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Construction News

Make Your Bids Accurate. Accuracy in Estimating is a Company Affair

You know what I really hate as a general contractor? We negotiate an easy project to build with a great repeat customer. They trust us, don't question our costs and then award the job at our price. Then, seven months later, we discover our estimator didn't have enough in the budget for labor to complete all the work and we don't make any money. This is my worst nightmare! All the time and energy we invested building this trusted customer relationship allowed us to negotiate the project is now wasted!

So, I ask the estimator "what happened?" He blames it on the project manager, or the superintendent, or the weather, or the architect, or the engineer, or bad plans. So, what do I do? I can't fire him. We need to bid lots of work to keep the pipeline full. Has this ever happened to you?

What is your estimator's No. 1 priority?

When I speak at conferences or conventions, I get many responses to this question. They include:

- * Bid lots of jobs
- * Get lots of profitable work
- * Maximize sub-bid coverage
- * Be competitive
- * Know what things cost
- * Make a profit

To me, I want accuracy! The top priority for my estimator is to arrive at accurate job costs. I don't want our bid to be an estimate of what it might cost plus or minus a percent or two or 10. Accuracy is the key. The only variable on any bid should be the profit markup. Excellent estimators know what things cost. Their bid estimates versus final actual job costs don't vary more than 1 percent. They look at their past bids and compare them to the final results to see how they did, and then make adjustments for their next estimate. They're in constant contact with field superintendents and foremen to review how they should arrive at estimated costs. They continually review labor, material, equipment, and subcontractor and supplier costs to ensure they know every possibility for differences in jobs they bid. Use this checklist to improve your estimating accuracy:

Accurate Estimating Checklist.....these must be provided to estimating

- 1. Accurate Time Cards** — Excellent estimators know accurate estimating starts with accurate information from the field crews who actually do the work. Step one is to insist your timecard is divided into the cost codes you want to estimate with and track. Then, it's the estimator's responsibility to ensure field workers are filling out timecards correctly. Regularly meet with the job foreman to make sure the time shown is for the work done in each category. This will ensure accurate job history to refer to on the next bid.

- 2. Accurate Labor Burden Rate** — Do you know how your labor burden rate is calculated? Is it accurate or an approximation of what your accounting department thinks it should be? An accurate labor burden rate is essential for accurate estimating. If your rate is padded, you are too expensive or if it's not complete you'll bid too cheap. Each employee has a different rate based on their age, dependents or tenure at the company. Review all of your field employee's burden rates for accuracy and be sure to include accurate: taxes, workers' compensation, medical, liability insurance, vacation, union dues, safety training, small tools, overtime, and down-time.
- 3. Accurate Crew Bid Rate** — Excellent estimators use different crew rates to bid different projects based on what or who the job needs. A crew on a difficult job needs more experienced people, while a larger simple project can use less-trained crew members. Figure different crew sizes and make-ups to determine your accurate man-hour crew bid rate. I like to calculate bid rates for two-man, three-man, five-man, 10-man, and 20-man crews. You will find your bid rate varies considerably for different crews and teams.
- 4. Accurate Equipment Rates** — Excellent estimators know what equipment really costs. Calculate the cost for each piece of equipment your company uses from the pickup truck to compressors, backhoes, cranes, or forklifts. Total the initial purchase price, interest, maintenance, gas, and insurance over the life of the equipment. For each piece of equipment, divide this total lifetime equipment ownership cost of by the expected number of billable hours you will be able to job charge over the life of the equipment to arrive at your accurate equipment cost per hour.
- 5. Accurate General Conditions** — Most estimators either guess at the actual costs of job startup, mobilization, move-on and move-off, managing, supervising, temporary facilities, and closing out projects or they use a percentage to figure their general conditions budget. And, the unit prices they use are often outdated and inaccurate. (When is the last time you looked at a job toilet invoice? It varies by number of services per month plus the delivery fee.) I find on a typical eight-month project, our general conditions can vary from \$10,000 to \$25,000 per month. Accurate estimating must include a review of what your general conditions really cost and then an accurate budget based on input from the field.
- 6. Accurate Overhead** — Your company overhead is fixed cost and does not vary as you get more jobs. It is not a percentage of your job costs or sales. Excellent estimators know what it costs to keep their company open without any jobs under construction — this is your fixed general and administrative expenses or overhead costs. First you must know your total annual overhead cost. Divide this projected overhead amount by your total projected annual job costs for all jobs you will build (not sales volume). This percentage will equal the actual overhead recovery markup you need to use to recover all of your overhead expenses for the year. For example: $\$800,000 \text{ projected total annual overhead} / \$5,000,000 \text{ projected annual job costs} = 16.0\text{-percent markup for overhead recovery}$. Don't get trapped into thinking you can use an industry average such as 15 percent or 20 percent to cover your overhead costs.
- 7. Accurate Profit Markup** — Profit markup is not determined by what you can get in your market. It is a fixed amount of profit you want to earn by the end of the year. Sit down and decide how much pre-tax net profit you want to make over the next year. For example: if your annual overhead is \$800,000, a good net profit target is 50 percent of your overhead = \$400,000 net profit. To determine the profit markup required to hit your goal, divide your total annual projected costs by your annual profit goal to determine the profit markup you need to use. For example: if you're annual net profit goal is \$400,000, divide it by your

projected total annual job cost goal of \$5,000,000. $\$400,000/\$5,000,000 = 8.0\text{-percent}$ required profit markup to hit your goals.

To complete the calculation, now add your total annual job costs to your overhead to your net profit goal. This will give equal total sales required to achieve your financial targets. For example: \$5,000,000 job costs + \$800,000 overhead + \$400,000 profit = \$6,200,000 in annual sales. Now ask yourself if you can you hit \$6,200,000 in sales at a markup rate of 16 percent for overhead plus 8 percent for net profit (total overhead and profit markup of 24 percent)? In this example, look at the markup rates. If you can't achieve 24.0-percent overhead and profit markup in your market, your only solution is to adjust your volume up or your profit markup down (not your overhead!) until you hit your \$400,000 profit target. Or lower your profit goal to less than what you want!

Want to make lots of money? Make you bid more than a guesstimate. Be ACCURATE! Make each estimate an exact prediction of what it will take to build every project.

Author Information

George Hedley owns Hedley Construction and Hardhat Presentations. He is the author of the "The Business Success Blueprint Series" now available in eight-workbook and audio CD sets. He is available to speak at your organization on his proven system to build profits, people, customers, and wealth. Construction company owners are invited to attend his two-day "Profit-Builder Circle" boot camp held regularly. E-mail him to receive a free copy of his book entitled "Everything Contractors Know About Making A Profit," sign up for his free management e-newsletter, visit his online bookstore, or receive more information. Call (800) 851-8553, visit his website at www.hardhatpresentations.com <<http://www.hardhatpresentations.com>> or e-mail him at gh@hardhatpresentations.com.