AVOID
CONSTRUCTION PROJECT ESTIMATE PITFALLS

Ensure that your business deals with estimations consistently and avoids the all too common traps.
OUR SOFTWARE HELPED US TO GAIN A BETTER UNDERSTANDING OF OUR PROJECT COSTS, IMPROVING THE ACCURACY OF ESTIMATIONS.
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For any construction business, a lucrative tender opportunity is an exciting prospect. But cool heads are needed to ensure that your company’s bid is priced correctly. Balancing the desire for profit with the commercial necessity of ensuring your company submits the lowest bid can be a tricky business.

To manage the bidding process effectively requires all staff members to have a firm grip on the costs likely to be incurred during the course of fulfilling the contract.

Get the figures right and your company could stand to win the tender and make a healthy profit. Get them wrong, however, and you face losing out to a better-informed competitor. Possibly worse, you might win the contract only to discover you underestimated the costs, meaning you are staring down the barrel of crippling losses.

Attempting to arrive at a pinpoint-accurate estimate may be a pipe dream – big construction jobs inevitably involve a number of unstable factors, particularly the price of labour and materials. According to a study by the University of Reading, poor quality tender documents can lead to inaccurate estimates, higher margins in bids, claims and disputes.

But the better your estimate, the better your chances of sealing the deal and ending up in the black. Here are five common pitfalls that can lead to incorrect estimates.

- Balancing profit with commercial necessity.
- Estimating the costs accurately.
- Managing the bidding process effectively.
- Understanding unstable factors.
- Avoiding poor quality tender documents.
LACK OF CONSISTENCY

On a big project, you may need more than one estimator. However, the more you employ, the greater the chances that things could go wrong. Without clear and consistent guidelines, which are well understood, three different estimates for the same services or product can end up varying wildly. Don’t forget – estimators are expected to provide a high degree of detail while working to tight deadlines. If they are not using recording systems that are easy to use and provide clear definitions, mistakes and inconsistencies can easily creep into the process.

Subcontractors may offer slightly different services or products to one another and it is essential that systems record exactly what each can provide and how that matches with the requirements of the contract. If such differences are not recorded correctly, you might end up bidding 50% lower than your competitor, only to discover you are only offering to do half the work required.

It is essential to make sure that the information you are working from has been gathered fairly and consistently.

MANIPULATION

Using the proverbial ‘back of a fag packet’ might be useful for rough initial calculations, but that’s about as far as it goes - estimating construction projects requires a level of detail and complexity which can only be provided by more sophisticated tools. In recent years, many firms have adopted complex spreadsheet processes to help crunch the numbers. These are very useful tools for many tasks and can automate key calculations to easily test different scenarios.

But such flexibility can also provide dangers, which mean they are far from perfect. Optimistically manipulating a figure in one column to bring a single cost item down can easily lead to consequences elsewhere in the document and by the time all the calculations have been completed, the effect has been massively multiplied. It’s only when you have won the contract and are about to start work that you might realise that what you thought was one minor change means your figures are way off the mark.
BIDDING TOO LOW

Even if costs are estimated consistently and accurately at an early stage, dangers still lurk around every corner. Your company may notice that one of its teams is finishing a job elsewhere and assess that the new contract would be the perfect fit. The temptation might then arise to lower the bid to win the work and keep staff employed – calculating how you will make a profit from the work can always be done later – can’t it?

Additionally, ensuring that you include a profit margin on top of your project costs estimate might sound obvious, but it is surprising how often this simple calculation can be overlooked. Unless systems are clear on what costs the figures refer to, misunderstandings can arise, particularly when documents are being forwarded between different departments. Mistakenly assuming the overall cost includes the profit margin can be disastrous. Whether deliberate or by accident, bidding too low is easily avoidable through the use of clear, simple software.

SOFTWARE PROBLEMS

Software can play a key role in reducing process times and even automatically flagging up holes in estimate documents. But placing your faith in badly-built software can lead to errors which go unspotted during the estimating process. Research shows that faults can develop in software construction, programme performance, hardware incompatibility and an inability to incorporate data sourced from other software.

But by far the most important factor in software effectiveness is how it interacts with the “fleshware” – in other words, the humans tasked with operating it. If systems are difficult to use - or even understand in the first place - then estimating can become an uphill struggle and errors are more likely to occur. Systems need to be user-friendly and full training and support for staff can help improve buy-in and significantly improve the final cost estimates.

LACK OF TRANSPARENCY

It is all very well providing accurate estimates for every nut and bolt in a project. But a comprehensive assessment of costs is only half the battle in the bid process. The detailed cost estimates need to be understood easily by staff at all levels of a company. If detailed information is only presented in one rigid format, such as on a single spreadsheet, then staff members have to put more effort into working out the figures they need.

The estimate needs to provide an overview, as well as a detailed breakdown for those at the top of the company structure. But it also needs to give clear and relevant information to staff further down the chain, including project managers and members of the commercial team. Such transparency in estimates also encourages engagement, the sharing of best practice and informed conversations between all those responsible for producing a finely-honed bid and ultimately delivering a successful project.