

# THE More Profitable Contractor™

PROFIT-BUILDING INFORMATION FOR CONTRACTORS

## Refining the Estimating Process – Time Well Spent

By Leslie C. Shiner, MBA

Almost every contractor I know has some estimating process in place (the ones that don't, well—let's just say, I could tell you all kinds of stories). What happens, though, is that a contractor has an estimating process in place and continues to use that for years and years and years.

Times, though, have changed—dramatically. There are many more estimating tools available now. And customers are demanding better, more accurate—and faster—estimates. With this in mind, I'm a big proponent of refining the estimating process in place. No one wants to begin from scratch; everyone can improve their estimating process and systems without going through some major overhaul.

### Begin at the Beginning, *Before* You Create an Estimate

Here are several key questions to ask before you exert the time and energy necessary to create a quick, accurate estimate:

*What types of jobs are profitable?* Base this on previous work. Have you done similar jobs in the past? For new opportunities, can you afford to estimate this job? What is the most profitable mix of material, labor, and subcontractors?

*Who are the other bidders?* Too many bidders usually indicates that the client is more concerned with price than total value (cost plus workmanship). What do you know about the other bidders? Do any have a reputation for “low-balling”?

*Who is the potential client?* Has your company done work for the client before? Does the client have a reputation for slow paying? Always—always—run a credit check on the potential client before you even begin to do the work, and maybe before you do the estimate. Does the client understand the value of quality work, or is the client only price-focused?

*What do you know about the architect or designer?* Are the plans well written? Will you receive fast and accurate responses to questions? Are the specs detailed enough to do the work right the first time?

### Best Practices in Estimating—Do It Once!

The goal for any estimating system is to produce fast, accurate estimates. Part of your refinement will be to create, in as many ways as possible, templates and other “standards” that can be used as jumping-off points when beginning each new estimate (rather than creating every estimate from scratch).

In the past, many contractors used Unit Pricing estimates. Unit Pricing offers the ability to create quick estimates showing total dollars by task and budgets. But Unit Pricing may not necessarily provide accurate materials pricing; almost certainly must be redone after you get the

## Q & A with Robert Intersimone

*Editor's Note: Robert Intersimone is a Senior Industry Advisor for Intuit Construction Business Solutions located in Santa Rosa, CA.*

What's the greatest obstacle to doing a great estimate?

I think there are three main challenges. The first is to do an accurate take-off. The next is pricing. Materials prices are so volatile today that a contractor can't rely on historical pricing like before. And finally, there's the recapping and the output.

So there are several obstacles?

Yes. And it's when you add the three together that things become complex. The goal, of course, is to create estimates that are both fast and accurate. Usually, however, a contractor thinks he can have speed or accuracy, but not both at the same time.

The world is getting faster these days, isn't it?

Yes. And unfortunately, the past methods contractors used to create estimates don't hold up in today's fast-paced world. Yellow pads are too slow. It's difficult to keep spreadsheets updated with up-to-the-minute pricing. And none of these offer the needed integration to protect management.

What are ways to create faster and more accurate estimates?

The ideal is to use a computer program to automate the entire process. A template can be created which allows for quick take-offs. Requests for Quotes (RFQ's) can be quickly and easily created and sent electronically. And then the computer program itself can do the math, making tasks faster and, obviously, more accurate.

Is there one item that always seems to get forgotten on estimates?

Probably factoring in overhead costs. If you build a good template with those costs in it, though, you won't forget!

So you advocate using an Estimating program?

Absolutely. If a contractor is doing job costing, then they can use real numbers and not have to guess. A guy might get away with doing a little guessing here and there on estimates, but over time it's simply not going to work.

Estimates really are critical to a contractor's success, right?

I think they mean the life or death of a business. Great estimates mean all the difference. There's nothing more demoralizing than to find out you just worked several months for no money because you underestimated something.

## Create a Project Review Team

By Sherryl Dever

*Editor's Note: The following is adapted from Sherryl Dever's book 7 Secrets of Successful Contractors published by Profit Press, Inc. Visit [www.ProfitPress.com](http://www.ProfitPress.com)*

As your construction company and project opportunities become more plentiful, you might consider creating some sort of "project review team" to evaluate each project before running off and automatically creating an estimate.

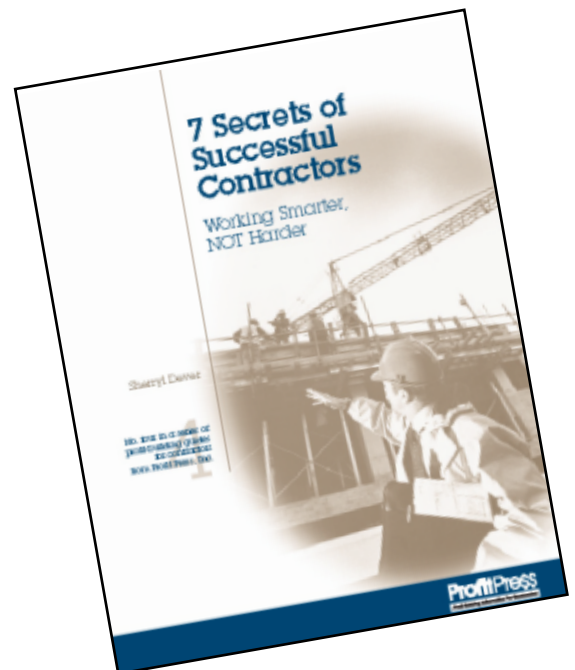
One way this has worked well for many contractors I know is to schedule this meeting on the same day and time of the week, say, Thursday at 11:00 a.m. Everyone can then plan their week accordingly to be present for the meeting.

The meeting agenda should be short and straightforward:

- I. Today's Goal
- II. Steps Needed:
  - a. Which Projects to Review
  - b. Discussion on Relevant Jobs
  - c. Decisions re: which Jobs to Bid, and How to Bid
- III. Identify Follow-up Actions (Reports, Timelines, Cost Info, etc.)

Once this meeting becomes a habit, you'll wonder how you functioned before without it!

*Sherryl Dever is founder and C.E.O of The Business Resource, an eighteen-year-old small business management and marketing consulting firm. She has helped hundreds of contractors improve cash flow, profit, and business-owner satisfaction. [www.TheBusinessResource.com](http://www.TheBusinessResource.com)*



job; and does not provide materials lists, purchase orders, subcontracts, and other key production elements.

Assembly based estimating, on the other hand, makes the estimating process fast, accurate, and integrated with your other business management functions (accounting, production). An assembly represents a collection of parts necessary to complete a single unit of work. This combines the best features of a database (materials) and a spreadsheet (takeoff).

Another way to streamline the estimating process is to utilize a parts database. When kept current, this database will update a takeoff automatically and provide the most accurate estimates in terms of materials costs. To keep this database updated, ask your vendors to help create your database. It's in their best interest for your materials prices to be continually updated, and most vendors are now offering simple ways to electronically import up-to-date pricing.

## Conclusion

Refining your estimating system will require an upfront investment on your part. But this investment should be recouped many, many times over in terms of helping your company win more—and more profitable—estimates.

*For more than 20 years Leslie Shiner has provided business and financial management assistance to contractors. She also speaks to local, regional, and national construction groups and associations, and is the author of Health Checkup for Your Construction Business and other titles available at [www.profitpress.com](http://www.profitpress.com).*

# Are You Estimating or “Guesstimating”

By Gary Lewis

An estimate is a detailed description of the approximate costs, time, and resources required to complete a specific task. The difference between an estimate and a guesstimate (frequently referred to as a “wild assed guess” or “WAG”) usually has to do with knowledge based on previous experience. Previous experience gives us a real baseline to compare to and adjust accordingly.

Why clients demand estimates is obvious: as buyers, they want to know if the pricing is in the right ballpark for the goods or services provided; they don't want to discover later that they've been “ripped off”. As sellers in the construction business, we need to provide our customers the estimated cost of a job for budgeting and managing purposes.

Why should we spend effort to improve our estimates if we are getting jobs and doing “okay” with our current methods? With better estimates, could we:

- Win more jobs?
- Make higher profits?
- Have happier customers? ...Happier workers? ...A better life?

The answers to all of these are probably a resounding “YES”.

So HOW do we improve our estimating? Are there tools to help? You bet! But first, we must know the details in order to use the tools effectively. A computerized estimating system may be able to spit out a number, but if all the tasks, parts, prices and labor are not included or are not accurate, the number is closer to an “automated guesstimate”. Therefore, much thought and care must go into setting up and maintaining a good estimating system.

## Tools

To start with, many contractors use a spreadsheet like Microsoft® Excel to compile the parts, costs, and resources for an estimate. This works for smaller companies and smaller projects, but is not as efficient and effective as more specialized estimating tools. Spreadsheets also do not integrate with accounting and management systems, requiring data to be entered and re-entered.

For example, Intuit® Master Builder™ software offers Estimating as an add-on module that fully integrates with the scheduling, project management, and accounting functions. It combines spreadsheet

features with a database of parts, costs, and assemblies which can be easily brought into an estimate versus starting from scratch.

Features and benefits include:

- Faster, more accurate takeoff process - assemblies include parts and labor costs
- Automatic creation of proposals, budgets, and purchase orders
- Easy update of parts and assembly prices from vendors
- Estimates can be saved as templates for use in future jobs – saves time on estimating repeat tasks

Other specialized tools like Quest Estimating Solutions include:

- Digitized takeoff – faster and more accurate
- Works with digital CAD files & blueprints
- Visual assemblies to ensure all parts are included
- Specialized databases with parts, prices, assemblies for each industry

Quest lets the estimator work directly from drawings with a digitizer pen interfaced to the computer to create takeoffs and estimates much quicker, easier, and perhaps most important, more accurate. The digitizer enables the estimator to be accurate within 1/1000 of an inch. In addition to the traditional takeoff from blueprint, Quest can work directly with digital drawings from CAD systems which are now being used more frequently. When the estimate is completed and the job is won, Quest feeds the information to Master Builder for project management and accounting functions.

## Conclusion

All this leads to that final question: Will producing better estimates make our company more profitable and the daily operations less stressful? YES! If less job hassles, more discretionary time, greater control of the business, and increased profits are important to you, better estimating certainly will help.

*Gary Lewis is co-owner, with his wife Melissa, of Management & Associated Services, Inc. (MASI) located in Wilmington, Massachusetts. He has been assisting contractors with their financial and business management needs since 1984.*

## **CASH FLOW TIP: Estimate and Bid Selectively**

Like most businesses, contractors usually salivate at being given the opportunity to bid on a project. The more projects, the better for cash flow and profits, right? Not always! As your construction business matures and you gain a better handle on the company's finances, you should begin to not bid on every project.

How do you determine which jobs to bid on, and which to pass? One simple way is to create a pre-bid "score sheet": a quick list of key project qualities that make the job attractive—or not. The following are a few examples of what might be included on a pre-bid score sheet; you'll want to create your own criteria, based on your location, expertise, and so on.

- Length of job
- Size of job in terms of complexity
- Size of job in terms of cash flow/potential profit
- The client (have you worked with them in the past, etc.)
- Reputation of architect or designer
- Availability of any needed subs
- Special equipment needs
- Inspector's reputation

### Next Issue Preview

The next issue of *The More Profitable Contractor* will be published in June 2005. We'll focus on making your production go smoothly and on time.

### Need Assistance?

Have estimating questions?  
Want to explore an estimating system for your organization?  
Contact us today to put our expertise to work for you.