



Overcoming the Pitfalls of Estimating

In today's construction market, there is plenty to celebrate. The industry is booming with few remaining reminders of the days when work was more scarce. But as new competition bubbles up almost daily, there is no better time to make sure your business is well-positioned to build a backlog of work.

As a result, the pressure is mounting for estimators to accelerate the bid process and win more work. This philosophy works well as long as you can rein in overzealous efforts to chase more work that isn't necessarily profitable. Occasionally, contractors need to step back and examine how well their estimating process is working. Are they focusing on the right work for their skillset? By asking tough questions, they can avoid many estimating pitfalls or take corrective steps to remedy them.

No doubt, contractors want their estimates to yield the best, most profitable work, to grow their reputation. But they should always be reviewing what changes are needed to elevate their business outlook. These kinds of insights come with hard questions like:

- What jobs are we bidding and why?
- Who is doing the bidding?
- What technology are we using?
- What happens with the bid after it is won?

For the sake of this discussion, we will take a deeper dive and outline four typical estimating pitfalls, the risk they create for your business, and how to overcome them to sustain profitability and streamline your estimating process.

1. Pitfall: Rushing to Bid More Work

Even with a bullish and booming market, bidding lots of jobs does not necessarily guarantee a steady flow of profitable work. In fact, rushed estimates could put your firm at risk if you fail to ensure accuracy. You don't have to bid on every job in your local plan room. Winning jobs you can't complete in a professional manner could be just as costly -- to your reputation and bottom line.

For example, it can be a real gamble to precisely project costs on a labor-intensive project. When given less than adequate plans and specs and a limited time to bid, estimators may try to guess instead of accurately predict how much labor will cost to complete an entire project. Not surprisingly, this can produce less than stellar results, leaving labor costs a big question mark.

Risk: Sacrificing Accuracy

There is risk when your firm does not assess the full scope and requirements of a project or doesn't take the proper amount time to prepare the bid in a professional manner. Nobody wants to expose their company to unnecessary risk by failing to prepare an accurate estimate. This can leave you vulnerable when it comes to ensuring quality work and profitability. Quantities must be correctly counted, labor rates checked, and change orders handled -- even when you only

have minutes to spare before the bid is due. You should strive to make sure every bid awarded is accurate, not overcharged, or low-balled. Risk can occur if an estimate does not cover the complete scope and spec of work -- whether it is rebar, mortar, or sand.

Solution: Practice Patience and Double-Check Your Bid

Consider this stunning fact: Industry insider George Hedley estimates roughly 80 percent of construction owners don't know the true cost of doing business. Like any profession, estimating is perfected through experience, practice, and intuition. It is critical to not overlook key factors when ensuring bid accuracy. For example, make sure the final bid takes into account:

- All of the equipment required
- Where the dirt will go once it is excavated
- Long lead-times for certain items that might impact deadlines
- Special safety rules that may apply in the state where you are working
- Whether the construction site is on a hill, in a rural area, or in a city with little room to work

Contractors need to be careful to strike the right balance between bidding and winning enough work. You don't want to bid and win so many jobs that you can't properly manage and deliver on the work. Instead, you should focus on selecting the right work to bid and maintain a profitable business.

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George Hedley
Construction Business Coach

2. Pitfall: Not Being Selective Enough in the Bidding Process

Even when bids are accurate down to the last door frame and hinge, contractors can struggle when it comes to landing work in the right market, business segment, or geographic area. Many firms will spend time and money chasing work they could end up regretting. They fail to narrow their focus by job size, geographic region, or work type.

Risk: Failing to Live Up to Customer Expectations

It's not possible to be really good at everything, so contractors need to stop trying to be all things to all people. They could end up putting their firm's reputation at risk to a point where customers stop trusting them. Consider the example of building new homes versus specializing in remodeling. Remember, you can't

call it a specialty if you list out 10 different specialties. Even when you slow down and practice patience with your bidding, it is important to think strategically to highlight your firm's strengths. This can make it easier to stand out from your competition.

Solution: Stay Focused and Do a Few Things Well

Perhaps the best, most simple approach is to bid what you do best. You can improve your odds to win the work when you are more selective and concentrate on what you do best. Construction Business Owner magazine reports that companies that offer specialized services win almost twice as many bids as firms offering general construction services.

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Here is a simple formula to help you determine the best projects for your business



By winning specialized work, you can improve profit margins. For example, a concrete contractor could specialize in decorative concrete. By serving a particular segment, they can charge more for expertise and quality. Other contractors focus on second-story additions, kitchens, and bathrooms, or develop an in-depth knowledge of how older homes in a particular neighborhood are constructed. When choosing to bid with a more narrow focus, you will begin to see a more positive impact on the bottom-line. Other categories to consider specializing in:

- Government jobs
- Hospitals and medical facilities
- Schools and universities
- Renovation and adaptive reuse
- Sustainable building

Another way to accomplish this is by putting effort and resources toward special security clearances, certifications, and training for your team. This also

allows you to seek out work through a more targeted, selective approach. Industry insider Hedley has wise words on this topic: “Do projects where you are the known specialist for that kind of project.” Hedley’s company, the Business Builder, helps entrepreneurs and contractors grow their companies.

“You want to be the recognized expert at something. Most of your competitors will go the simple route. This will set you apart.”



3. Pitfall: Failing to Catch Problems Early

When the estimator hands off the job to the field, there is still work to be done to avoid costly mistakes and errors in the pre-construction phase. Let's face it, projects are rarely perfectly timed. Material shipments may run late, trades can fall behind, and schedules will need to be adjusted. While projects start with the best of intentions, estimators should avoid taking shortcuts. How can the field and the office be on

the same page if the estimator never explains any special sequences of work or methods that were promised during the bidding process? It is hard to catch problems early if the estimator is not communicating these issues early and often to their internal team.

Risk: Shortcuts Can Impact Profitability

You could end up allowing the last 5% of the job to drain 50% of your profits. For example, estimators may assume labor is the base wage plus 26 percent. Instead of investing time with the accounting department to determine what makes up true labor cost, they take a shortcut and don't include the labor burden, which is the actual cost for an employee, aside from their salary.

Solution: Use the Right Tools to Reduce Errors

There is no doubt that using the right construction software tools for takeoff, estimating, and production management can save time and improve accuracy. Typically, if plans are colored, the quantity is counted. When you use the right tools on the front end of the bid process, the estimator can kick the project off in the right direction.

After the project has begun, production management tools can be used to digitally track cost-overruns and payroll. Contractors can manage any project more effectively and efficiently – all the way through to project execution. Tracking productivity throughout the job can show if you're over-budget. With the actual hours and cost in hand, an estimator can

apply this historical knowledge to the next bid. For example, using job cards for each cost code and tracking those weekly, means everyone on the job is held accountable for their work. As the job progresses, the project manager can use technology to determine if:

- The job is on budget
- The actual estimates match the bid
- There is a communication problem between the office and the field that needs to be addressed

4. Pitfall: Relying Too Heavily on Technology without Training

Powerful software tools can be used daily by estimators to bid more effectively, reduce errors, and help win more profitable projects. But even the greatest technology cannot account for a weak estimator or project manager. In addition, when estimators are not trained adequately, they are more likely to make errors and have a lower level of productivity.

Risk: Creating Errors and Lost Productivity

Though it is not uncommon for companies to turn to technology, no one tool can compensate for a low-performing employee. When contractors lean too heavily on technology, they are left with a weak estimator who uses technology to do bad work faster. Without the experience and training, estimators may fail to calculate all costs correctly. For example, risk can

be introduced if the estimator fails to calculate indirect or direct cost correctly. You will be in big trouble if your bid doesn't correctly include office overhead and rent or the accurate cost of portable toilet rentals, trailers, and fencing.

Solution: Pair Technology with Experience and Training

It is important to balance technology with proper training of weak employees. No doubt, great estimators are always learning – those with experience will know how to follow a job to its conclusion and evaluate actual costs, then apply that information to their bids the next time. But how do estimators get the experience they need when they are new to the industry? This is where mentoring and training come in – even if there is no time to train new estimators.

Consider for a minute whether you would ever allow an employee on a job site without the proper training on a piece of equipment. Why not pair a new estimator with an experienced employee to flatten the learning curve? Experienced estimators

will understand the intricacies of takeoff and apply their knowledge daily. The experienced estimator knows that technology can complement their skills, but cannot replace their ability to anticipate bid problems.

Remember, investing in employee training is an investment in your construction business. Taking the time to train and certify new employees will benefit you in the long run and strengthen potentially weak estimators/project managers.

Apply Lessons Learned to Find Your Bidding Sweet Spot

Everyone wants to win more work and drive profitability, especially when it comes to building a strong reputation in a specialty niche. However, when there is a disconnect between technology and experience or labor costs and bid accuracy – contractors can end up winning work that does not add to a healthy bottom-line.

The solution is not always that complicated. For starters, hire good people and train them. Select a user-friendly software system to handle takeoff and estimating. Then, complete each job with a complete profit and loss statement (P&L). This ensures that the loop is closed – from the office to the field and back again – so everyone knows their part in making each job more profitable than the last.

When contractors use tools to track progress against their original estimate, they can more accurately predict just how long it will take to complete a job. Ultimately, this makes it easier for a construction firm to find their bidding sweet spot and overcome any potential pitfalls.

Successful Bidding Process:

Simple steps for contractors

Understand where there are risks and manage these accordingly

Implement a thorough review process after the win

Go over labor records weekly to find issues early in the process

Enable good communications between all departments – in the office and in the field

Compare the estimates with the actuals on every completed job

Hire top talent and train those people within the organization

On Center Software has been a trusted provider of construction automation management solutions for nearly three decades. On Center was the first in the industry to offer the best-in-class digital solutions for takeoff and estimating: On-Screen Takeoff® and Quick Bid®. Our award-winning software is recognized by the industry, our customers, and partners in 60 countries around the world and is part of construction management curriculum at more than 300 universities and institutions.