

# How Reliable Are Your Job Estimates?

By Jaclyn Thomas

How accurately are your construction jobs being estimated? A gain/fade analysis is one device that contractors can use to help determine the accuracy of job estimates of a single contract or multiple contracts on a combined basis. This important tool is used by sureties and bankers to analyze the contractor's estimating ability and to measure performance.

A gain/fade analysis involves reviewing the trends in gross profit during any period of time throughout each contract's life. Explanations should be obtained for unusual variations or trends during the contract's life, as well as the overall trends in gross profit. Typically, this schedule reports the differences from year to year in the total estimated/actual gross profit amounts in dollar amounts and in percentages. The greater the differences in gross profit per contract over time, the riskier the contract is viewed by bonding companies, since confidence wanes as to their perception of the contractor's ability to accurately estimate their future job costs.

When a contractor has many contracts, it is often useful to analyze contracts by project manager, type of contract, etc. when looking for trends. For example, if a large contractor with several project managers is experiencing significant fade on some of its contracts, further analysis may reveal that the fade is occurring only on the contracts supervised by a particular project manager or those in a particular market segment or geographic area.

To illustrate this analysis, assume a construction company prepares a gain/fade schedule every quarter and has Jobs A and B in progress during the year. The first table comprises gross profit data for Jobs A and B which is needed to prepare the gain/fade analysis. The second table is the analysis, which shows the gain/fade on Jobs A and B over the first year of the contract. To prepare the gain/fade schedule, simply compute the change over the period of time in total estimated or actual gross profit on each contract.

Total Gross Profit (either Estimated or Actual) as of Year End								
Jobs	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
A	\$500,000	25.0%	\$544,000	27.2%	\$330,000	16.5%	\$372,000	18.6%
B	345,000	23.0%	351,000	23.4%	361,500	24.1%	360,000	24.0%

Gain/Fade Analysis						
Jobs	2nd Quarter		3rd Quarter		4th Quarter	
	Gain	(Fade)	Gain	(Fade)	Gain	(Fade)
A	\$44,000	8.8%	\$(214,000)	(39.3)%	\$42,000	12.7%
B	6,000	1.7%	10,500	3.0%	(1,500)	(0.4)%
Total	\$50,000		\$(203,500)		\$40,500	

In this illustration it is easy to see that Job A has significant fade for the 3rd quarter. This fade may suggest that the estimator is overly optimistic in estimating costs and profits on the contract, the project manager was ineffective in his performance, weather related issues affected the job, a change in raw material prices or labor costs, or the project may have been outside of the normal scope of work for the construction company. However, keep in mind, fades or gains may occur for other reasons such as incorrect job posting of costs by the accounting department or cost shifting.

A gain/fade analysis is an excellent source for analyzing the contractor's job estimating ability. If your company would like assistance in implementing job fade/gain analysis please contact one of our HBK offices for assistance.

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