



Ever more accurate estimates

By People Logic Software Corporation

Estimating software is typically the last investment companies consider after machinery and CAD-CAM solutions. The premise being that without the machines one can not secure the work and without work we can not fund machines. A classic chicken egg scenario but now the focus has changed.

Typically when times are busy the justification for estimating systems is less because there is enough work for everyone and the margins are quite healthy. Also the odds of being profitable are good because good margins can absorb any inefficiencies or estimating mistakes. Suddenly that is no longer so.

Fewer shops are being successful with bids as others are entering their market space. Those newcomers may not understand bidding to specifications but yet their low bids may be considered. They will be your new competitors if even for a short while.

Fewer bids are available due to financing cutbacks or cancelled projects. Thus fewer opportunities with more competitors. Open market bidding will be highly competitive with no margin for errors.

How does one compete under such conditions? Foremost we need to be concerned about the mechanics of our bid costing. Has it kept pace with the investments made in manufacturing or are you still using pencil and paper? Bid costing has evolved into a very technical process just as cutlisting has for engineering.

As a first step ensure that your bidding process separates cost from sell price. Sounds simple but most estimators still only consider sell price. Cost is a technical number and should accurately reflect your labor to complete plus all raw material expenses. Sell price is a function of cost plus overhead and markups. Without this separation negotiations won't be possible. You need to know your costs first.

How do we establish costs? Labor is historical and needs to be shared with estimators. Material costs are simply the sum of all materials per bid line item. If you are using pencil and paper this isn't so simple and you will not make the effort to account for all the materials. You will either guess or prorate per foot.

Estimating by the foot or yard is no longer good enough. Digital tools exist to provide *parametric* cost estimates for each bid item by simply describing its specification. Some of the advantages of *parametric estimating*:

- Individual labor/ material per item.
- Consistency per estimator.
- Breakout pricing.
- No math errors.
- Spec changes.
- Accurate reviews.
- Synchronized documentation.
- Time to assess profitability.

Before any machinery purchases are being made companies need to ensure they have enough work successfully secured to invest in their future.