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# Sharpen your estimating pencil

One of today's biggest issues is the low-price environment that's challenging landscape companies in most markets. This has been the case during past recessions, too, but perhaps not to the degree we see it presently. Usually, it's caused by construction-heavy contractors trying to enter the maintenance market or grow that portion of their businesses to make up for declining construction revenue.

This time, there's also aggressive pricing by national companies that seem to be leading the low-pricing charge. During the recession of the early '90s, some upstart companies were pricing work aggressively. Most of these companies were launched by employees of larger companies. They were successful because they built companies from scratch with lower operating and overhead costs.

Contractors need to learn from the past. For example, several large companies have made difficult choices to reduce costs recently, and in the process, they realized they had let themselves become top-heavy and inefficient. After the cost reductions, they've been able to carry on with much lower cost loads to cover and adjust to the lower price environment.

Now that the recession has lasted more than a year, most companies realize the market is different and that they need to figure out how to survive, grow and prosper again. Ask yourself, "If I were to start over, what would I do differently when building my company?"

Each of us can better hone our ability to estimate more accurately.

Many companies still use rather subjective methods of estimating. They are content to lean on an experienced eye for quick guesstimates of material and labor costs. While this method has worked OK for some companies, it's far from a "best practice." Also, this method is not accurate enough to scale up or down as companies change in size and their costs and competitive pricing pressures fluctuate.

Remember: The practice of guesstimating is prone to overestimating.

Usually, the people subjectively estimating hours for jobs are the same ones who will have to manage the projects to be profitable. This leads to padding estimated labor hours — so if they get the jobs, they can manage the work more comfortably. Estimating hours during the high workload season influences them to bid more hours. The opposite is true during slower seasons.

Companies that have developed production rates, and measure jobs and count plants, eliminate much of the guesswork. If you estimate by factoring in production rates, frequencies and degree of difficulty, and compare that estimate to a subjective look by an operations staffer, you can zero in on the right price.

Another helpful estimating strategy: Compare each job, on a square-footage basis, to similar work you're doing (or have done) for which you have accurate cost information.

Additionally, consider the average hourly wage of the crew that would be assigned each job. Larger crews usually have lower average hourly wages because of the ratio of low-paid workers to the higher-paid crew leader. Most companies ignore this fact when estimating and use one hourly rate for all jobs, regardless of crew size.

If you tether several of these estimating strategies, you will develop more confidence you have the right price. There's no need to leave dollars on the table and/or come in over budget.

There are many little things that, when put together, can make a big difference when looking at pricing. In a market like this, your estimating pencil needs to be laser sharp — so you can compete successfully and continue to profit and grow with tighter pricing.