



7-STEP STRATEGIC ESTIMATING SYSTEM

The Complete Checklist for Service Businesses

Stop Losing Money on Every Project

Build accurate estimates that protect your profits and win client trust

5%

Estimating Error

can destroy half your margin

\$36K+

Annual Loss

from consistent underquoting

45%

Margin Destroyed

by a single 5% mistake

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Your Business Health Analyst

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Why Accurate Estimating Changes Everything

A 5% estimating error on a \$10,000 project can eliminate your entire profit margin. Scale that across dozens of projects per year, and you're looking at \$36,000 to \$108,000 in annual profit loss—just from inaccurate estimates.

This isn't a one-time problem. It's a systemic drain that compounds year after year, quietly limiting growth, frustrating teams, and destroying profitability.

This checklist gives you a proven 7-step system to transform your estimating from guesswork into a strategic advantage.

What Accurate Estimating Delivers:

- ✓ Confident bidding—you know you can deliver profitably
- ✓ Client trust—you deliver on budget and on time
- ✓ Team clarity—employees know the scope and timeline
- ✓ Resource allocation—you staff appropriately
- ✓ Cash flow predictability—you know when revenue comes and what it costs
- ✓ Competitive positioning—you can bid confidently without fear

What Bad Estimating Causes:

- ✗ Budget overruns—you lose money on every project
- ✗ Quality compromises—you rush to save time
- ✗ Client frustration—they pay more than expected
- ✗ Team burnout—they work harder for no reason
- ✗ Operational chaos—nothing runs according to plan
- ✗ Competitive disadvantage—you bid cautiously, losing work

How to Use This Checklist:

1. Work through each step in order—they build on each other
2. Check off each item as you complete it (print this checklist!)
3. Use the Notes sections to capture your specific details
4. Revisit quarterly to refine and improve your system
5. Share with your team to build alignment and accountability

1

UNDERSTAND YOUR COSTS COMPLETELY

Calculate the true, fully-loaded cost of delivering your service

Direct Labor Costs

- ☐ Identify all labor types involved in service delivery
- ☐ Calculate hourly rates for each skill level (including burden)
- ☐ Include payroll taxes, benefits, and workers' comp in loaded rate
- ☐ Document overtime rates and when they apply
- ☐ Account for non-billable time (travel, setup, cleanup)

Materials & Supplies

- ☐ List all materials typically used in your service categories
- ☐ Track current supplier pricing (update monthly or quarterly)
- ☐ Include shipping, handling, and storage costs
- ☐ Account for waste factor (typically 5-15% depending on trade)
- ☐ Document preferred suppliers and backup options

Equipment & Tools

- ☐ Calculate equipment cost per job (depreciation ÷ annual jobs)
- ☐ Include rental costs for specialty equipment
- ☐ Account for fuel, maintenance, and repair costs
- ☐ Track vehicle costs per mile or per job
- ☐ Include tool replacement and upgrade costs

Overhead & Indirect Costs

- ☐ Calculate monthly overhead (rent, utilities, insurance, admin)
- ☐ Determine overhead allocation method (% of labor, per job, etc.)
- ☐ Include permits, licenses, and certification costs
- ☐ Account for insurance and bonding per project
- ☐ Add office/admin staff costs proportionally

■ PRO TIP:

Most service businesses underestimate their true costs by 15-25%. Include EVERYTHING—the truck, the insurance, the office overhead. If you only price direct costs, you're losing money.

2

DEFINE YOUR SCOPE TEMPLATE

Prevent scope creep with clear boundaries on what's included and excluded

Scope Definition Essentials

- ☐ Create standard scope documents for each service category
- ☐ List ALL deliverables included in the standard service
- ☐ Explicitly state what is NOT included (exclusions)
- ☐ Define quality standards and acceptance criteria
- ☐ Specify timeline expectations and milestones
- ☐ Document assumptions about site conditions
- ☐ Include customer responsibilities (access, prep work, etc.)
- ☐ Define communication protocols and response times

Scope Document Must Include:

- ☐ Clear project description in customer-friendly language
- ☐ Specific quantities (square footage, units, hours, etc.)
- ☐ Start date and expected completion date
- ☐ Payment terms and schedule
- ☐ Warranty and guarantee terms
- ☐ Change order process and pricing
- ☐ Signature lines for customer approval

Common Scope Creep Triggers to Address:

- ☐ "While you're here, can you also..." requests
- ☐ Unclear site conditions (hidden problems)
- ☐ Customer misunderstanding of deliverables
- ☐ Verbal agreements not documented
- ☐ "Small changes" that add up over time
- ☐ Expanded deliverables beyond original agreement

■ PRO TIP:

Scope creep is the silent profit killer. Customers ask for 'small changes' that add up. If it's not in writing, it's not included. Train your team to document everything.

3

BUILD HISTORICAL DATA*Track actual results to make future estimates more accurate***Data Collection Checklist**

- ☐ Create a project tracking system (spreadsheet or software)
- ☐ Record estimated hours vs. actual hours for every project
- ☐ Track estimated costs vs. actual costs
- ☐ Document what went wrong on each project
- ☐ Document what went right on each project
- ☐ Categorize projects by type, size, and complexity
- ☐ Note customer and site characteristics that affect outcomes
- ☐ Track which team members worked on each project

Key Metrics to Track:

- ☐ Estimate accuracy percentage (actual ÷ estimated)
- ☐ Average variance by project type
- ☐ Most common causes of overruns
- ☐ Profitability by service category
- ☐ Profitability by customer type
- ☐ Time from estimate to project completion
- ☐ Change order frequency and dollar value

Pattern Recognition Goals:

- ☐ After 20-30 projects, identify where you consistently underestimate
- ☐ Determine which project types are most profitable
- ☐ Find correlations between team members and estimate accuracy
- ☐ Identify customer types that cause the most scope creep
- ☐ Recognize seasonal or timing factors that affect costs

■ PRO TIP:

Your historical data is your goldmine. After 20-30 projects, patterns emerge that show exactly where your estimates break down. This data replaces guesswork with facts.

4

STANDARDIZE YOUR ESTIMATING PROCESS*Create a repeatable process that produces consistent, accurate estimates***Process Requirements**

- ☐ Involve people who actually do the work (not just sales/mgmt)
- ☐ Require detailed scope document before estimating
- ☐ Use historical reference data (not gut feel)
- ☐ Document all assumptions in writing
- ☐ Include contingency buffer for unknowns (10-20% typical)
- ☐ Have a second person review estimates before sending
- ☐ Use consistent templates and formats
- ☐ Set turnaround time standards (don't rush estimates)

Estimate Delivery Standards:

- ☐ Itemize all costs for transparency
- ☐ Explain assumptions clearly to customer
- ☐ Provide options when possible (good/better/best)
- ☐ Include validity period (quote expires date)
- ☐ State payment terms and schedule
- ☐ Outline next steps if customer accepts
- ☐ Provide contact info for questions

Contingency Guidelines by Project Type:

- ☐ Routine/repeat work: 5-10% contingency
- ☐ Standard projects: 10-15% contingency
- ☐ Complex or custom work: 15-20% contingency
- ☐ Unknown site conditions: 20-25% contingency
- ☐ First-time project type: 25%+ contingency

■ PRO TIP:

Human estimation is notoriously inaccurate under time pressure. Resist the urge to 'just get it out.' A rushed estimate that loses money isn't faster—it's more expensive.

5

BUILD IN CHANGE MANAGEMENT*Protect your margins when scope changes during the project***Change Order Process**

- ☐ Document ANY change request in writing immediately
- ☐ Quantify the impact (hours, costs, timeline)
- ☐ Get customer approval BEFORE proceeding with changes
- ☐ Use a standard change order form
- ☐ Adjust the budget and timeline accordingly
- ☐ Communicate timeline impact to all stakeholders
- ☐ Track change orders separately from original scope
- ☐ Review change order trends to improve future estimates

Change Order Form Must Include:

- ☐ Original scope reference
- ☐ Description of requested change
- ☐ Reason for the change
- ☐ Cost impact (materials, labor, other)
- ☐ Timeline impact
- ☐ Effect on warranty or guarantees
- ☐ Customer signature and date
- ☐ Internal approval signature

Team Training on Change Management:

- ☐ Train all field staff to recognize scope changes
- ☐ Empower team to say 'I need to get approval for that'
- ☐ Create scripts for handling customer change requests
- ☐ Establish who has authority to approve changes
- ☐ Review change order handling in team meetings

■ PRO TIP:

Changes happen on every project. The question isn't whether changes occur—it's whether you capture them. If you don't have a change order, you're doing it for free.

6

IMPLEMENT REAL-TIME TRACKING*Catch overruns early when you can still do something about them***Tracking System Requirements**

- ☐ Track actual hours against estimated hours daily or weekly
- ☐ Track actual material costs against estimated costs
- ☐ Monitor progress milestones vs. timeline
- ☐ Create alerts for when projects exceed thresholds (e.g., 75%)
- ☐ Review project status in team meetings
- ☐ Identify overrun causes while they're happening
- ☐ Take corrective action before project completion

Review Frequency by Project Size:

- ☐ Small projects (<\$5K): Review at 50% and 100% complete
- ☐ Medium projects (\$5K-\$25K): Weekly reviews
- ☐ Large projects (\$25K+): Daily or bi-weekly reviews
- ☐ Long-duration projects: Weekly status reports

Key Questions to Answer Each Review:

- ☐ Are we on track with hours? If not, why?
- ☐ Are material costs in line with estimates?
- ☐ Are we hitting milestones on schedule?
- ☐ What problems have emerged?
- ☐ What changes has the customer requested?
- ☐ Do we need to adjust the timeline or budget?
- ☐ What can we do differently to get back on track?

■ PRO TIP:

Early identification of overruns lets you address them. Discovering you're 20% over at project end leaves no options. Regular tracking turns surprises into manageable issues.

7

MEASURE AND LEARN*Turn every project into a learning opportunity that improves future estimates***Post-Project Review Checklist**

- ☐ Compare actual vs. estimated hours (total and by category)
- ☐ Compare actual vs. estimated costs (materials, labor, other)
- ☐ Calculate true profit margin (actual revenue - actual costs)
- ☐ Document what went wrong and why
- ☐ Document what went right and why
- ☐ Identify specific estimating adjustments needed
- ☐ Update historical data with this project's results
- ☐ Share learnings with estimating team

Root Cause Analysis Questions:

- ☐ Did we misunderstand the scope?
- ☐ Did we underestimate labor time? Which tasks?
- ☐ Did we forget cost categories?
- ☐ Were there unexpected site conditions?
- ☐ Did scope creep occur? Why wasn't it captured?
- ☐ Were team members slower than expected? Why?
- ☐ Were material costs higher than estimated? Why?

Continuous Improvement Actions:

- ☐ Update estimating templates based on learnings
- ☐ Adjust contingency percentages by project type
- ☐ Revise cost rates if consistently inaccurate
- ☐ Improve scope templates to prevent recurring issues
- ☐ Train team on identified problem areas
- ☐ Set quarterly review of estimating accuracy trends

■ PRO TIP:

Every project completion is a learning opportunity. If you were off, ask why—and fix it. The businesses that win aren't perfect estimators; they're the ones who learn fastest.

Quick Reference: The 7-Step System

1

Understand Your Costs

Know your true, fully-loaded cost to deliver

2

Define Your Scope

Prevent scope creep with clear boundaries

3

Build Historical Data

Use past projects to predict future accuracy

4

Standardize Process

Create repeatable, consistent estimates

5

Manage Changes

Protect margins when scope changes

6

Track Real-Time

Catch overruns early while you can act

7

Measure & Learn

Turn every project into improvement

■ Remember: All Cost Categories for Service Businesses

Make sure your estimates include every cost category relevant to your business:

- Direct labor
- Materials & supplies
- Equipment & tools
- Subcontractor fees
- Permits & licenses
- Insurance premiums
- Transportation & fuel
- Overhead allocation

Want to Find Your Hidden Profit Drains?

BizHealth.ai helps service businesses identify exactly where estimates break down and what's costing you the most.

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