

Your Bidding and Estimating Tune-Up Guide

David Gerstel has been a licensed builder for four decades and is the author of the construction industry classic, *Running a Successful Construction Company*. The following article is adapted from his new book, *Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding*. It can be ordered from your local independent bookstore or from online booksellers including Amazon.

Shortly after I published *Nail Your Numbers*, I began receiving emails full of questions and suggestions from a fellow named Joseph Hough. At the time, Joe was working as a carpenter and studying engineering in Vancouver. For me, that would be a full load. But Joe was somehow finding time to give *Nail Your Numbers* as attentive a going over as any of my books has ever received from a reader.

Many builders might benefit from taking on questions—prompts, really—that encouraged them to think through the way they handle estimating and bidding. Such an “exam” could act as a tune-up guide, prompting a close look under the hood to see what was working and what needed adjustment.

When Joe had completed the book, he asked me to send him an exam on estimating and bidding. I did; and a couple of months later, I received his answers to the exam questions.

As I read Joe’s answers, I began to appreciate that he had achieved a better understanding of estimating and bidding than many of the veteran builders I had interviewed for *Nail*. To be sure, there were a couple of topics that I suggested Joe revisit. In response, he asked me to give him some direction, but I said, “no,” telling him to figure matters out for himself. And that’s when the idea for this article crystallized.

Many builders, it occurred to me, might benefit from taking an “exam” like Joe’s. They would gain from taking on questions—prompts, really—that encouraged them to think through the way

they handle the major issues that come up during estimating and bidding. If they found themselves struggling to articulate their method of handling one or another issue, they’d know they needed to learn more about it and get their practices in order. In other words, an “exam” could act as a tune-up guide, prompting a close look under the hood to see what was working and what needed adjustment.

In this article, you will find versions of most of the questions I asked Joe. I won’t provide answers here, any more than I did for Joe. But I will, where it seems useful, amplify and explain the questions somewhat and offer a hint or two.

OK, get ready, get set ... Take as long as you like. Just make sure you can provide a competent answer to every question. The soul of our work, you might agree, is the construction of good buildings that serve our communities. But we can sustain that effort only if we have a sound business. And the heart of a sound construction business is bidding and estimating. Alright, then ... go!

Explain the difference between estimating and bidding. I was fortunate to learn about bidding and estimating from a professional estimator named Paul Cook, who was also a superb writer. Mr. Cook understood the difference between bidding and estimating so clearly that he wrote about the subjects in two separate books, *Estimating for the General Contractor* and *Bidding for the General Contractor*.

When I felt ready to write my own book and began interviewing other builders as part of my research, I found that all but the most savvy were puzzled when I asked them for their thoughts on the differences. One builder, though he’d been in business for 30 years, said, “It never occurred to me that there was a difference.” Joseph Hough, by the way, came up with an interesting way of summarizing the

For a project I learned about recently, the clients refused to divulge their budget. Has that ever happened with you? If it did, how would you respond?

difference. “Bidding,” he wrote, “pertains to making money. Estimating pertains to spending it.” How do you see the differences?

Explain why it is necessary to separate bidding from estimating. Can you pinpoint the hazards of allowing the mindset necessary for bidding to take over when you are estimating?

A builder told me that his wife used to create exhaustive job cost records for his projects. Then she got sick. He told her to just rest and forget about job costing. How much value did he think was lost when she was no longer producing the records, I asked him. “None,” was his answer.

What do you consider the most important factors to consider when you are deciding whether to go after a project? What tools have you created to ensure that you are considering all the factors? Are your tools effective? Or do you find yourself too often investing precious time in estimating and bidding a project, but then not being selected to build it?

Do you ask prospective clients about their budget for a project? Do you have a well-thought-out approach to asking the “B” question? For a project I learned about recently, the clients refused to divulge their budget even to the architect. They were afraid that if they did candidly state their budget, the architect and builder would gobble up every penny of it. Have you ever gotten a similar response when you asked about budget? If so, how

did you handle it? If not, how would you proceed if you did get such a response?

What are the primary functions of estimating spreadsheets? If you are using a spreadsheet produced by a software vendor, have you considered that you might be able to get more functionality for far less long-term cost by creating your own spreadsheet using Excel? What do you see as the pros and cons of using Excel vs. using a program created by others?

What is your preferred format for your spreadsheet? There is more than one good answer here. Professional estimators with little trade experience might legitimately prefer one widely used format while builders who have come up through the trades may prefer a format that fits better with their way of thinking through and building projects.

If you are deploying an in-house crew rather than having your field work done entirely by trade partners, are you including all the necessary divisions of work in your spreadsheet? Amazingly, builders specializing in diverse lines of work—retail, commercial, and residential—overlook one major division of work, or at least many of the items that should be included within it. I will give you a hint as to what it is: It covers items that are not visible in the plans and may not be mentioned even in fairly elaborate specifications. Make sure that you know what this division is, that it is included in your spreadsheet, and that it includes all the items that regularly, or even occasionally, occur in your projects.

What are the advantages, in terms of personal satisfaction and of potential profit, of keeping at least some divisions of work in-house rather than subbing out everything except supervision and perhaps a bit of utility work? Again, there is

THE BIDDING AND ESTIMATING EXAM

1. Explain the difference between bidding and estimating.
2. Explain why it is necessary to separate the two processes.
3. What do you consider the most important factors to evaluate when you are deciding whether or not to go after a project? What tools do you use to ensure that your evaluation is comprehensive?
4. How do you obtain information about the budget for a prospective project?
5. What are the primary functions of an estimating spreadsheet?
6. What is your preferred format for your spreadsheet? Why?
7. Describe job costing and the value of job cost records for estimating.
8. Describe the limits of job cost records and better sources of data for estimating labor productivity.
9. What clauses should a contract include to protect a bid from erosion during construction?
10. What is labor burden? What are its key components?
11. What is overhead?
12. What is profit? Why is it essential to earn profit in construction?
13. What are the pros and cons of the three major methods of charging for overhead and profit in a bid?
14. What are General Requirements? What percentage of your costs for a project do they typically run?
15. What is meant by the terms “Integrated Project Delivery,” “Pre-Construction Services,” and “Cost Planning”?
16. How can you move beyond estimating and bidding jobs for free?

no right answer here. Your answer will likely depend on your abilities, skills, and the aspects of a career in construction that attracted you to our world in the first place.

What is job costing? What value does it have for estimators? What are the pros and cons of using job cost records for estimating? I'd like to throw in an opinion here. Job costing is an accounting function. Its importance is pushed by industry educators whose background is accounting, not construction or estimating. In my view, they tend to overstate the value of job cost records for estimating while overlooking the value of other records.

I have met builders who are even more skeptical of investing much time in job costing than I am. One builder I interviewed for *Nail* told me that, following the standard sort of advice handed down from consultants with an accounting backgrounds, he asked his wife to compile exhaustive job cost records for his projects. She did that for years. Then she got sick. He told her to just rest and forget about job costing. How much value did he think was lost when she was no longer producing the records, I asked him. "None," was his answer.

How much benefit, especially for estimating purposes, do you get from job cost records relative to the time you spend on compiling them?

What contract clauses are especially important for preventing erosion of a bid during construction? Too many builders think that a comprehensive contract will alienate clients. I even know one who thinks that his failure to have developed a written contract is evidence of moral superiority. People trust him so much he does not, he brags, need any fancy documents to seal a deal. Just a handshake will do.

In fact, a thoughtful and fair contract, carefully presented to clients, supports trust. It demonstrates your desire to put all your cards on the table and to help clients fully understand the major transaction they are entering into. Within such contracts, specific clauses about what you can, will, can't, or won't do during construction can settle client expectations so disappointment does not set in as you are building the project. That, in turn, will prevent costly disputes over your charges and protect your potential profits, as is essential for sustaining a construction business over the long term.

What is labor burden, and what are the major components of labor burden? In particular, have you accounted for the difference between labor burden for journeymen and for apprentices, noting that certain of the burdens are substantial for apprentices while being insignificant for journeymen? I ask this because one of the sections of *Nail Your Numbers* that builders have most appreciated is the one titled "The true cost of apprentices." As Joe colorfully noted in his exam answers, "Apprentices can be real money guzzlers." You need to know exactly why that is the case, and a comprehensive labor rate sheet (such as the one included along with hundreds of other forms, lists, and illustrations in *Nail Your Numbers*) will tell you why.

Now, two huge questions: What is profit and why is it essential to earn profit in construction? What are the pros and cons of the three major methods of charging for overhead

and profit in a bid? A surprising number of builders do not have sound answers to those questions. At the very worst, they think wages are profit and that, as I have heard many say, they "don't have any overhead." Or, not quite so bad, but still serious, they fail to account for and charge for all their overhead. And they think profit is bounty that will never stop flowing and that they can casually lavish on powerboats, fancy offices, or other delights.

Of course, the preceding prompts do not exhaust the estimating and bidding issues you should consider. For example, I did not ask about site inspections, and I did not mention material takeoffs.

I ask this because one of the sections of *Nail Your Numbers* that builders have most appreciated is the one titled "The true cost of apprentice labor." As Joe colorfully noted in his exam answers, "Apprentices can be real money guzzlers."

But for now, I will just go on to one final set of questions that I find particularly engaging, and that I hope you will as well:

- Are you sick and tired of spending countless hours generating bids for clients, architects, and designers—and of doing all that work without pay, merely in hopes of getting a chance to build the project?
- Are you acquainted with the concepts "Cost Planning," "Pre-Construction Services," and "Integrated Project Delivery"?
- Are you aware that builders all over the country have moved beyond "Bidding for Free" (to use a chapter title from *Nail Your Numbers*), and that they are paid at professional rates for their estimating and related preconstruction services?

In closing, let me just tell you that if you have not already done so but would like to, you can find your way out of the free "competitive" bid trap. Countless builders have made that move. They are paid for generating estimates and the accompanying information, such as ideas for value engineering, that is of such great benefit to designers and clients as they develop plans and specs for their projects.

There are two major paths beyond free bidding. Especially in a boom time but even when work slows, there is no reason that you cannot travel one of those paths. That is, there is no reason if you have become a capable builder and have put in the hard miles necessary to create strong estimating and bidding systems. If you have done that, then you can and, in my view, should seriously consider making the journey—unless, of course, you love working for free.

David Gerstel's new book, Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding, can be purchased from local independent or online booksellers. To learn more about Nail Your Numbers, go to DavidGerstel.com or Amazon.