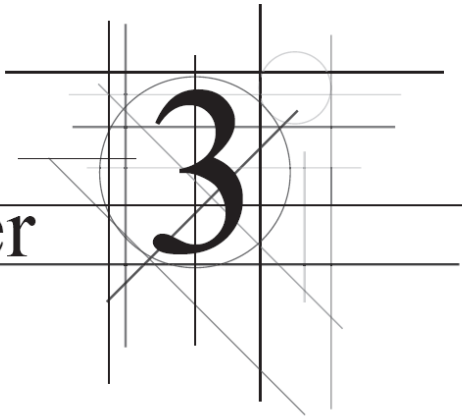


Nicholas Hurd

A graphic for Chapter 3 featuring a large, bold, black number '3' centered within a grid of thin black lines. The grid consists of several horizontal and vertical lines, with a few diagonal lines crossing through the center. The number '3' is positioned in the middle of the grid, overlapping several lines.

Chapter 3

## **Organizing Your Estimates for Success**

# The Secrets to Making Money on Every Job...

## What Every Contractor Needs to Know to Thrive

**S**ome contractors, and I hope it's not you, write up estimates on the back of an envelope. Twenty years ago, you might have been able to get away with that. In today's competitive marketplace, that doesn't work, not if you want to make money and not if you want to look professional.

Some of you write up estimates on a preprinted estimating form from companies like Nebs. That can look neat and somewhat professional. This is appropriate if you're doing small home repair jobs. If you're doing larger jobs, you won't look as professional as your competition because many of your competitors are using computers to generate much more professional looking proposals.

Others may be using cost books, like Craftsman's construction estimating cost books, or one of RS Means construction cost books. These are very good products and you can create an estimate from these books that will look good and more professional than the forms. Both of these companies, and many others, have sold thousands of their cost books and programs that will generate estimates.

There are a lot of contractors that use spreadsheets like Microsoft Excel and others to generate their proposals. These can look very professional and can make an excellent presentation. Depending on how the spreadsheet is developed -- you can do it yourself or purchase a template -- it may look very good and organized, or it may not look so good.

A fourth method is an accounting/bookkeeping program, like QuickBooks®, that has an estimating program built into it. Thousands of contractors prepare estimates using QuickBooks and they look quite presentable. Unfortunately, like the other methods noted above, they aren't organized and don't lend themselves to organization, as we'll discuss in a moment.

## **Organize Your Estimates**

A major challenge when you're preparing a construction estimate that has more than a few items is the organization of the estimate. If the estimate is not organized, and I'll explain what I mean by organized in a moment, it can lead to problems on several fronts.

First, if they're not organized, as I'll describe, you can have substantial errors without realizing it. This can easily lead to underbidding and overbidding. Frankly, I'm not sure which one is worse. If you underbid and get the job, you stand to lose your shirt. If you overbid, you probably won't get the job. You decide which is worse.

Second, the presentation of the estimates is usually just a long list of things to be done and how much is going to be charged for each of them. There's no rhyme or reason to the way the list is displayed. This means that it can be confusing to your prospect and potentially allows them to nitpick each and every item on the estimate.

# The Secrets to Making Money on Every Job...

## What Every Contractor Needs to Know to Thrive

If you want to be successful with your estimates, you need to organize them into what I call sections. Other people call them tasks, classes, categories, and a lot of other names for exactly the same thing. I don't know what you call them, but for this discussion we're going to call them sections.

Sections break down your estimate into logical chunks, like foundations, framing, roofing, and so on. Depending on the type of work you do, you need to have a set of sections that reflect and organize each task and phase of the project.

While I talk about sections that are oriented to remodeling contractors and home builders, every construction specialty, including electrical contractors, plumbing contractors, landscaping contractors, HVAC contractors, and all the others I've forgotten to mention, need to organize their estimates into sections. You'll find a list of sections for different trades at the resources link at the bottom of the page.

### **Sections Keep You Organized**

Organizing your construction estimates by sections helps you in three ways:

1. They provide organization to your estimate. They make your presentation to your prospect look much more organized and professional. It gives you an edge over your competitors who don't look as organized and knowledgeable as

you do.

Many contractors that are using estimating software don't show the prices for all the detail items that go into each section, but just show a total by section, like Framing: \$1,000, and provides no details.

This breakdown of what is involved in every aspect of the task makes the estimate easier for the prospect to review and reduces the possibility that they will nitpick the cost of each and every item on the estimate.

2. Sections are typically set up in the sequence you do your work. This means that your take off is done in an organized fashion. You're less likely to skip important sections of the bid if you follow the sequence.

When you're doing a take off in a section, let's say framing, you put aside anything that doesn't relate specifically to framing. That way, you're less likely to forget to add items to your estimate because your attention is focused on the particular section and all the items that are required for that specific section.

3. When you're reviewing your bid, it's much easier to find duplicated items and items that may have been forgotten on the estimate.

# The Secrets to Making Money on Every Job...

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This means that you have reduced the possibility that there's an error in the estimate and you're not underbidding or overbidding the project. And that means that when you get the job, you're confident you're going to make money.

The theme here is that using sections puts you in a position where you'll look professional to your prospects and you'll be less likely to make errors in your estimates. Who doesn't want to do that?

### **Reducing Estimating Errors**

Reducing or eliminating errors means that you're much more likely to make money on the project. That's the bottom line... consistently making profits, job after job.

Earlier I mentioned estimating using cost books and the associated estimating programs from companies like Craftsman Books.

Many people find these cost books easy to use and easy to generate an estimate; others find them somewhat confusing and cumbersome. While you can organize your estimates into sections, that's not the native way they are organized. You have to create the organization yourself as you estimate. The challenge is that it's easy to not organize your estimates, so if you're not careful, you'll wind up with a disorganized estimate.

Another approach to preparing an estimate, as I discussed earlier, is to use a spreadsheet, like Excel, to

prepare your estimates. Many people have developed their own spreadsheet and the calculations to complete an estimate. For very specialized contractors, this can be an excellent way to work. It allows you to create estimates that fit your specific requirements. The only thing to remember is that you need to set up the spreadsheet so your estimates are organized.

There are a number of estimating programs in the marketplace that will help you with your estimating and prepare very professional looking estimates, like my program, LiteningFast Estimating. These programs range from a few hundred dollars to thousands of dollars. The major difference, as far as I can tell, is the number of “bells and whistles” they have.

These features provide additional power in the estimating process. On the other hand, the more bells and whistles they have, the more difficult they are to learn and use. And many of the features are soon forgotten if they are not used every day. These programs are usually designed for large contractors that have personnel that are dedicated to using the program every day.

Virtually all estimating programs, at least that I'm aware of, are organized by sections. This means that you get the convenience, organization, and error proofing of sections, right out of the box.

# The Secrets to Making Money on Every Job... What Every Contractor Needs to Know to Thrive

## **Predefined Section Lists**

There are two most well-known sets of sections or lists of sections:

**CSI** – Construction Specifications Institute – These are primarily used for commercial and industrial jobs and are specified by architects for the respective jobs. If you're doing high-end residential projects and working with architects, you'll also be working with CSI sections.

The older version has 16 major divisions, with numerous sub-divisions and detail sections within each division.

The newer version released around 2004 has 24 major divisions, with numerous sub-divisions and detail sections within each division.

If you're a specialty contractor, electrician, plumber, HVAC, etc., you'll find a section within CSI that will give you a good start developing the appropriate sections for your specialty. You can modify the sections to fit your specific way of doing business.

**NAHB** – National Association of Homebuilders – These sections are used by, believe it or not, homebuilders. They are a complete set of sections reflecting the way homebuilders can do business.

Personally, even though a lot of homebuilders use these sections, I think there is a better way of organizing.

That's because I believe that each take off item should include materials and labor in one item. The NAHB sections break out the labor from the materials, and I feel that doubles the amount of work required during bid take off.

I've created a section list that I believe gives remodeling contractors and homebuilders a very flexible way of preparing their estimates without getting into too much tedious detail.

## **Keeping It Simple**

This brings up a good point. You can have a set of sections that practically get down to the level of every stud, 2X4, nut, bolt, and screw. I think that's a mistake for most small and medium-sized contractors because it makes the estimating more complex and it increases the task of doing job cost. We'll talk more about job cost in a later chapter.

At least initially, small and medium-sized contractors should focus on a simple list. As they get comfortable with the system and discover additional details they want to keep track of, they can add sections or sub-sections to their list.

Here is the list of sections I've developed:

- **100** General Requirements – miscellaneous stuff that doesn't fit anywhere else.
- **130** Plans – Plans for the job
- **160** Permits – permits for the job

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- **200** Site Work – lot clearing, trenching for water, sewer, etc., and so on.
- **250** Demolition - Tear out
- **300** Foundations – foundations, stem walls, basements.
- **400** Exterior
- **410** Framing – exterior wall framing including insulation, sheeting and wrap.
- **420** Roofing – roof framing, sheeting, and shingles
- **430** Siding – exterior siding or stucco
- **440** Doors, Windows & Trim – Exterior doors, windows and trim.
- **500** Concrete – concrete work other than foundations. Walkways, patios, etc.
- **550** Masonry – any masonry work, like fireplaces, exterior walls or trim.
- **600** Interior
- **610** Framing & Drywall – interior walls and ceilings
- **620** Doors, Stairs & Trim – interior doors stairs and trim
- **630** Cabinets – Kitchen and bath cabinets
- **640** Flooring – flooring including carpeting, hardwood, tile, etc.
- **700** Finishes – interior & exterior finishes, including paint, wallpaper, paneling, etc.
- **800** Electrical – electrical work including service, fixtures and outlets.
- **900** Plumbing – plumbing including water and wastewater, and fixtures.
- **1000** Heating & Air Conditioning – Heating and

- ventilation equipment, including ductwork
- **1100** Appliances – Kitchen and laundry appliances
- **1200** Landscaping – all finish landscaping, including grass and plantings.

When all is said and done, your section list is the heart of your estimating. As long as it reflects your business and the way you want to do business, it's one step that's going to help you make money consistently.