TORICENT
CONSTRUCTION

CONTRACTOR GUIDE

The Complete Guide to Construction Estimating

How accurate estimating protects your profits, builds GC trust, and prevents the costly mistakes that bankrupt contractors. Industry data, best practices, and actionable strategies.

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FOCUS
Subcontractor Success

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The True Cost of Bad Estimating

Estimating errors don't just hurt your bottom line—they cascade through entire projects, damaging relationships with GCs, threatening your business survival, and costing the construction industry billions annually.

$273B	91.5%	32%	65%
ANNUAL INDUSTRY LOSSES	PROJECTS OVER BUDGET	COST OVERRUNS	BUSINESS FAILURE RATE
From Estimating Errors	Or Behind Schedule	Due to Estimating Errors	Within 5 Years

Sources: National Cooperative Highway Research Program; Flyvbjerg/Gardner Research; Census Bureau Business Dynamics

THE BANKRUPTCY RISK IS REAL

Construction bankruptcy is at its highest in almost ten years. **Only 35.9% of construction businesses** that started in 2011 were still operating 11 years later. Bad estimating is a leading cause—when you underbid, you either deliver at a loss or cut corners that destroy your reputation.

Why Subcontractors Fail

Underestimating Costs

- ✓ Forces delivery at a loss or dispute
- ✓ Creates cash flow strain mid-project
- ✓ Leads to corner-cutting and quality issues
- ✓ Damages reputation with GCs
- ✓ Can trigger bankruptcy in severe cases

Overestimating Costs

- ✓ Bids priced out of competitive range
- ✓ Lost work opportunities to competitors
- ✓ Reputation as "expensive" contractor
- ✓ Wasted estimating effort
- ✓ Reduced bid-to-win ratio

The Subcontractor Profit Reality

Industry data shows subcontractors operate on razor-thin margins of **2.2-3.5% net**. With 57% of companies reporting underbidding as a profit-eroding mistake, there's almost no room for estimating errors. A single bad bid can wipe out an entire year's profit.

How Bad Estimates Hurt Everyone

Poor estimating creates a cascade of problems that affect GCs, project owners, and ultimately the entire subcontractor community. Understanding this dynamic is critical to building lasting partnerships.

The Impact on General Contractors

PROBLEM	CAUSE	COST TO GC
Project Delays	Sub can't complete on time due to underbid	Liquidated damages, reputation loss
Quality Issues	Corner-cutting to recover losses	Rework costs, client complaints
Subcontractor Default	Business failure mid-project	1.5x-3x subcontract value
Change Order Disputes	Scope gaps from poor takeoffs	Legal costs, relationship damage
Payment Delays	Sub cash flow problems	Project financing strain

THE DEFAULT MULTIPLIER

When a subcontractor defaults mid-project, the cost to replace them typically runs **1.5x to 3.0x the original subcontract value**. GCs know this—which is why they're increasingly rigorous about vetting bids that seem too low.

Red Flags GCs Watch For

Bid-Related Warning Signs

- ✓ Bid significantly lower than competitors
- ✓ Vague scope with insufficient detail
- ✓ Missing line items or allowances
- ✓ No contingency or risk markup
- ✓ Unclear assumptions or exclusions

Financial Red Flags

- ✓ History of underbidding on past projects
- ✓ Frequent change order disputes
- ✓ Cash flow problems or slow payments
- ✓ Insufficient bonding capacity
- ✓ High workforce turnover

The Change Order Problem

Poor estimation is the **#1 cause of variation orders** according to industry research. Change orders on major projects represent **10-15% of contract value**, with higher frequencies reducing productivity by **10-30%**. In North America, the average construction dispute value surged to **$60.1 million in 2024**—a 40% increase.

> *Rework and associated delays cost the U.S. construction industry $177 billion annually—approximately 5% of all construction spending. Much of this traces back to estimating and scope gaps.*
>
> — Industry Research Analysis

The Estimating Process Done Right

Professional estimating follows a systematic process that minimizes errors and produces accurate, defensible bids. Skipping steps is where most mistakes happen.

The Five-Step Estimating Process

01	02	03	04	05
BID SOLICITATION	DOCUMENT REVIEW	QUANTITY TAKEOFF	COST APPLICATION	BID SUBMISSION

Source: American Society of Professional Estimators (ASPE)

What Each Step Requires

1. **Bid Solicitation & Go/No-Go Decision**
   Review invitation, assess fit with capabilities, check schedule availability, evaluate GC relationship potential. Only bid projects matching your qualifications.

2. **Document Review & Site Visit**
   Thoroughly analyze plans, specs, and project requirements. Attend pre-bid meetings. Visit the site to assess conditions not visible in documents. Never estimate without seeing the site.

3. **Quantity Takeoff**
   Measure and calculate all material quantities using systematic approaches. Implement peer review. Standard material waste ranges 5-10%—account for it explicitly.

4. **Cost Application**
   Apply current labor rates (including burden), material costs, equipment, subcontractors, overhead, profit, and contingency. Use local market data—not national averages.

5. **Bid Submission & Documentation**
   Finalize proposal with clear inclusions, exclusions, and assumptions. Document all pricing basis. Follow format requirements exactly—non-compliance leads to rejection.

> **THE SITE VISIT IS NON-NEGOTIABLE**
>
> Skipping pre-bid site visits is one of the most costly mistakes subcontractors make. Site conditions not visible in documents—access issues, existing conditions, staging constraints—can add 10-20% or more to actual costs.

What a Proper Estimate Includes

A comprehensive estimate isn't just about getting the numbers right—it's about documenting your work so thoroughly that you can defend every line item and avoid disputes.

Essential Components

COMPONENT	WHAT TO INCLUDE	WHY IT MATTERS
Scope of Work	Detailed task list, specifications, inclusions AND exclusions	Prevents scope creep disputes
Labor Costs	Hours by task, burdened rates, crew composition	Largest cost—must be accurate
Material Costs	Quantities, unit prices, waste factor, delivery	Price volatility protection
Equipment	Owned vs. rented, mobilization, fuel	Often underestimated
Subcontractors	Verified quotes, scope alignment	Pass-through risk
Overhead	Direct (supervision) + indirect (office, insurance)	Real cost of doing business
Profit	Target margin appropriate to risk	Business sustainability
Contingency	Risk-based allowance (typically 5-15%)	Unknowns protection

Calculating Labor Correctly

Labor typically comprises **40-50% of total project costs**—getting it wrong destroys your margins.

Burdened Labor Rate

Don't use bare wage rates. Calculate full burden:

- Base wage: $25/hr
- Payroll taxes: +7.65%
- Workers comp: +8-15%
- Liability insurance: +2-5%
- Benefits: +10-20%
- **Burdened rate: ~$35-40/hr**

The "Rule of Two"

Quick sanity check method:

- Calculate total labor hours
- Multiply by burdened rate
- Double that number
- Add 10% contingency
- Result should cover labor + materials + overhead

Overhead & Profit Guidelines

15-20%
NEW CONSTRUCTION
Typical Markup

20-30%
REMODELING
Higher Complexity

5-15%
CONTINGENCY
Based on Risk

The 8 Most Costly Estimating Mistakes

Industry research identifies consistent patterns in estimating failures. Avoid these errors to protect your margins and your reputation.

CRITICAL ERRORS

- **Inaccurate takeoffs** — Over/underestimating quantities causes 5-10% material waste
- **Using outdated costs** — Prices from last year don't reflect current market
- **Skipping site visits** — Conditions not in documents add 10-20%+ to costs
- **Manual data entry** — Copy-paste errors, misread emails, decimal mistakes

HIDDEN TRAPS

- **Overlooking indirect costs** — Equipment, permits, insurance, admin often missed
- **Unverified sub quotes** — Including sub pricing without verification
- **No contingency** — Zero buffer for unknowns is gambling
- **Poor risk assessment** — Not adjusting for project complexity

The National Average Trap

DON'T USE NATIONAL DATA WITHOUT ADJUSTMENT

Using national average data with simple economic adjustment factors causes **30-40%+ errors**. Labor rates, material costs, and productivity vary dramatically by region. Always use local market data or apply significant adjustment factors.

Technology's Role in Accuracy

Modern estimating software dramatically reduces errors while increasing speed. Industry adoption is accelerating:

TECHNOLOGY	BENEFIT	IMPACT
Digital Takeoff	Automated measurement from plans	80% faster, higher accuracy
Cost Databases	Current, localized pricing	Eliminates outdated data
AI-Powered Tools	Error detection, pattern recognition	Up to 92% accuracy
Cloud Collaboration	Real-time updates, team access	Reduces version conflicts

Sources: Digital Estimating, Beam AI, Springer Research

The Accuracy Advantage

Using historical data from your own projects can improve estimating accuracy by up to **20%**. Track your actual costs vs. estimates on every job—this data becomes your competitive advantage.

How Proper Estimating Builds GC Trust

Accurate estimating isn't just about protecting your margins—it's the foundation of the GC relationships that drive sustainable business growth.

> *Acquiring new clients costs 5 to 25 times more than working with existing clients. Increasing client retention by as little as 5% can increase profits by 25% to 95%.*
>
> — Bain & Company Research

What Accurate Bids Signal to GCs

Competence Indicators

- ✓ Thorough understanding of scope
- ✓ Professional documentation standards
- ✓ Realistic timeline commitments
- ✓ Clear assumptions and exclusions
- ✓ Appropriate risk pricing

Reliability Signals

- ✓ Consistent pricing methodology
- ✓ Itemized, defensible breakdowns
- ✓ Willingness to explain numbers
- ✓ Track record of bid accuracy
- ✓ Minimal change order history

The Mutual Protection Equation

PROPER ESTIMATING PROTECTS...	BY PREVENTING...
Subcontractors	Working at a loss, cash flow crises, business failure
General Contractors	Sub defaults, project delays, cost overruns
Project Owners	Budget surprises, timeline extensions, quality issues
The Relationship	Disputes, legal costs, trust erosion

The Preferred Subcontractor Path

GCs remember who delivers reliable bids. When your estimates consistently match actual costs, you become a preferred partner—invited to bid on negotiated work with better margins and early project involvement.

THE REPEAT BUSINESS MULTIPLIER

Industry research on nearly 300 projects found that collaboration and intentional relationship-building **reduced total project costs by 10%**, **increased profitability by 25%**, and projects were **23% more likely to finish on time and on budget**.

Bid Ethics & Industry Best Practices

Ethical bidding practices protect the industry and your reputation. Understanding these principles helps you navigate the competitive landscape professionally.

The Bid Shopping Problem

Bid shopping—disclosing the low bidder's price to obtain an even lower bid—is one of the most damaging practices in construction:

INDUSTRY OPPOSITION

The **Associated General Contractors of America** is "resolutely opposed to the practice of bid shopping" and calls it "abhorrent." The **American Society of Professional Estimators** describes it as "unethical" and a violation of their Code of Ethics.

Consequences of Bid Shopping

- Forces subcontractors to work with unsustainable margins
- Leads to corner-cutting and quality issues
- Causes artificially inflated initial bids in anticipation
- Damages industry trust and professional relationships
- Historical data: 75% of electrical contractors avoided sub-bidding on Federal projects due to bid shopping concerns

Professional Bidding Standards

ETHICAL PRACTICES

- Submit competitive but sustainable bids
- Include all required scope items
- Document assumptions clearly
- Honor quoted prices within validity period
- Communicate scope questions before bid
- Respect confidentiality of pricing

AVOID THESE PRACTICES

- Intentionally underbidding to "get your foot in the door"
- Lowering price after learning competitor bids
- Hiding scope gaps to appear competitive
- Submitting unverified subcontractor quotes
- Promising unrealistic schedules
- Excluding required items without disclosure

The Bid-Hit Ratio Reality

Understanding realistic win rates helps you bid strategically:

10%	20%	33%+
SUBCONTRACTOR AVERAGE	HEALTHY TARGET	PREFERRED PARTNERS
1 win per 10 bids	5:1 ratio	With key GCs

Your Estimating Action Plan

Implementing these practices systematically will improve your accuracy, protect your margins, and build the GC relationships that drive sustainable growth.

Immediate Actions (This Week)

- ✓ Audit your current estimating process against the five-step framework
- ✓ Review your last 5 projects: compare estimated vs. actual costs
- ✓ Update your labor burden calculations with current rates
- ✓ Create a site visit checklist if you don't have one

Short-Term Improvements (This Month)

- ✓ Implement a peer review process for all bids over $50K
- ✓ Build a local cost database from your actual project data
- ✓ Standardize your bid documentation format and exclusions
- ✓ Evaluate digital takeoff tools to reduce manual errors

Ongoing Best Practices

- ✓ Track estimated vs. actual on every project—this data is gold
- ✓ Review and update material prices quarterly at minimum
- ✓ Request feedback from GCs on lost bids when possible
- ✓ Consider ASPE certification for professional development

How FieldFuze Helps

At Toricent, we use our proprietary **FieldFuze platform** to track actual job costs, labor hours, and performance metrics across all our subcontractor partners. This data helps our partners refine their estimating over time—turning historical performance into competitive advantage. When you work with Toricent, you get access to insights that improve every bid.

About Toricent Construction

Contact Us

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How We Help

- GC Relationship Development
- Bid Management Support
- Performance Analytics (FieldFuze)
- Subcontractor Growth Strategy