The Real Estimating Challenge is not calculating the price!

Calculating an accurate cost estimate is the easy bit. Having the estimate accepted by either a client, or your management, or both, and then delivering your project on budget is far more difficult.

The technical processes involved in developing a realistic and achievable estimate are well defined in standards and guides such as PMI's *Practice Standard for Project Estimating - Second Edition*. And the GAO *Cost Estimating and Assessment Guide[1]*. But, having developed a reliable cost estimate the two challenges every project face are, first dealing with the uncertainty associated with every estimate and developing an adequate (but not excessive) contingency to cover the known uncertainties (more on this later) to create a realistic baseline cost; and then the second having the estimate accepted to allow the project to proceed.

There are three interlinked issues that can lead to non-acceptance of the estimate:

1. Unrealistic expectations on the part of the person paying for the project as to what the cost should be. Usually linked to a lack of trust in the person presenting the estimate.

2. Unwillingness on the part of the person paying to accept the fact every estimate contains a degree of uncertainty and placing undue emphasis on a 'guaranteed' price without any form of contingency[2].

3. A lack of confidence, skill and/or communication ability on the part of the person/team delivering the estimate[3].

Over many years I have found any idiot can produce a winning bid, or cut the costs in a business case to get the project accepted, and then lose money doing the work. The work of Bent Flyvbjerg, Professor of Major Programme Management at Oxford University's Saïd Business School would suggest this is almost traditional in the accepted costings for mega-projects. But, under-pricing work to get the project started is hardly ethical, and likely to be career limiting in the longer term.

I've also noticed smart clients know an unrealistic low-bid will cost them dearly in the longer term through low quality, excessive claims, and/or the cost of dealing with a failed project. Unfortunately, smart clients are in the minority but if it is your money at stake doing the project do you want to be involved in a project that puts the short-term expediency of a cheap price ahead of achieving value? Starting an under-priced project and attempting to cut costs to meet budget constraints almost always drives down quality and drives up the overall cost of ownership in the longer term.

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[1] Download a free copy of the GAO **Cost Estimating and Assessment Guide** from:
https://mosaicprojects.com.au/PMKI-PBK-025.php#Links

[2] **Reference case forecasting** is one way to remove the effect of optimism bias and other systemic errors in estimating the value of a project:
https://mosaicprojects.wordpress.com/2017/05/23/the-reference-case-for-management-reserves/

[3] For more on **communication skills** see: https://mosaicprojects.com.au/PMKI-PBK-040.php#Process2

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A well-known business quote is *"There is hardly anything in the world that someone cannot make a little worse and sell a little cheaper, and the people who consider price alone are that person's lawful prey. It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money – that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot – it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better[4]."*

The antidote to these challenges is having the skills needed to develop a sound estimate that has a reasonable prospect of allowing the project to be delivered 'on budget', having the confidence to stand by the estimate and to justify the costs, and most important of all having the communication and stakeholder engagement skills needed to 'sell' the estimate to either your client, or your manager.

The factors underpinning your engagement and communication capabilities include:

- **Your credibility**, the people you are communicating with need to 'know' you are competent, honest, and reliable; their perceptions are vital[5].

- **Your stakeholder assessment skills**, so you know who is really important in the decision-making processes and what their real objectives and interests are. This understanding is vital in helping you to develop a proposal that can be accepted[6].

- **Your ability to communicate complex information**, effectively to different audiences. There is usually a lot more to a project proposal or business case than just the cost. Decision makers need to understand the benefits of the proposal and feel confident you can look after their interests[7].

Each of these elements work together to help you get good project proposals accepted. They also help you help your managers abandon projects that do not add value in the least damaging way for everyone. If the project does not stack up at the proper price, it should not be funded.

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[4] This quote is often attributed to John Ruskin (1819 – 1900); however, there is no evidence of this (or anything similar) in his writings.

[5] For more on **building credibility** see: https://mosaicprojects.wordpress.com/2013/04/27/credibility/

[6] For more on **assessing stakeholders** see: https://mosaicprojects.com.au/PMKI-TPI-075.php#Process3

[7] For more on **communicating technical information** see:
https://mosaicprojects.com.au/PDF_Papers/P186-Understanding_Design.pdf

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