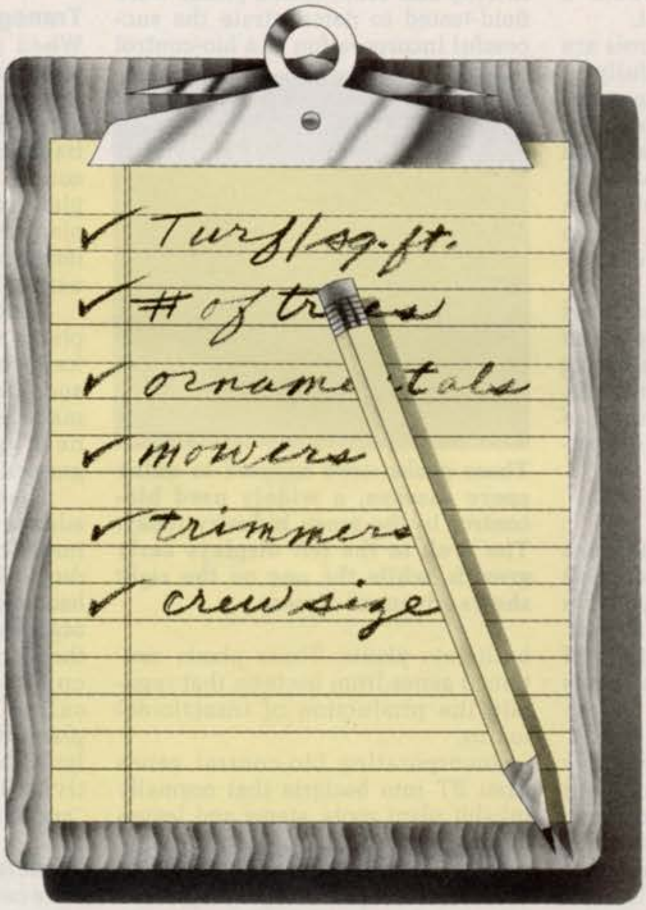
THE IMPORTANCE OF ESTIMATING STRATEGY

One of the nation's most well-respected landscape consultants tells how *not* to make a wrong bid.

by Charles Vander Kooi



In landscape contracting, having an estimating strategy is extremely important. The word "strategy" is used because that is just what it must be.

This business, in many respects, can resemble a war. As the owners and/or managers of a construction company, you are the Joint Chiefs of Staff. You make plans to initially approach the battle called "getting and doing" construction jobs. That is an estimating strategy. Then, as the battle proceeds and you see the effects of the owners' budgets and other contractors' bids, you make adjustments to your own battle plans.

You can never establish an estimating strategy and then expect it to work for you year after year. There are constant changes in the dynamics of your company, not to mention the changing conditions of other contractors' companies and the economy. You can't expect one strategy to continue to work. The most successful companies re-think their strategy in a major way on a yearly basis, and they constantly monitor it after several bids.

Four principles

To help you understand the importance of an estimating strategy, I want to explain four things that a good strategy can do for your company.

First, it can give you confidence that every dollar spent from your checkbook is going to come back to you through the estimates and bids that you produce.

One of the most beneficial things about having an estimating strategy is that no money falls through the cracks between what you pay out and what people pay your company. If this is not well thought-out from the beginning, certain costs to your company—such as those that do not occur on every job or those that are hard to pinpoint—will be the very items that you do not cover in your estimates and bids. A well thought-out strategy will allow you to carefully and completely go through each item in your checkbook and consider the best way to recover that cost on your estimates and bids.

The major consideration is whether to include the item as part of job costs, labor burden or overhead. The decision should not be based solely on which is easiest for you (though that is a consideration), but also on putting it in a place from which it can be properly recovered.

Sometimes, mathematically it will not work to put certain costs in certain areas. There are contractors who lose tens of thousands of dollars every year because they have put things into a wrong category, or are combining certain things that should not be combined.

For example, estimating equipment costs has always been a great problem in construction. If it is considered as part of overhead, jobs that use very little equipment will be penalized and have to pay (through overhead) more than their fair share of your equipment costs. If you do what you should do and estimate your equipment costs on a job-by-job basis, then you must still put any equipment used for overhead purposes (e.g. the owner's truck) into your overhead figures. If you don't figure your equipment costs as I have just mentioned, you will have money falling though the cracks.

Second, a good estimating strategy will compensate for the variables that exist from job to job.

One of the most important things that you must recognize is that no two jobs are exactly alike. Every job has different site conditions, different approaches and different costs, regardless of whether the materials are the same. Because of this fact, a good strategy will give you flexibility to compensate for the variables that exist from job to job. I have worked with contractors who have made money on one job at certain unit prices, but when they used those same money-making prices on another job they lost money. They knew things were a little different but did not know how to properly compensate for those differences. A good estimating strategy should give you the ability to compensate for those differences.

Third, a good estimating strategy will give you the ability to control your jobs after you get a contract. This business is no less than a two-punch business. Punch No.1 is putting out a good, competitive bid. Punch No.2 is getting the work done for the amount of money that you estimated in your bid. A good estimating strategy will give you the ability, right from the estimate, to make that estimate become reality in the field.

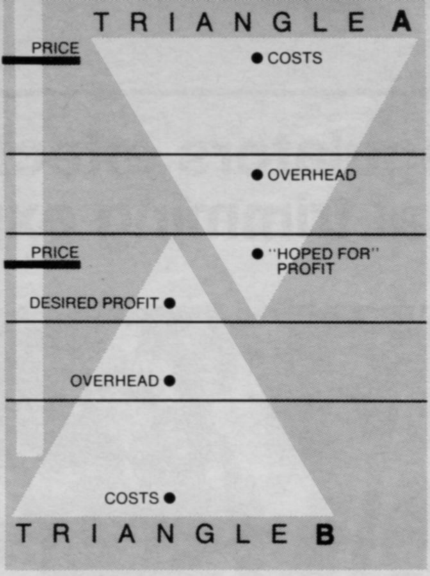
Fourth and finally, a good estimating strategy will give you the ability to make sound business/financial decisions. That's right! Your estimating strategy is one of the most important places to gather information for those types of decisions.

Our organization believes in setting up an overhead budget for a year in advance of the current year. We then set up overhead recovery percentages that will recover those costs based on how much work we anticipate we can successfully contract and complete with our workforce and the budgeted overhead. Those kinds of projections and plans give us a plumbline of where we think we are going. But things never work out exactly as we plan them. Therefore, a good estimating strategy will help us determine what changes in overhead costs, labor burden benefits or salary pay will need to be changed (and by how much) in order to remain profitable and competitive in our marketplace.

Wrong decisions

Many management decisions are based on emotions or on short-term situations. For instance, a company might want to hire additional people or pay benefits to its people or give them raises. Employees ask for these things and, based on feelings and without being able to explain why these things can or cannot be given, the request is granted or denied. Other times, a company might buy computers or other pieces of equipment without a system to measure whether those purchases are based on good, sound financial wisdom. A good strategy will give you that ability.

For example, let's say that you



want to hire another secretary. Everyone seems busy and it seems like you could use her services. That should not be the major reason to hire her, however. If you can't afford her, some of the things that she would do may either need to be done by existing staff or not done at all.

The greatest determining factor should be based on the following: you established an overhead budget that did not include her, and you are acquiring jobs based on that budget. The question is, will hiring her allow you to get enough additional work to cover the cost of her salary? Or, can you raise your prices enough so that by doing the same amount of work with an increased overhead charge you will still get your projected amount of work for the year? That is how an estimating strategy can help you make sound business/financial decisions.

Elsewhere on this page you will see two triangles. Triangle A is an inverted triangle and shows how some contractors go out and get jobs with whatever price has worked before. They then work to keep costs as low as possible, keep overhead as low as possible and *hope* that at the bottom there will be some profit left. The problem is that they have no idea just how low costs and overhead must be in order to make a profit. And if something changes in price or in their company, they have no idea what effect that will have on the bottom line.

Triangle B shows someone with an estimating strategy and system. The same triangle is turned over. They start with estimated costs and budget overhead and a reasonable profit. They then know what they must do in order to make a profit. **LM**