Good morning, everybody. Dennis Engelbrecht with The Family Business Institute, the CEO Roundtable Program for Contractors. Digging Deeper.

Today's discussion is around today's estimate. And what do I mean by today's estimate? Well, we've gone into a construction slowdown, largely caused by the pandemic, but other issues out there in the marketplace, as well. And all of a sudden, we're in this place where our backlog may be shrinking. There are more bidders on each of the bid lists. Perhaps our record of winning bids is starting to go down. We may have had seven straight seconds, or we haven't even sniffed winning a bid here lately. But there's a psychological effect that takes place in estimating, and that's what we want to talk about today. Basically, today's estimate is not the same as yesterday's estimate. And why? Well, it's the psychological impact of these changes in the market. Estimators don't like to lose. You know, neither do owners.

So, because we don't like to lose, we want to get our bids more competitive. We want to get them lower. And what are the things that psychologically happened to us along the way? Well, we take the fluff out of the bid, right? So now, thinking back a year or so ago, industry's hot, backlogs full, we have no more personnel. We could do this job, but we really don't need this job. Well, the estimator is putting a little bit extra fluff in that bid. Maybe a little extra contingency. Well, now he's eliminating the contingency. You know, he might even leave out the equipment that you own, instead of putting in a value for that equipment. They might put in less team costs say, well I'll just spread my... I'll put a third of a project manager on there instead of a half of a project manager. I'll leave out the assistant project manager, because I know if we put that in, we won't be competitive on this bid. But we're planning on staffing it with an assistant project manager, right. Or, because we're a little slower, we're actually going to use three quarters of a project manager instead of half of a project manager. But we don't put in the full team cost.

We start to assume higher production rates. All right. Even though our production has proven to be here, they said, well, if I go with our standard production rates, which are not very good, we're not going to be competitive. So, I put in a higher production rate that we don't achieve. By some miracle we're going to over-perform on this project and succeed, right. And finally, then the leaders, and they lowered the fee so we can be competitive, on top of all these other things that the estimator's already done.

Well, this is where it gets problematic. You have already lowered your fee. All right. That's really the point of this whole discussion, is today's estimate is not the same as yesterday's estimate. And if you don't realize that, and then you lower your fee in addition, and you expect to come out the same place you were coming out over the last couple of years, it is not going to happen. You're going to get a predictable result. You got less fee going in and you're going to get less fee coming out. You're going to have more write downs versus write ups on your projects as they go along. Because you know, we're going to find scope gaps. Those extra costs that we eliminated in the estimate are going to show up. Our production rates are not going to be miraculously fantastic. All right, they're going to be normal.

So as this project goes along, what we're going to find, as we start having more project fade than project gain, that piles up on top of a lower fee, and we come out on the end with a financial result for the company, which is not what we expected. All right. So, let's track back. Okay. Yeah, but we have this market and we have to be here to earn the work. And that may be true. So the key to all of this, and the key to getting a good result for your company is number one, to understand that today's estimate is not the same as yesterday's estimate, and to be communicating fully between the people setting the fee and setting the expectations and the people who have to run the project to make sure that they understand where the estimate was cut, where things weren't, we didn't have the fluff, but we maybe could use the fluff, or we didn't put contingency in. So, you're not going to make as much on buyout and things like that.

If everybody understands that going in, and that's the reality it takes to win to work. That's okay. But now, because we have a good perception going in, we don't have unrealistic expectations as we go along. We can plan for that. Now we know our bottom line on our projects is not going to be what it was. We can make an adjustment in overhead, or we can adjust our mindset to understand that this year is simply not going to be as profitable, because the work's not going to be as profitable. And that's okay. We don't have to hit home runs every year in this business. It's cyclical. It goes up, up and down. But what we don't want is we don't want you beating up your project team, because all of a sudden, they're not achieving like last year's projects because they got dealt a tougher hand, a much tougher hand, a no win hand, perhaps.

So, if you don't realize that and understand that. And you manage as if these people are failing, when they may actually be doing a yeoman's effort to succeed, you're going to hurt your culture. You're going to hurt your company. So communication to know what reality is, reducing expectations, not for performance, but for outcomes, because the outcomes are going to be worse, and making sure then any effect on bonuses or incentive systems that you may have, all of those are taken into consideration because what's coming out of estimating is simply going to be different. So, your reward systems are probably going to be effective. So how are you going to deal with that? It could be that nobody gets a bonus this year, because performance won't be in there, but make sure again, you make a decision about that, and you're planful, and you do the right thing through your organization. So again, remember today's estimate is not the same as yesterday's estimate and know that and adjust to it.

Again, Dennis Engelbrecht. Digging Deeper. Thanks for tuning in.