

**TradeService**<sup>TM</sup>

A TRIMBLE COMPANY

Reducing  
Risk in

ESTIMATION

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Almost all the major concerns held by business managers are about risk – the risk that estimates will contain errors, that labor times will not be correctly used or that errors will be introduced late in the estimating process as unavoidable changes are requested, to name just a few.

So what can you do to reduce the risk faced by your business throughout the estimating process?

**1.**

**Constructs estimates with structure and transparency**

The way you use estimate structures can have a big impact on risk within your business.

An unstructured estimate is essentially a “black box” and is very hard for others to cross-check. A lack of structure makes it hard to find individual line items and to check that items have not been included twice etc. It also makes it difficult for a second estimator to carry on where another has left off - and collaborative working is practically impossible.

On the other hand, an estimate that is clearly structured is easy to follow, easy to cross-check and easy to collaborate over. It is also much easier to go back over it to compare estimated with actual costs once jobs are finished.

Make sure your estimates follow a clear and logical structure:

- Select a structure that gives a clear top-level view of the project and allows quick, logical access to line-items and detailed costs.
- Use software package functions to copy estimating structures.
- Consider job sub-structures – do they reflect how you are going to manage the job? Share ideas on how to improve clarity.

**2.**

**Focus on your weaknesses as well as strengths**

You / your team members are likely to be very experienced in some areas and less so in others.

The area an individual has least expertise in will generally be the area where they have the greatest margin of error. They may make errors including omissions, incorrect product selection, inappropriate use of labor rates etc. all of which will impact your bottom line.

Use software to drive knowledge sharing, transferring information between skilled and less skilled team members:

- Develop a set of kits and templates that can be used by all estimators time and time again sharing knowledge and recording it centrally.
- Protect yourself against unforeseen incidents that may leave you without key players in your estimating team.
- Use a central pricing and labor rate database to eliminate the need for individuals to keep up with pricing changes.

### 3.

#### Manage your last-minute changes effectively

Last minute changes, or those made in a hurry are inherently risky. It is at these times that we are least likely to double check our work, our work is most susceptible to error and we are most likely to ignore internal protocols that govern how we should work.

Estimates created using Excel are especially at risk. It is easy to accidentally alter formulas, delete cells, forget to include line items and make cut and paste errors.



Consider the way in which you manage your last minute changes and how that impacts your business:

- Use an estimating software package that contains built in kits.
- Use kits that can be quickly added or removed meaning you are less likely to forget or forget to remove related items (byproducts).
- Structure your estimates well so that it is easy to move systematically through them making changes. Use a system that allows you to copy estimates creating versions that you can easily compare and cross-check.
- Use a system that allows electronic/bulk substitutions of items and see the immediate effect on your margin.

### 4.

#### Verify your prime costs

In organizations where there is more than one estimator it becomes even more important to verify prime costs. Understanding how prime cost has been built up is essential to a successful project. Unverified prime costs hold inherent risk. Are you sure you can deliver the project in budget?

Store your product cost and labor data centrally, making it accessible to all your estimators:



- Consider using estimating software to do this as it makes it much easier to manage, giving you an understood prime cost base.
- Use a pricing database that is updated regularly, meaning you are always using the latest manufacturer's prices effect on your margin.



Structure your estimates well so that it is easy to make changes on short notice. #TradeService [Tweet this]



## 5.

### Allocate your estimating resources proportionally

It doesn't make sense to spend a lot of time on parts of the project that are relatively low cost and/or relatively low risk. The areas that need the most time and effort are those which have the potential to cost the most if they deviate from the estimated costs.



Consider how you invest your estimator's time, making sure that the most time is spent on the areas that are high cost and/or high risk:

- When deciding which areas warrant the most effort, consider labor time as well as prime cost.
- Look for systems that make the input of bread and butter materials fast and easy leaving time for more complex areas.

## 6.

### Analyze your historical estimates

Look back at the estimates you have won in the past and use this data to inform your business choices and understand what you are good at and which clients are profitable.



Consider these questions:

- Which jobs did you win?
- Who were they with?
- Who never awards you the work?
- How accurate were your estimates?
- Did you make the profit you expected to?
- Are you more successful in certain industries?



Learn from your previous work. Knowing past mistakes can minimize future risk.  
#TradeService [Tweet this]



## 7.

### Improve team working

If you work with a team of estimators you may need to examine your team-working methods. The likelihood is that you are working with a large volume of data which may be inconsistent.

Different team members may do things differently and will have different skills.

## 8.

### Improve quality of your labor information

Possibly the biggest risk to a project is labor. An error in estimation of a few percent can make a big difference to overall profitability – a job running over into a second day can be an expensive business when you take into account equipment hire, scaffolding etc.



Consider how you work together and share information. How do you share your product data?

- Can you do multi-user estimates and use your skills in the area they are best suited to?
- Can you collaborate on projects?
- Are you using centralized data and sharing knowledge?
- How do you handle updates to your product data? Is it automatically available to all users?
- Are all your estimates readily available?
- Can you move resources between estimates easily?



Review your existing labor data. It is fairly likely that around 20% of products account for 80% of all line entries in your company's estimates.

- Understand which products make up this 20% and review the labor data stored against each one.
- Make sure everyone works using the same information.
- It is a perpetual challenge to keep up-to-date labor information. Effort can be reduced and accuracy increased if you work using a centralized database.
- Consider looking at software packages that enable you to import labor rate data easily, reducing the chance of errors.



How do you allocate your estimator's time? Everyone has strengths that can work together. #TradeService **[Tweet this]**



# 9.

## Use a top down approach to making adjustments

It may seem easier to begin adjusting your estimates at item level but this can mean you lose out on the opportunity to look at your estimate strategically and can also be time consuming. Client demands for changes often come at the eleventh hour.



Consider looking at your estimate as a project first:

- Look at how your costs are distributed across your estimate. Break the overall estimate down into areas and look at how costs are distributed across the areas.
- This gives you the opportunity to see how the adjustments you make affect the costs of each area of your estimate and to understand how it affects your overall profitability as opposed to altering costs at a line-item level until you arrive at a healthy profit margin.
- Consider using estimating software that gives you a range of options when it comes to adjusting your estimate from whole estimate level down to line-item level.



Adjust your estimate in sections to make sure any overall price changes are monitored. #TradeService **[Tweet this]**

## Did you know?

Spreadsheets aren't just used by estimators:

- Excel is used throughout the US banking system – your bank uses it for everything from developing loan repayment schedules to payroll calculations to financial modelling.
- 88% of spreadsheets contain errors.
- In 2003 Fannie Mae made a spreadsheet error in their accounts making them look \$1.3 billion more profitable than they actually were.

### Sources

1) <http://www.theguardian.com/news/datablog/2014/jan/31/7-ways-microsoft-excel-could-change-the-world>

2) <http://fortune.com/2013/04/17/damn-excel-how-the-most-important-software-application-of-all-time-is-ruining-the-world/>



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