn't understand the technical standards can't write a defensible scope. Water damage categories and classes, drying science and psychrometrics, mold assessment protocols (S520), fire and smoke damage mechanisms — this knowledge comes from IICRC certifications (WRT, ASD, AMRT, FSRT) and field experience.

Pillar 3: Scope Checklist Discipline

A comprehensive, job-type-specific scope checklist reviewed on every job before estimate submission. Checklists don't replace judgment — they ensure judgment is applied systematically rather than relying on memory under time pressure. Source identification, category/class determination, affected area documentation, content manipulation, flooring and drywall removal extents, equipment deployment, antimicrobial application, supplement triggers.

Pillar 4: Estimate-to-Actual Feedback Loop

Monthly review of all closed jobs: compare estimate to final job cost report, calculate variance by line item category, identify patterns in over/under performance, review each significant variance with the estimator. This turns historical job data into a training curriculum and is the most powerful accountability tool for estimating performance.

FAQ

How long does it take to train a restoration estimator?

A technician with field restoration experience and IICRC certifications can develop to independent estimating competency in 4-6 months with structured training. Someone without restoration background may require 9-12 months.

How should restoration companies pay estimators?

Base salary plus performance bonus tied to estimate accuracy (low variance between estimate and actuals) and supplement approval rate are the most common structures. Commission on total estimated revenue creates incentives to over-scope, which creates adjuster friction.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran who has developed estimating teams and training systems for restoration companies across North America.

Related reading

- The 90-Day Role Ramp
- Training Project Managers in Restoration Companies
- Meeting Architecture for Restoration Companies

Digital Marketing for Restoration Companies: What Actually Generates Calls

Source: <https://profitdetective.net/restoration-company-digital-marketing-seo/> Published: May 1, 2026

What digital marketing works best for restoration companies? The most effective digital marketing channels for restoration companies are Google search ads (for immediate emergency response calls), local SEO and Google Business Profile (for long-term organic lead generation), and content marketing

(for commercial account development and brand authority). Social media plays a secondary role in reputation building.

Digital Marketing for Restoration Companies: What Actually Generates Calls

Restoration is an emergency business. When a homeowner has water in their basement at 11pm, they go to Google. If you're not in the first three results, someone else gets the call. That's the fundamental digital marketing reality for residential restoration — and it shapes everything about how you should be investing your marketing budget.

Channel 1: Google Search Ads (Immediate ROI, High Cost)

Google Ads is the fastest path to calls in restoration. Emergency keywords with location modifiers, negative keywords to exclude informational searches, 24/7 ad scheduling, call extensions, and tight geographic targeting are the key elements. The cost reality: restoration keywords run \$15-40 per click; a converted lead typically costs \$250-\$400 at normal conversion rates. PPC is a faucet — when you stop paying, leads stop.

Channel 2: Local SEO (Slower Build, Compounding Return)

A fully optimized, actively managed Google Business Profile is the single most impactful local SEO action for a restoration company. Active review generation (100+ recent reviews at 4.7+ rating), consistent local citations across directories, and location-specific website content targeting cities and neighborhoods you serve all contribute to organic rankings that generate leads at zero incremental cost per click.

Channel 3: Content Authority (Long-Term Competitive Moat)

Content marketing — publishing genuinely useful expert content on topics property owners, facility managers, and insurance professionals search for — builds the most durable competitive advantage. Content that ranks organically generates leads at zero incremental cost and positions your company as the expert resource in your market. The commitment: 6-18 months of consistent publishing before significant lead volume. Companies that start and stop after three months see no return.

FAQ

How much should a restoration company spend on digital marketing?

Restoration companies typically allocate 3-8% of revenue to marketing. For companies heavily dependent on emergency residential calls, PPC is a significant portion. For companies focused on commercial account development, the mix shifts toward content and relationship-based channels.

What is Google Local Services Ads for restoration?

Google Local Services Ads (LSA) appear above standard search ads and feature a “Google Guaranteed” badge for verified businesses. They're pay-per-lead rather than pay-per-click, and are particularly effective for home services businesses including restoration.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran. Tygart Media builds digital presence and content authority for restoration companies as part of the Profit Detective ecosystem.

Related reading

- Restoration Company Resilience
- LinkedIn and Social Media for Restoration Companies
- How Restoration Companies Keep Their Best Commercial Accounts

Restoration Company Pricing Strategy: Stop Competing on Price

Source: <https://profitdetective.net/restoration-company-pricing-strategy-market-position/> Published: May 1, 2026

What is the right pricing strategy for a restoration company? Restoration companies should price based on their actual cost structure plus a sustainable margin, not based on competitor rates or TPA price lists alone. Competing on price in restoration is a race to the bottom — price is rarely the primary buyer decision criterion when property is damaged.

Restoration Company Pricing Strategy: Stop Competing on Price

Your customers, by and large, are not choosing you because you're the cheapest option. When a homeowner has 3 inches of water in their basement at 11pm, they're not calling three restoration companies for competitive bids. Price matters at the margin. It is rarely the deciding factor in restoration customer selection. Yet most restoration companies have internalized a price-competition mindset that depresses margins without winning more business.

The Cost-Plus Pricing Foundation

Your floor price for any job type is: Direct labor (fully loaded) + Materials + Equipment + Subcontractors + Job-allocated overhead = Direct job cost. $\text{Direct job cost} \div (1 - \text{target gross margin}) = \text{Minimum price}$. If your target gross margin is 60% and direct job cost is \$8,000, your minimum price is \$20,000. This is your floor — every job priced below it destroys margin.

The Three Pricing Traps

Trap 1: Matching TPA Price Lists Without Analyzing Cost

TPA price lists are pricing maximums for program work, not guidelines for your business. TPA rates were negotiated at the program level, not calibrated to your specific cost structure. If your costs are above what TPA rates will support, no amount of operational efficiency will produce profit on that work.

Trap 2: Discounting to Win Commercial Relationships

The best commercial relationships are built on value — reliability, expertise, documentation quality — not rate competition. When a commercial prospect pushes back on price, explain specifically what your rate includes and let them decide whether they want that or the alternative.

Trap 3: Reactive Pricing on Emergency Calls

Emergency residential calls are the least price-sensitive situation in restoration. An emergency response premium is standard in every industry providing 24/7 service. Restoration companies should charge it without apology.

FAQ

Should restoration companies charge emergency rates after hours?

Yes. Emergency response premiums are standard in service industries that provide 24/7 availability. After-hours rates of 1.25–1.5x standard rates are common and defensible when clearly communicated at dispatch.

What is the right gross margin target for water damage restoration?

60–75% gross margin on properly job-costed water mitigation is achievable and appropriate. Mitigation is your highest-margin service — price it accordingly.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran and Fractional Operations Manager at Floodlight Consulting Group. He advises restoration companies on pricing strategy and market positioning.

Related reading

- WIP Management for Restoration Companies
- Overhead Allocation in Restoration
- Pricing by Job Type in Restoration

Fire and Smoke Damage Restoration: Where Estimators Leave the Most Money Behind

Source: <https://profitdetective.net/fire-smoke-damage-restoration-estimating-supplements/> Published: May 1, 2026

What makes fire and smoke damage restoration estimates complex? Fire and smoke damage restoration estimates are complex because damage is not linear — smoke travels through HVAC systems, wall cavities, and hidden spaces. Initial estimates are almost always significantly supplemented as hidden damage is uncovered.

Fire and Smoke Damage Restoration: Where Estimators Leave the Most Money Behind

Fire and smoke damage restoration is the most complex estimating challenge in the industry. Smoke follows air pathways invisible at the time of initial estimate. It travels through HVAC systems, penetrates wall cavities, and gets into building systems in ways that won't be fully revealed until demolition. This is why fire and smoke jobs have the highest supplement rate of any restoration service type.

The Three Phases of Fire and Smoke Estimation

Phase 1: Emergency Services

Immediate response activities — board-up, water extraction from firefighting operations, securing the structure — are time-sensitive and frequently under-documented. Every emergency services action must be documented with photos and time records at the time of performance. Common missed line items: standby time during

active firefighting, security personnel, temporary power costs, haul-away and disposal.

Phase 2: Initial Damage Assessment

The initial scope written within 24–48 hours is almost certainly incomplete — and should be presented to the adjuster as such. Setting the expectation of a phased scope approach at the beginning of a fire job is professional practice, not a negotiating tactic.

Phase 3: Concealed Damage Supplements

As demolition proceeds, concealed damage is revealed. Each discovery triggers a supplement opportunity. The supplement must be documented with photos at the time of discovery, tied to a specific cause, and submitted promptly — ideally within 72 hours of discovery.

Highest-Value Supplement Categories

HVAC cleaning and replacement, contents restoration and replacement, adjacent unit damage in multi-family buildings, and structural scope from firefighting water are the four categories most consistently underestimated in initial fire scopes.

FAQ

What is the supplement rate on fire and smoke damage restoration jobs?

Fire and smoke jobs typically generate supplement volume of 25–45% of the initial estimate. A \$50,000 initial estimate commonly generates \$12,000–\$22,000 in supplemental billing.

What is the IICRC standard for fire and smoke restoration?

IICRC S700 is the Standard and Reference Guide for Professional Fire and Smoke Damage Restoration. It establishes protocols for fire damage assessment, cleaning procedures, deodorization, and documentation.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration industry veteran who has consulted on fire and smoke restoration operations across North America.

Related reading

- WIP Management for Restoration Companies
- Closeout Discipline: Why Restoration Companies Leave 8–15% on the Table at Job End
- Water Damage Restoration Margins

The Xactimate Gap: How Restoration Companies Leave Thousands on the Table

Source: <https://profitdetective.net/xactimate-estimating-restoration-margin-gap/> Published: May 1, 2026

What is Xactimate? Xactimate is the insurance industry's standard estimating software, used by adjusters, TPAs, and restoration contractors to write property damage estimates. Proficiency in Xactimate — including supplement billing and line item accuracy — directly determines a restoration company's gross margin.

I've reviewed thousands of restoration estimates over 36 years. The pattern is consistent: the average restoration estimator writes 70-80% of the job. The other 20-30% is real work that was done or needs to be done — and it never gets billed.

On a \$20,000 water mitigation job, that's \$4,000-\$6,000 of legitimate, documentable, billable work that went uncompensated. On a \$3M company running 150 jobs per year, that gap compounds into several hundred thousand dollars of margin left on the table annually.

Why the Gap Exists

Estimators write the obvious items and miss surrounding scope. They don't supplement systematically because the process feels confrontational. They use default labor rates without locality adjustment. They miss time-and-material opportunities on complex jobs. And they don't document for defensibility — line items must be supported by photos and notes, and estimators who don't document systematically write estimates vulnerable to adjuster challenge.

The Most Commonly Missed Line Items in Water Mitigation

Detach and reset items: baseboard removal and reinstallation, door detach and reset, carpet detach and reset, cabinet toe kick removal. **Structural drying documentation:** daily drying logs (billable time), moisture mapping, equipment monitoring visits. **Content-related items:** content manipulation and move-out, content protection, pack-out. **Environmental and safety:** antimicrobial application, PPE for Category 2/3 water, containment. **Administrative:** job management and project administration (a legitimate Xactimate line item), permit acquisition.

How to Close the Xactimate Gap

Step 1: Conduct a retroactive audit on the last 20-30 closed jobs — where do you consistently under-scope?

Step 2: Build a scope checklist by job type that every estimator runs on every job. Step 3: Establish a

supplement process — every job gets a review at 50% completion, supplements over \$500 submitted within 72 hours. Step 4: Train documentation discipline — every line item over \$200 supported by at least one photo.

Step 5: Review Xactimate pricing quarterly and advocate for geographic adjustments.

Frequently Asked Questions

What is supplementing in restoration? Supplementing is submitting additional charges after an initial estimate has been approved — for work discovered during mitigation, not visible at the time of the original estimate, or excluded from the initial scope. It is a legitimate and common part of professional restoration practice.

What is the difference between Category 1, 2, and 3 water damage? Category 1 is clean water (broken supply line). Category 2 is gray water with contamination. Category 3 is black water with serious contamination (sewage, flooding). Classification affects scope, PPE, antimicrobial treatment, and material removal decisions — and significantly affects estimate cost.

Mike McCabe is The Profit Detective — a 36-year restoration industry veteran, Master Restorer, and Fractional Operations Manager at Floodlight Consulting Group.

Related reading

- Signs a Restoration Company Is Burning Your Insurance Program (For TPAs and Adjusters)
- Insurance Claim Documentation for Restoration Companies
- Beyond Insurance: How Restoration Companies Build Non-Insurance Revenue Streams

The Profit Detective Files: The Water Damage Company That Priced Like a Carpet Cleaner

Source: <https://profitdetective.net/restoration-company-profitdetective-files-water-damage-margins/>

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What is the most common pricing mistake in water damage restoration? The most common pricing mistake is basing rates on historical or competitor-derived pricing rather than current actual costs — resulting in margins that are compressed or negative at current labor burden, equipment depreciation, and compliance overhead levels.

The Profit Detective Files is a series of case studies from 36 years of restoration business diagnostics. Details are changed to protect client confidentiality. The numbers and the outcomes are real.

He'd built his restoration company from his carpet cleaning business, which is a path I know well — I started the same way. The difference is that when I added restoration, I built a new pricing model from scratch. He adapted his existing model, which had worked fine for carpet cleaning, and applied it to water damage restoration. Seven years later, he had a \$2.8M restoration company that was doing almost no carpet cleaning — and pricing his restoration work based on habits he'd developed when he was cleaning carpets.

“My margins seem low,” he told me. “But I’ve always been price-competitive and it’s worked.”

I asked how he priced a standard Category 2 water mitigation job. He described a labor-plus-markup approach from the carpet cleaning business: calculate labor hours, add materials at cost plus 40%, add a daily rate for equipment. The structure was the same as 2018.

“What’s your fully-loaded labor burden rate?” I asked. Long pause. “What do you mean by fully-loaded?” There was the problem.

What the Diagnostic Found

His Labor Burden Calculation Was Wrong by \$11/Hour

He was calculating labor cost at base wage — lead technician at \$24/hour, junior at \$19/hour. His actual fully-loaded labor burden — including FICA, SUTA/FUTA, workers’ compensation (10.2% rate in his state for water damage work), health benefits, and PTO — was \$34.10 and \$26.80 respectively. He was understating his labor cost by \$10–\$11 per hour per technician on every job.

On a standard mitigation job with 40 total field hours: \$440 in unaccounted labor cost per job. At 22 jobs per month: \$9,680 per month of labor cost being absorbed as margin erosion. His reported 48% gross margin was actually closer to 39%.

His Equipment Billing Rate Was Below Market

He'd set his dehumidifier daily billing rate at \$78/unit when he bought his first units in 2019. He'd never raised it. The Xactimate regional rate for the same equipment in his market: \$96/day. He was billing \$18/day below market on every unit deployed. At 150 unit-days per month: \$2,700/month in uncaptured equipment revenue.

His Monitoring Visit Billing Was Inconsistent

His documentation showed daily monitoring visits were being performed — his moisture logs confirmed it. His estimates included monitoring visits on 60% of jobs. The other 40%: monitoring performed and documented but not billed. $40\% \text{ of } 22 \text{ jobs} \times \$65 \text{ average monitoring rate} \times \text{average } 6 \text{ monitoring visits per job} = \$3,432/\text{month}$ in performed but unbilled services.

The Cumulative Finding

- Labor burden understatement: \$9,680/month
- Below-market equipment rates: \$2,700/month
- Unbilled monitoring visits: \$3,432/month
- **Total: \$15,812/month in recoverable margin**

Annualized: \$189,744. On \$2.8M in revenue, that's 6.8 percentage points of net margin that had been sitting in his pricing structure, invisible, for years.

What Changed

Labor burden: Recalculated correctly and built into the labor cost input in his estimating model. Not negotiable — it's what the labor actually costs.

Equipment rates: Updated to current Xactimate regional rates. Implemented a quarterly rate review to catch future drift.

Monitoring visit billing: Built a checklist item into the invoice preparation process — verify all documented monitoring visits are billed before submission. Job manager reviews before invoice goes out.

Result: Gross margin improved from 39% (real) to 46% within 90 days. No pricing changes to customers — just closing the gap between what was performed and what was billed.

The Lesson

Pricing systems drift. The model that was approximately right in 2019 is not approximately right in 2024 when labor burden has increased, equipment costs have risen, and Xactimate regional rates have moved. An annual pricing audit — comparing your cost inputs to actual current costs, your billing rates to current Xactimate regional rates, and your billing completeness to your documentation — is the minimum maintenance a pricing system requires. The money was already there. He just needed a system to collect it.

Frequently Asked Questions

How often should water damage restoration companies update their pricing?

Annually at minimum. When labor costs change significantly (wage increases, workers' comp rate changes), immediately. When Xactimate publishes regional rate updates, review your rates against them. Quarterly

monitoring of the gap between your rates and Xactimate regional rates prevents the drift that produces invisible margin erosion.

What is the Xactimate regional rate and how does it affect restoration pricing?

Xactimate publishes regional pricing guides for restoration services, updated periodically based on labor market and material cost data in each geographic region. These rates serve as a reference point for insurance billing. Billing below regional rates is legal but represents uncaptured revenue — the insurance company is willing to pay the regional rate; you just have to ask for it.

How do I calculate my actual workers' compensation rate for labor burden?

Your workers' comp rate is stated on your insurance policy as a dollar amount per \$100 of payroll for each job classification. Divide by 100 to get the percentage. For a rate of \$10.20 per \$100 of payroll, the burden percentage is 10.2%. Add FICA (7.65%), FUTA/SUTA (approximately 3%), health benefits (cost per employee per year divided by annual wages), and PTO to get your full burden rate.

What are the most commonly missed billing items in water damage restoration?

The most frequently missed: daily monitoring visits (performed but not billed), equipment deployed but not logged, antimicrobial application quantities that don't match documented square footage, and content manipulation charges when contents were moved to enable drying. A scope checklist reviewed at invoice preparation catches most of these.

Is it ethical to raise rates without telling customers?

All pricing is set by the service provider. In insurance-covered restoration, rates are reviewed by adjusters and benchmarked against Xactimate regional rates. Raising rates to market level is not price gouging — it's charging for the service at what the market pays. Transparency with adjusters about rate changes is professional practice and often appreciated.

Mike McCabe is The Profit Detective — a Master Cleaner, Master Restorer, and 36-year restoration business consultant. He has worked personally with 150+ restoration companies across North America, diagnosing the profit leaks that most owners never see on a P&L. He serves as Fractional Operations Manager at Floodlight Consulting Group and speaks at major industry events including the DKI Canada AGM. Book a free diagnostic conversation at calendly.com/profitdetective.

Related reading

- The Commercial Restoration Company Bleeding Cash on Its Best Client
- Water Damage Restoration Margins
- What I Found in a \$2.3M Alberta Restoration Company With No Cash