Compensating Your Estimator, Part II

There many ways to compensate your estimator. Last month’s article discussed how some companies will actually help set up their estimator in his own business and then pay him a fee for each estimate. In that way they try to minimize their overhead. At the very least, they minimize their overhead commitment. For other companies, this is not an option. They employ many estimators. For them, they have to decide how to properly compensate each estimator. What is the answer for them?

Ever wonder why some baseball players get so much money while others on the same team don’t get nearly as much? The same thing applies to all professional sports. Some players command megabucks. So what about estimators? Have you heard about an estimator who gets even a half-million dollars a year? Does that mean we don’t have any estimator superstars, or does it mean we just don’t know how to compensate estimators?

The key to determine the value of someone is that you first have to establish what is important, and then you can judge the performance of each estimator. Many companies have not done that. For example, in baseball, if your batting average is over .300 you would command a very large contract. If you also hit more than 30 home runs, you would be one of the major stars of the sport. In baseball, there is definite objective criteria that will be used to set the level of compensation.

What about you? How are you evaluated! Are estimators in your company judged by how many jobs or dollars they bid, or by how many jobs/dollars they contract?

Typically, companies establish a salary system that serves as the form of compensation for the estimating staff. Someone in management sets a salary level that is the standard or base salary. At the end of each year, each estimator is compared to that salary level and the compensation is adjusted up or down a little. This system has worked pretty well, but it doesn’t properly compensate the great estimator, and it overly compensates the not-so-great one.

Some companies have taken a step farther and have established a bonus system. There are a lot of different bonus systems in place. Here are a few examples:

- Establish a percent of the gross profits of the company to go to the estimating staff, and then divide that amount among each estimator. This system seems to be pretty good as long as the percent is based on the gross profits and not the net profits. And the major problem here is that the bonus established for the staff must then be divided. How will that be done?

- Another idea would be to reward each estimator with a bonus for the total amount of work contracted. Personally I hate this idea as this reward is for contracted work and not for profits. The incentive for this system would be for the estimator to crank out as many bids as he can, cut the margins low and get the contracts. You can easily see the long-term results of this system.

- Another alternative would be to establish a base margin expected on each contracted project. Then, the estimator would receive a bonus for each additional percent that he is able to contract. This method is pretty good, too, but once again, it is a reward for contracts and not for profits.

- The final example is one of my favorites. In this scenario, the estimator is also the project manager. Each estimator is rewarded on the gross profits of their projects at an increasing scale. For example, if the gross profits generated from the completion of the estimator’s projects is X percent, then he would not get any bonus. However, as the gross profit percent increases, then a portion of that increase is passed along to the estimator. I like this method for two reasons: First, the company is protected because the incentive is based on actual profits, and the company gets the base percent that it needs to cover overhead expenses. The second reason is that it is a sliding scale for the estimator/project manager. As the gross profit percent increases, so does the rate of compensation. This is fair as it rewards the estimator for hitting the home run. Also, the amount of the bonus is not capped; therefore, the estimator can earn as much as his performance dictates.

As you can see, compensation is a difficult issue but one that must be addressed successfully. Most estimators are not satisfied with their current level of compensation. They earn enough to subsist, but there is not a method in place that they can use to earn their way to financial security.