Compensating Your Estimator

One thing I have learned by talking to my friends around the country is that there are a lot more ways to compensate estimators than I ever thought of. The methods range from a basic salary to an incentive-based system and all the way to a straight commission method. And then, of course, there are individual estimating companies that can be hired for a fee. Which way is best? Well, that all depends on what you are looking for and how your business is structured.

We don’t get paid to estimate projects; therefore, estimating is only a necessary evil at best. With that premise, why not just set up your estimating staff in their own business and pay them a fee to estimate? If your company approached business this way, it would know its estimating overhead in advance. That makes sense, doesn’t it? Look at it from an owner’s perspective: no large staff to manage, and fewer people problems. For the estimating department, you wouldn’t have to worry about days off or all of that employee documentation stuff we now have to do. Also, you would not have to fund anything for estimating. Using an agreed upon fee when work is needed, you would know in advance how much to budget for the estimating process. Your company wouldn’t have to worry about vehicles, insurances, taxes, computers, software, etc. The subcontractor/estimator would have to worry about those things. All told, not a bad setup.

If those are the positives, what are the negatives of this arrangement? One problem I would have is that you no longer are in control of your staff; someone else is. Then you would have to make the correct assumption that this estimator is capable of being in business.

Most businesses do not survive for any length of time, especially those associated with construction. There are a lot of decisions that must be made that will affect the life of the business. Who will make them for the outside estimator? You can’t. What if the estimator makes poor decisions and gets into trouble by not paying taxes, or by not having proper insurance? What if he cannot manage his time and throws together his bids? What kind of impact will that have on your business!

Also, as time goes on, I can see the estimator who is now in his own business and now must make a profit, adjusting his price. Why shouldn’t he? If he is really an entrepreneur at heart and is really capable of running his own business, then what will he do to make his business more successful? Raise the price of each bid? That almost seems to be a given. He can also begin to sell the same bid quantities given to you to your competitors. From what I understand, that is somewhat of a given practice that the market allows. What happens when your competition has access to the same estimate that you do? How will that affect your ability to solicit and contract work?

Another major factor would be the impact that this system would have on the company’s ability to sell itself to the general contractor. Many of our company’s contracts are the result of being the second or third lowest bidder, and our ability to negotiate the contract. If we were to go to a system where we in essence purchased our quantity takeoff from a free-lance estimator, then we would have to have someone in our company take those quantities and sell the project. Many times, in order to make the sale, we have to value engineer. How could we do that if we did not have the intimate knowledge of the project that the estimator has?

As demonstrated above, there are many scenarios where this form of compensation would be feasible and probably the best method. If I were starting out in business, and I was a field-oriented person, subcontracting my estimating would make sense. I could keep overhead down and use my investment to fund work and not the overhead. If I had faith in the estimator—that he is competent and I could rely on him to give me accurate quantities—this system makes sense. As my business grew, I could see the need to leave this method and begin hiring my own estimating staff. But how should I compensate them?

To be continued next month ... .

Comments? Send your e-mails to porinchak@awci.org, or fax to (703) 534-8307.