

## Bid Wisely, Estimate Accurately

*Note: This article is the first in a four-part series. The next article will debunk rationalizations for sloppy estimating and explain why accurate estimating is readily achievable. The final two articles will get into the specifics of accurately estimating labor costs and of obtaining reliable and complete subcontractor bids.*

**When I was starting out as a builder**, I came across a pair of beautifully produced books, one titled *Bidding for the General Contractor* and the other *Estimating for the General Contractor*. Both were written by Paul Cook, an experienced and superbly organized professional estimator. I forked over \$150 for the pair, studied them, and acquired the building blocks of what was to become a strong system of estimating and bidding.

Along with invaluable know-how, Paul Cook delivered something else. By covering estimating and bidding in two separate volumes, he put across the message that the two processes must be sharply separated, for they require very different mindsets.

Some builders who operate larger volume companies understand that bidding and estimating must not be comingled. As one general contractor—whose high-end firm employs upwards of 80 people—succinctly put it: “Bidding is about policy. Estimating is about facts.” Another told me that at his company, they have one room where the chief estimator and his staff crunch direct costs (on-site production costs) for every item in a project from clearing and grading through installing cabinet knobs. When the estimate of direct costs is complete, it is sent to a separate room where the bidding takes place, where markups for overhead and profit are figured and added to the direct costs to determine the “selling price.” There’s an actual wall between estimating and bidding, and the two tasks are executed by different people.

The key point is this: An estimator’s task is to get the facts straight, and to get the costs of production, whether by in-house crew or by subs, nailed down tightly. Bidders, on the other hand, make judgment calls that are necessary to determine just how much they can and need to add to direct costs before taking on a project.

As I found out while I was researching and writing my new book, *Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding*, my fellow builders in the world of smaller-scale, light-frame construction—whether of new homes or remodels or both—don’t pay much attention to the distinction between estimating and bidding. One said to me, “I just never thought of it.” That’s a problem.

If you are both chief estimator and bidder for your company, you need to keep a wall—if not a literal one, then one in your head—between the two processes. If you let the bidder’s mentality slip into your estimating process, that can dangerously skew your numbers.

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Did this ever happen to you? You were estimating your direct costs for on-site construction of a project. You figured costs for, say, framing. “Oh-oh,” you thought to yourself, “I will never get the job with those kinds of numbers. Maybe I can bring them down.” Then you fell into the memory-of-your-best-day trap: You recalled the job on which you flat-out blew through the framing and it was dead on—plumb, square, level, beautiful. You’d had the kind of day Kobe Bryant had when he scored 81 points for the Los Angeles Lakers. You will probably never frame like that again. (Kobe never got to 81 again). But in hopes of coming up with numbers that would get you the job, you put in a cost for framing based on your memory of that once-in-a-lifetime experience.

You let bidding infiltrate your estimating. If you “won” the job and had to build it, you likely got your financial rear-end kicked.

Not only do you need to segregate estimating from bidding, but also, when you are pricing a job, you need to switch from a bidder’s mindset to an estimator’s and back again. You must move from Bidding Phase I, to Estimating, to Bidding Phase II.

### **BIDDING, PHASE I**

Phase I of bidding begins when you make contact with a prospective client. Before committing any time to the creation of an estimate for their job, you want to size it up carefully. A lead evaluation sheet can help you do that with greater precision than

you will get by relying solely on intuition—on the look, sound, and “smell” of things. One of several lead evaluation sheets described in my book is illustrated below at right.

Every item covered on the sheet matters. One that matters especially is budget. Without exception, the seasoned builders I know understand that you must ask the “B-question.” But doing so is a delicate matter. Different builders take very different approaches. Some go head-on into it. Others creep up on it. Whatever approach you prefer, you must ask the question. You do not want to waste time estimating and bidding a job the owner will never be able to afford.

If the lead sheet comes up roses, you may elect to move to the next steps of Bidding/Phase I: meeting the client, learning about the designer if one has already been hired, and taking a look at any plans and specs that are already available. When your exploration is done, it’s judgment time. You will ask yourself:

- Is this project right-sized for my operation? Or is it too big or too complex for us to safely take on at this stage of our careers?
- Can we do a good job of building this project within the required schedule?
- Can we build it with an acceptable financial result?
- Will the project advance our skills? Can we have fun building this project for this client, or will either the work, the client, or their designer burden us with undue stress for too long?
- Is there something special about the project that might make it worth our while to go after it even if that means making less profit than we ideally aim for?

Whether your company consists of you, your dog, and a pickup, or employs three crews and a couple of dozen subs, you are making a policy decision and a leadership call when you ask and answer such questions. You are determining whether the project will take your business where you are trying to take it.

If you decide “we are going to go after the job,” then it’s time to switch to estimating mode, to get the facts straight. It is time to calculate all the costs item-by-item and assembly-by-assembly of all on-site work. In the third and fourth article of this series, I will go into the details of estimating those direct costs. There, I will bear down on figuring the costs of labor by an in-house crew and on obtaining tight, complete sub bids. Here, I will round out the discussion of bidding with an overview of the second phase of bidding.

**PHASE II, BIDDING**

During Phase II of bidding, you move to consideration of overhead (the costs of everything from office supplies to vehicles needed to run your business) and of profit.

**Overhead.** Though overhead costs must be clearly separated from the material, labor, and sub costs of on-site production, overhead calculation is like estimating direct costs in that it is, in part,

about hard, knowable facts. You do have a record of what those paper clips, computers, and truck repairs and payments are costing you. However, overhead also involves policy decisions. Just how much overhead you take on is very much a judgment call, and the decision you make will shape the kind of company you operate, the quality of your experience as a builder, and the value you provide to your clients. (Personally, I am inclined to lean, low-overhead operations, but that is a subject for another article.)

For each individual project, overhead management involves two specific judgment calls: Just what portion of your total overhead should you allocate to a project? And just what method should you use to make that allocation?

There are three alternatives for allocating overhead to a project: fixed percentage method; gross profit margin (GPM) method; and the one that I have developed and favor, called the capacity/time method. In *Nail Your Numbers*, I describe all three methods, leaving it to readers to choose the one they prefer. But I do

LEAD EVALUATION				
<b>Client:</b> Don & Sue Aird		<b>Contact:</b> 634.7895 Aird@xmail		
<b>Proj. Address:</b> 212 Hill Rd. Kensington		<b>Designer:</b> To be selected		
	Minus	OK	Plus	
<b>Prior Bldg Experience</b>			+	Several projects for home and business
<b>Prior Builders</b>		✓		McNeil, retired. Other guy erratic
<b>Designer</b>			+	Client wants our recommendation
<b>Why Called?</b>			+	Strong reference from Doris Smith. Have seen our work.
<b>Project Description</b>	???			Professional grade photog studio. Upslope (steep?)
<b>Size</b>			+	800 s.f. one story—Guesstimate
<b>Commute</b>			+	Local
<b>Budget</b>		✓		\$300K, could go higher
<b>Funding</b>		✓		Have cash “set aside”
<b>Prop Owned?</b>			+	Yes.
<b>Schedule</b>			+	Do right, no rush.
<b>Priorities</b>		✓		Willing to spend for quality. Want to use funds “effectively”
<b>Bid Process</b>			+	Want to work with builder can trust
<b>Our other Jobs</b>			+	Schedule open for estim. & build
<b>Crew Lead</b>			+	Fred available. Will be done with current proj.
<b>Crew</b>			+	Fred’s crew available
<b>Subs</b>			+	“A” team available
<b>Suppliers</b>			+	“A” team available
<b>Client Tone</b>			+	Candid, open, listened, respectful
<b>Conclusion</b>	YES – PROMISING. Need to involve right designer, maintain budget control. Check access to upslope.			

**Sample lead evaluation sheet** is excerpted from the author’s book, *Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding*.

emphasize that, in my view, allocating overhead to a project is best done on the basis of two things: the portion of your capacity to do work that it requires and the amount of time it will take to complete. I think that this time/capacity approach—because it tailors overhead markup to each project individually—is better than figuring overhead by applying a percentage based on gross company performance, as both the fixed-percentage and GPM methods do.

**Profit.** Once you have decided how much overhead to allocate to a project, you can move to figuring profit and determining your “selling price,” the amount of money you will charge to build the project as designed and specified. (Note: If you are bidding for the project on what I call a “cost planning”—also known as “negotiated bid”—basis, you will want to suggest to the owners that they also have in place funding for hidden conditions that may need to be corrected and for upgrades they may want to request during construction.)

Determining just how much profit to include in a selling price is a complex matter. And it is a controversial one. I discuss all the factors involved in *Nail Your Numbers*. Broadly speaking, they include market conditions, your ethics, and the needs of your company—especially for protection against all the financial risks of the construction business.

Direct Costs  
+Overhead  
+Profit  
+Bond (if any)

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Selling Price

Here, I want to focus on the evaluation of that risk. In my view, it’s not good enough to make some rough reckoning of the level of risk in a project as a whole, to say to yourself “this job looks like trouble. I better throw in a bunch of extra markup at my overhead and profit lines to protect myself.” That’s pretty much the approach suggested by some industry educators, but it’s too risky! It’s just another kind of WAG (wild ass guess), but instead of wagging at the total cost of the job, you are wagging at total risk.

In place of rough guesswork, you need precise targeting of risk. Just as you can reliably estimate the direct costs of a project only by breaking it down into items and assemblies and costing

them out one by one, the best way to reliably estimate for risk is to figure out just which items present risk and add for risk right at those points as knowledgeably as you can. For example, if a project includes a new type of finish material, and you really don't know how long it will take to install, then mock-up a test installation of a few pieces. That will get you to a reasonable approximation of productivity that can serve as the basis of your cost estimate.

If instead you just guess at the risk of installing an item, you can get clobbered. That's what happened to a friend of mine when he installed ipe decking for the first time. He admiringly stroked a stick of the then new-to-market material and assumed that installing it would be like installing his usual redwood decking. It wasn't. He found that it was "a bear" to work with. The unanticipated labor cost him a bundle.

Likewise, if you are going to be working with an unusually indecisive designer, you must adjust productivity rates accordingly. If there's the risk that they will involve you and your lead person in excruciatingly involved conversations about details, you need to provide for the time those conversations consume in the project-management lines of your estimate. Similarly, if you are working with avaricious owners, then you will need to buffer against the risk by providing for the extra labor of militantly

watchful and high-frequency billing and change-order production as well as for the possibility the owner will refuse to pay all that they owe you. (That is, you will adjust for such risk if you don't manage to eliminate the owners and their project from consideration altogether during the first phase of bidding, which would be best by far.)

Obviously, building a first-rate bidding/estimating/bidding system is not a task for the faint of heart. It involves other work that we have not even touched on here, like creating a system for the efficient production of complete quantity surveys, also known as "takeoffs." But the work is doable. If you are new to estimating and bidding or have been struggling with it, you can build a strong system in small steps over time. It is surely an easier skill to learn than, say, remodeling a kitchen or framing a house. And if you do learn it, more than any other business skill it will make your work as a builder a less stressful and happier experience.

*David Gerstel has been a builder for over four decades and is the author of Running a Successful Construction Company, often spoken of as an industry "bible." David's new book, Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding, is available from Amazon or at the bookseller of your choice. You can contact David via his website, DavidGerstel.com.*

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