

Guesstimate or Cost Breakdown?

By William S. Craig, III

In a survey conducted last spring, 77 percent of responding contractors said they wanted to learn more about the bidding process. The following article, written by CSLB Industry Expert Bill Craig, addresses the issue.

A highly successful remodeling contractor shared this pearl of wisdom with me many years ago.

"A manufacturer develops a product and then decides what to charge for it. But a contractor first decides what to charge and then has to produce the product for that amount."

So how does a contractor do that without getting burned? Many contractors will tell you it takes careful "guesstimating" along with some luck. I disagree. You will be more successful if you learn, and apply, the fundamentals of a cost breakdown.

Take a moment to look at the two primary sections in the sample Cost Breakdown on page 7. Lines 1-40 focus on breakdown items, while lines 41-50 focus on business expenses and calculations.

Breakdown Items

This sample was designed for use by residential remodelers, but you can adapt it to your needs by customizing lines 1-40. Going down your list, arrange items in the order the work will occur.

Next go across the list. Comments such as "remove swing set," "16x20 slab," or "30-yr dimensional comp shingles" should be included in the "Notes" column on the appropriate line. You might also note names of subcontractors and the dates of their bids.

Your best computations of the "unburdened" material and labor costs go under the "Materials" and "Labor" columns, while their total, as well as subcontractor bids, are listed under "Budget." Use your best judgment when listing a price before you get a bid, remembering that the amount you put in the last column becomes your budget. Can you build it for that?

Test your customized form by entering tasks and figures from recent jobs. Is there a place for

everything? How does the estimate compare to the actual job cost? When you're convinced the form is thorough, copy just this portion of the list and carry it with you. Each time you assess a new project, use it as a checklist.

Business Expenses and Computations

Lines 41-50 require some definitions and an understanding of the mechanics of the form. A subtotal is determined by adding the budgeted amounts on lines 1-40. Next, you must add in the cost of doing business. These costs include contingency fees, supervision, sales commission, hard costs, mark-up and profit.

NOTE: The percentages indicated in the hypothetical computations on this part of the form are for illustrative purposes only and do not represent a recommendation on the part of the CSLB or myself. You must determine the appropriate percentages for your business by studying your past performance.

Contingency fees cover unexpected costs such as vandalism, theft or damage, done by your workers or equipment, to the owner's property. The nature of your work and your worker's proficiency will determine the percentage you should apply on line 42.

Include your superintendent's base pay (less all benefits) on line 43 and your salesperson's total commission on line 44. Commissions are often paid 50 percent when a permit has been issued and 50 percent when final inspection has been passed. The last payment is sometimes adjusted up or down depending on how well actual costs compare to budgeted costs.

Hard costs include the total unburdened price (nothing but sales tax and cartage are added) you expect to pay for all materials, labor, subcontracts, contingency, supervision, and commission directly chargeable to this job. With the exception of the "Bond/Fund Control fee," (optional item added on line 49), the amount on line 45 includes all costs directly chargeable to this specific job.

After calculating your hard costs, you must factor in your overhead expenses and administrative costs such as rent, utilities, equipment, payroll, insurance, license fees, etc., plus any other indirect costs that cannot be charged directly to a specific job. Some estimat-

ing manuals suggest a 25 percent mark-up for residential remodelers. While not an unrealistic starting point, your actual costs and a host of other factors can vary your mark-up dramatically...in either direction. When trying to cut business costs, this is the area in which to start.

Your monetary reward—if, but only if, you produce the job within budget—will be the amount on line 47. An 8 percent profit is fairly typical of the construction industry, but some contractors use an inflated profit margin coupled with a deflated mark-up, or vice versa. Others include profit within mark-up. Add lines 41-47 to arrive at a subtotal on line 48. If neither a performance bond nor a fund control fee is included, this will be your final contract price.

If you buy a performance bond or engage a fund control service to handle your disbursements and collection of lien releases, the cost is added on line 49.

If due thought was given to each item above, the price you arrive at on line 50 will be right for the job. Always complete the form before giving a prospect even a "rough estimate" of the price. And go over your math at least twice—a mistake could cost one or two days' pay! Once you've figured the job cost, don't be persuaded to drop your price just because someone else bid less. Your price reflects what you need to cover your costs.

As you work with the breakdown, you will soon realize (if you haven't already) the project dictates the amount on line 41 while you—and how you run your business—dictates the amount on line 50. How you operate your business will determine the costs you must recover on lines 42-49. But you must recover them if you are going to be successful. Good luck!

William S. Craig III is a 21-year veteran of the contracting business with extensive remodeling and home improvement experience. He is an arbitrator, industry expert, FEMA field inspector, and author of policy and procedure manuals for major remodeling retailers. A San Diego-based general building contractor, Mr. Craig is also the president-elect of the local Forensic Consultants' Association.

Cost Breakdown—Residential Remodeling

Job No. _____

Date _____

Name _____

Phones: Home _____ Work _____

Address _____

Cell _____ Pgr _____

BREAKDOWN ITEMS	NOTES	MATERIALS	LABOR	BUDGET
1 Plans & Permits		\$	\$	\$
2 Site Preparation				
3 Meter/Service Moves				
4 Concrete				
5 Masonry				
6 Plumbing				
7 Electrical				
8 Phone/TV/Computer				
9 HVAC				
10 Carpentry (Rough)				
11 Roofing				
12 Fireplace				
13 Sheet Metal				
14 Gutters				
15 Ornamental Iron				
16 Deck Coating				
17 Exterior Siding				
18 Insulation				
19 Drywall/Interior Lath & Plaster				
20 Overhead Garage Door				
21 Cabinets				
22 Laminated plastics				
23 Ceramic Tile				
24 Cultured Marble				
25 Glazing				
26 Windows & Doors				
27 Carpentry (Finish)				
28 Painting				
29 Floor Coverings				
30 Appliances				
31 Fencing				
32 Landscaping/Sprinklers				
33 Scaffolding				
34 Equipment Rental				
35 Clean-Up & Dump Fees				
36				
37				
38				
39				
40				
41 Subtotal	Add items 1 thru 40			20,000
42 Contingency	Multiply item 41 by 2%	400		
43 Supervision	Add items 41 and 42, multiply total by 5%	1,020		
44 Sales Commission	Add items 41 and 42, multiply total by 5%	1,020		
45 HARD COST	Add items 41 thru 44			22,440
46 Mark-Up	Multiply item 45 by 25%	5,610		
47 Profit	Multiply item 45 by 8%	1,795		
48 Subtotal	Add items 45 thru 47			29,845
49 Bond/FC Fee	Multiply item 48 by 2%	597		
50 CONTRACT PRICE	Add items 48 and 49			30,442