



Estimate Equals Actual

by Les Cunningham

A remodeler I know has a favorite slogan: Estimate equals actual. For him, this phrase captures the idea that the outcome of any activity, whether personal or business, should align with the intent; that is, the result should match the plan. This applies to everything we do, from making and keeping appointments to defining and achieving our personal and business goals.

But getting our actions to match our plans is difficult, especially for small construction companies. The owners

of small companies tend to be optimistic, can-do types who are willing to put in as many hours as it takes to make their companies successful. The problem, though, is that increased success generates even *more* work, and unless you can learn to work more efficiently, you eventually run out of time to take care of everything.

Written Estimates

Dedicating yourself to the standard of "estimate equals actual" is one way

to begin to solve this problem. But you can't change your whole way of doing business at one time. I suggest you start by comparing every job estimate you do to what happens when you actually perform the work, then analyze the variance between the two. This is commonly called job-costing, and it starts with a *written* estimate for every job you look at. Why a written estimate? Because by writing out every estimate, several positive changes will occur in a very short time:

- **You will develop a standard estimating form.** How many times in your career have you had two jobs that were exactly alike? I've been in the industry for 25 years, and I've *never* seen it happen. But different as jobs may be, they still have many common aspects. Instead of approaching each job in a different way, you should work toward a standard method. And because your estimates will become part of a job-cost system, a standard form will ensure that you make accurate cost comparisons.
- **You will become a better, more efficient estimator.** Standard estimating procedures and forms will, by their very existence, force you to estimate more thoroughly and miss less. One of my worst moments while still a remodeling contractor was forgetting to bid the roof sheeting for a 720-square-foot addition. It's a mistake anybody could make, and without a system, chances are good you will miss a big-ticket item (if you haven't already done so).
- **You will develop a more professional image.** A standardized, efficient estimating system sends a message to all of your potential clients that you know what you're doing. You will be able to back up your estimate in great detail, and you'll be better able to answer clients' questions.

- **You will have a ready-made bill of materials when your estimates are accepted.** You will already have all the takeoff information you need to do the job and will only need to update pricing. This is much more efficient than producing a rough price by the seat of your pants, then having to figure the work all over

Sample Estimating Form

Phase/Item	MATERIAL			LABOR		Total Price
	Qty.	Unit	Price per Unit	No. of Hours	Price per hr.	
Gen. Admin.						
Site Work						
Excav.						
Backfill						
Grading						
Concrete						
Footings						
Walls						
Slabs						
Masonry						
Framing						
Joists/Subfloor						
Ext. Walls						
Int. Partitions						
Rafters/Sheathing						
Roofing						
Doors/Windows						
Siding/Ext. Trim						
Insulation						
Drywall						
Interior Trim						
Finish Flooring						
Electrical						
Mechanical						
				Total Material		
				Sales Tax		
				Total Labor		
				Total Subcontractors		
				Subtotal		
				Gross Profit (+.65)		
				Grand Total		

Figure 1. The list of phases and items on a standard estimating form serves as a checklist and will ensure that you don't omit anything when pricing a job. Start with a simple list for the type of work you do most often. As you become more comfortable with the form, develop a more detailed breakdown, and create separate forms for other types of work.

Sample Job-Costing Form

Phase/Item	ESTIMATED COST			ACTUAL COST			Percent Complete	Variance
	Labor	Mat'l.	Subs	Labor	Mat'l.	Subs		
Gen. Admin.								
Site Work								
Concrete								
Masonry								
Framing								
Roofing								
Doors/Windows								
Siding/Ext. Trim								
Insulation								
Drywall								
Interior Trim								
Finish Flooring								
Electrical								
Mechanical								
Totals								

Figure 2. The construction categories on the job-cost form match those on the standard estimating form. (Add subcategories, such as “Joists/Subfloor” and “Ext. Walls,” to track more detail.) Estimate and record job progress in the “Percent Complete” column, then multiply estimated costs by this percentage. Record the difference between the result and actual costs in the “Variance” column.

again in greater detail after you’ve signed the contract.

- **You will spend less time estimating.** This will free up time for the other things you need to be doing, both in your business and in your personal life. By using a standard estimating form, you will develop a routine that will permit more rapid estimating without sacrificing accuracy and thoroughness.

At first, standardizing your estimating procedures and creating an estimate form will be a little frustrating. You may have trouble deciding how much detail to include and how to organize it. This is especially true if you do several different kinds of work.

I suggest you first create a single master form for the type of work you do most (see Figure 1). As you become comfortable with the new process, you can develop a separate form for each type of work that you do, such as new construction, additions, kitchen remodels, and small repairs. Each form serves as a checklist that ensures you don’t forget to ask any questions and don’t overlook any details. In the insurance restoration business, they call this standard form a “tie list.” For insurance work,

it is such an effective tool that a \$100,000 loss can be scoped out accurately in less than two hours.

How many mistakes can you make on an estimate? Enough to lose money on every job you do and eventually go bankrupt. And bankruptcy isn’t the worst that could happen. You might instead stumble and fumble along for five years, working your tail off, and then go bankrupt. Working 60- to 80-hour weeks to lose money makes no sense. If you’re going to go broke, don’t work at it: Go to the beach instead.

Job-Costing

Once you develop a standard estimating system, you can begin to job-cost, using a form like the one in Figure 2. In the first column, list the items or phases of construction whose cost you want to track. These can be broad categories, such as “Framing,” or broken down into smaller increments, such as “Exterior Walls,” “Interior Partitions,” and “Roof Framing.” I suggest you start simply, but make sure the job-cost list parallels the breakdown on your standard estimating form.

Next, use your estimate form to record the estimated cost of each item or phase on the job-cost form. Then each month — preferably each week

— as time sheets and invoices from suppliers and subs come into your office, record the actual costs for those same items or phases.

Each time you do this, estimate how much progress you have made toward completing each item or phase, and record the percentage in the “Percent Complete” column. After doing some simple math — multiplying estimated cost by percent complete — you can compare the price you estimated for each item or phase with the actual cost to produce it. I can guarantee that in some areas, these two numbers will not agree. If you study this variance between estimated and actual costs, you will learn three things:

1. You will never intentionally make the same money-losing mistakes on a job again.
2. If you job-cost weekly, you may be able to pull a rabbit out of the hat once in awhile and figure out a way to make up for projected losses.
3. You will be able to correct your estimating process for all of your future jobs.

Job-costing is especially important if you, the company owner, are also the estimator. In my experience, company owners usually underestimate the amount of labor it takes to do the job. Since bidding the labor is the riskiest part of any estimate, the savings job-costing will bring are worth the effort just to correct labor estimates.

Who benefits when estimate equals actual? Everyone does, and here’s why. First, your employees and subs will begin to know what’s expected of them and whether or not they have done a good job. Second, your clients will know that they’re going to get what you promised when you promised it. Third, your salesperson’s commission will be based on a job’s profit — not on the total selling price — so those estimates will be more accurate. Finally, every member of your team will begin to believe that your company is capable of surviving profitably. ■

Les Cunningham spent 15 years running his own remodeling company. He now operates Business Networks, a consulting firm that conducts peer-review seminars with more than 100 remodeling companies nationwide.