



Estimating the Estimate – Understanding the Costs of Bidding, Quoting, and Budgeting

By Daniel G. Frondorf, CPE, CDT

It has always been interesting to me when I see an ad, brochure, or website for a construction company that proudly proclaims “free estimates”.

This is a common tactic used in the home remodeling sector and in other businesses that cater to the residential market, and sometimes even in the commercial, industrial, and public markets. It offers a bid, quote, or even a budget price that doesn't usually cost the recipient anything. The assumption is that by offering the free estimate, it offers the contractor the chance to “get their foot in the door” and sell their services and win the work.

I find this interesting because I know firsthand that the contractor offering the estimate is certainly not doing so without any cost to them. Indeed, the costs can be remarkably high, and if the offer is not accepted, the bid is not low, or the project is insufficiently funded, the costs to offer that bid cannot be immediately, fully, or even partially recovered.

The process of developing a bid, quote, or budget is not necessarily simple, and is usually somewhat complex given all the components that go into it, even for seemingly simple projects. Usually a team effort is required, and the team could be comprised of people inside the organization and outside. Estimators, administrative support staff, salespersons, and vendor's staffs are all required to have some input into the overall price.

For in-house staff, there are salaries to consider, and for outside contacts, there is their willingness to participate and challenges their schedules to fit the timeliness of it, as most bids have deadlines. Even quotes to homeowners – whose

project may not necessarily involve design professionals like architects and engineers – have an added level of perception of quality that is impacted by how quickly a quote is returned. It is not unusual for estimators to scramble at the last minute to complete a bid or quote. The reason for that haste is often late-arriving information from outside sources.

In addition to the human resource costs, there are the tools needed by modern estimators – expensive computer hardware and software, office space and company vehicles, and membership dues in professional associations. If the projects are not local, there could be travel costs and overnight shipping expenses. Sometimes, it's necessary to utilize the services of specialized estimating consultants, like members of CERT (the Consulting Estimators Round Table), which add value, but expense as well.

Even evaluating bid opportunities and go/no-go decisions about which projects to pursue have costs. The commitment of resources to a single-bid opportunity can cause missed opportunities elsewhere in projects not selected to be chased.

There are also business development expenses, like ads, sponsorships, and websites used to create awareness. Lastly there are costs to obtain the bidding documents, printing and copying, shipping, and costs related to the distribution of documents to subs and vendors through specialized software or online plan rooms.

For me, as a consulting estimator with a wide variety of clients, writing fee proposals is a necessary evil. Depending on the complexity of the project, reviewing documents and trying to determine a level of effort and time commitment needed to

perform the work is sometimes more complicated than the work itself. As any consultant knows, you do not win every proposal you offer, but hopefully enough of them to keep the lights on.

How can a contractor capture the costs of bid preparation, and can they even be recovered to any degree every single time? I would say, "Probably not." Bid prep costs can be added to the general conditions of a project, that, if won and awarded, can be recovered, but that's risky because it adds costs to the bid that aren't directly related to the project, and lessens the possibility of a winning bid.

My experience shows that most contractors include bidding costs as a percentage or as a direct cost amount as a home office expense that is included in the bid as an indirect general conditions item. The thinking is that if enough work is bid, a percentage of it will be won, and the overall costs of bidding on most, if not all, jobs can be covered, if not as home office expense included in the bid, then as a portion of the profit that the job will hopefully deliver. This is known as the "volume principal", or the "bid more, get more" strategy. It is not unusual on very large pursuits that an owner will provide a monetary stipend to short-listed offerors to help defray bidding expenses, but even then, it's not likely that all costs can be recovered.

There is a wide range of salary scales for estimators that are dependent on numerous variables, including an estimator's level of education, experience, knowledge, and ability to multitask and work within tight deadlines. Often, the estimator not only establishes costs and performs bid preparation, but also serves as project manager for the work if it is won.

Construction cost estimating is an unregulated profession, meaning there is no license required from a governmental jurisdiction to function as a construction estimator like there is, for example, to function as an architect, engineer, surveyor, accountant, or lawyer. Competent, experienced estimators will have many of the same skills on which all these professionals rely.

There are, however, ways an estimator can increase his or her value to their employer or clients: they can achieve professional certifications and engage continuing professional development. These can help an estimator can set themselves apart and increase their value to those they work for. But the best way to increase your value as an estimator is to deliver consistent, professional service time and again that allows an employer or client to achieve success if the work is won.

Given the new and unexpected challenges of the COVID-19 pandemic on the construction industry over the past few months, many estimators have had to find new ways to perform their job. Working from home, participating in digital conferences and meetings, along with cancelled opportunities for professional development through meeting with others, have caused many of us to adapt how we do things.

Many have experienced job losses and furloughs, a decrease in bidding opportunities as owners try to cut costs from operations; some have seen an increase in workload as contractors try to do more with less as they wait and see what the new normal will be once the pandemic wanes. Commodity and construction material prices are fluctuating wildly; forcing us to pay more attention to as we do our jobs of predicting costs in developing bids and quotes.

The costs of bidding, quoting, and budgeting are significant but necessary. The old adage "it takes money to make money" is a cliché for a reason – it's true. Contractors know that work doesn't just fall from the sky, it must be pursued intelligently and professionally, and that cutting corners on bidding and business development can lead to not winning the work, or worse, winning it for the wrong reasons.

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Relying on Science and Health Data:

The Critical Balance to Safely Reentering the Workforce

A virtual town hall of the National Institute of Building Sciences has outlined many steps for buildings to be ready for reoccupation.

Reopening the nation's businesses will require a uniform approach by building operators, infrastructure employees, and local and state officials under the safety guidance of the Centers for Disease Control and Prevention.

"Bringing America back to work will take planning, vision, and expertise," said Lakisha A. Woods, CAE, President and CEO of the National Institute of Building Sciences. "Employers must utilize a phased approach to bringing staff back into the workplace to assist with social distancing."

NIBS hosted a COVID-19 Virtual Town Hall: Preparing for Reentering Buildings. The town hall is the first in a series aimed at informing and engaging the built environment around concerns and challenges with COVID-19.

The May 7, 2020 town hall featured more than 1,800 registrants. It was decided that there are a number of complex issues that should be considered as part of a reentering strategy:

- Proper hygiene and handwashing, social distancing, and face coverings in public areas remain critical. Office seating density must be thinned out.
- Elevators should not exceed more than 4 people at a time, depending on the size of the elevator cab.

- Companies should perform an audit of the HVAC system, making improvements where necessary. If possible, increase outdoor air ventilation and reduce recycled air flow.
- Buildings that have been sitting empty must flush stagnant water and replace it with fresh utility water.
- When it comes to transportation and transit systems, cleaning must be accomplished in concert with disinfection. Social distancing and face coverings remain the best ways to avoid virus transfer.

BOMA's Chamberlin emphasized the importance of staggering a reentering workforce. He proposed maybe only 30% of the workplace show up to the office for the first month. "Crowd control will be a real challenge when it comes to reentering the workplace," he said.

About NIBS: *National Institute of Building Sciences brings together labor and consumer interests, government representatives, regulatory agencies, and members of the building industry to identify and resolve problems and potential problems around the construction of housing and commercial buildings. For more information, visit nibs.org or follow @bldgsciences on Twitter and Facebook.*