

Estimating in Todays Market

For many years governments have used the residential housing market as one of the indicators for gauging how the economy is performing. This may have been reasonable in the seventies and eighties, however it is not necessarily the case today considering the difficult economy in which plumbers and builders are required to compete.

Over the past ten to twelve years profitability in constructing residential houses has gradually declined, for example, builders could be losing \$3,000 per house, while the economy appears to be in good shape due to the large numbers of houses being constructed. In fact plumbers and builders would be slowly going backwards. Today is an excellent time to turn the tide and regain the quality of life we all work so hard to achieve. For too long it has been easy to work on a per point basis which is a recipe for failure. The reason this has worked in the past was due to the higher profitability of a business and larger quantities of work available.

To win more work at the right price there is a formula that needs to be followed:

1. All materials must be listed and priced at cost, if one receives 5% discount on pipe 10% on fixtures and 15% on hardware unless we use the cost price it is impossible to identify the target profit. It then follows that during negotiations with the customer we are unable to identify our actual costs.
2. Labour must be recorded in hours rather than dollar value. (A dollar value is included before the tender is completed.) The cost of labour will change over time, while the actual time taken to install a particular item will remains constant, of course, such times can be adjusted on a degree of difficulty basis as required from job to job.
3. The secret to estimating lies with building standard rates, individual materials that make up the rates do not change over time, only the individual cost of the materials alters. For example, if a pipe or fixture is installed on the ground floor of a building or alternatively on the tenth level, it will have the same materials and fixings, however it is the labour time that will be different, due to it being more difficult to transport the materials to the upper levels.

After the estimate is completed it is important to identify the following individually.

Materials	\$-----	at cost (ex GST)
Labour -----Hrs @ \$-----	\$-----	at cost (ex GST)
 Sub-contractors	 \$-----	 at cost (ex GST)
 Plant and Equipment	 \$-----	 at cost (ex GST)
Total First Cost	\$=====	at cost (ex GST)
 Preliminary Costs	 \$-----	 at cost (ex GST)
 Total Actual Cost	 \$=====	 at cost (ex GST)

Overheads (expressed as a % of turnover)	\$-----	at cost (ex GST)
Profits	\$-----	
Add GST	\$_____	
Tender Price	\$=====	GST inc.

To be competitive one must discard the old method of per point estimating and use the *Standard Rates Method of Estimating*; it will provide **Flexibility, Accuracy, Consistency and Time Savings**.

It will provide the opportunity to keep abreast with rising costs and not limit you to the inaccuracy of your last job, which in fact, is playing catch up.

It is paramount that the price is right; otherwise there will not be a business to manage.

Estimate accurately and enjoy profits with a better quality of life. “Know when to say no! Because the price is too low!

Paul Funnell
Author of Estimating for Plumbers