



Keep Your Estimating On Target

by Frank Callan

Do you compare the actual costs with your original estimate each time you complete a job? No matter what estimating method you use—the stick method, the unit-cost method, or a combination of your own making—it is critical that you know how accurate your estimates are so you can make the necessary adjustments for accurate future estimating.

Material prices change, sometimes without notice. Fast workers may be replaced with slower ones at different wages. Changes in building codes and building inspectors or changes in your own procedures can also alter the actual finished cost. If you don't have a way to account for these changes, your estimates will be off. You may bid too high and lose the next job. Bid too low and it could cost you your profit.

Even if your only office is the cab of your pick-up, you can still keep a set of simple but effective records that will help you fine-tune your estimating and keep it accurate. Following the procedures described below will keep your estimating organized.

Break Down Labor by Job

You probably already have a book you use to track your crew's labor time. If the book has enough room to indicate a breakdown showing where each employee spent that time, fine. If not, buy a desk-top weekly appointment book (about 7x9 inches), the kind that has an entire week spread over two facing pages. If your crew is more than 5 people you might want a larger size.

Next, assign a short job name to every job (such as "Jones deck" or "Smith roof"). Then, when you record an employee's hours for the day, break down those hours according to job. Here's an example:

MONDAY MAY 7

BOB - 4 HOURS JONES
DECK (1ST DAY)
4 HOURS SMITH
ROOF

HARRY - 4 HOURS JONES
DECK
4 HOURS - TRUCK
MAINTENANCE

TOM - 4 HOURS JONES
DECK
4 HOURS SMITH
ROOF

TUESDAY MAY 8

BOB - 8 HOURS JONES
DECK

HARRY - 8 HOURS JONES
DECK

TOM - 4 HOURS JONES
DECK
4 HOURS SMITH
ROOF (LAST DAY;
CLEAN-UP)

Later you can use these entries to figure exactly how much labor went into each job.

Break Down Materials by Job

Every time you order supplies, ask your supplier to include a job code (such as "Jones deck") on the order slip and invoice. Then sort the invoices according to job, putting each in a folder labelled with that job's name. If a single order covers materials for two jobs, have the orders put on separate order slips and invoices so you can separate them. This will soon become so routine to all your suppliers that they'll ask you for the job code should you fail to supply it.

Correct this paper trail when necessary. For instance, if six sheets of plywood are ordered for the Smith roof and one is left over, correct the slip to read five for Smith roof and one to inventory. Likewise, when you pull materials from inventory—say you need an extra sheet of plywood for the Smith roof—make up a new slip showing the material and the job, mark "from inventory" on it, and mark it with the current going price for billing and cost purposes. Then put the slip into the "Smith roof" folder.

Total the Labor and Material Costs

If you've broken down your hours and put your invoices in their proper job folders, it will be simple to total the actual labor and material costs of a job when it's finished.

For labor costs, go through your dated labor book, starting a couple of days before the planned starting date, and check each day for worker-hours spent on the job—let's say it's "Jones deck." Remember to total each worker separately if hourly wages differ. Multiply the hours by the wages and other employment costs and you have the total labor cost.

Next, total the material costs from the folder marked "Jones deck." Don't forget to include costs such as trash removal, dump fees, equipment rental fees, and so on.

Figure for Overhead and Profit

You're now ready to plug in a percentage to cover your combined overhead and profit. The appropriate percentage varies considerably from company to company and is best developed with the aid of your accountant or other consultant.

In the meantime, you'll be safe if you total your labor and material and multiply that figure by 60%. This may seem high, but actually means that 38% of your total price (or calculated cost) is devoted to overhead and profit.

For example, let's say you did a job where labor costs were \$200 and materials \$200, for a total direct cost of \$400. Multiply that by 60% (.60).

$$\$400 \times .60 = \$240$$

Adding that \$240 to the direct cost of \$400 gives a total cost of \$640.

Out of that \$640, the \$240 actually makes up only 37.5%. Charge much less than that for your overhead and profit and you'll have trouble meeting expenses and paying yourself any profit.

Keep an "Estimating Book"

You should keep a wide-spined loose-leaf "estimating book" that will become your own cost-tracking and estimating bible. The estimating book should be divided into sections corresponding to materials, such as a "Lumber" section with a "plywood" section within it. Set it up so you're comfortable with it. Then, either at the end of each job or as you file the slips, enter the cost of every material onto its page; this will keep your material costs as current as possible. If at some point you're in doubt about a material's cost, call your supplier.

Before long you'll be able to use this book and your Labor Costs calendar to construct extremely accurate estimates. In the rear of the loose leaf book, keep a section where you can file a copy of both the original estimate you make for each job along with the post-job analysis showing the actual labor and material costs. Divide this section according to job type, such as "decks," "roofs," "dormers," and so on, based on the type of work you generally do. Using a combination of the front section, which will have material costs of all types, and the rear section tabbed by job type, you will be able to pull together estimates using either the stick method or the unit-cost method, or even both for cross-checking purposes.

(In the stick method of accounting or estimating, you make a list of every stick, nail, piece of drywall, bag of plaster, etc., used on a job and total the cost. With the unit-cost method, you take whole parts of a job and reduce the total cost to a cost per unit of measurement—such as linear feet for walls, square feet for floors, ceilings, decks, or roofs, cubic feet for concrete, and so on. An example of the unit-cost method: Let's say your post-job analysis says that the Jones 10x15-foot deck cost \$2,400. Based on this information, you would estimate your next deck at a cost of \$16 per square foot (\$2,400 divided by 150 square feet).

This may all sound complicated and time-consuming. But taken a step at a time, it isn't. And once your system's in place you'll be able to keep your records up to date by devoting about an hour per job completed. If you typically finish three jobs per week, that's three hours—probably the most critical three hours you'll spend that week. ■

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