

Creating Project Cost Estimates for Clients

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A new client wants to talk about his project. After giving you a sketchy outline of what he wants his next question is virtually *always*, "What will that cost me?" The answer should *always be* "I don't know yet." One of the most challenging things about being an outsource development company (or contractor) is estimating what to charge for a project. The process is complicated by the fact that your customer may be from a different state - or even overseas. We have seen a dizzying array of approaches to rates, billing and estimating. We have found an approach that works and allows us to *avoid unprofitable projects* and more importantly *make money on the projects we take*. It's also an approach that customers find very satisfying because it's fair - and it gives them *cost-cutting* options. It requires more work than typical estimates however.

First of all, *we don't do any estimating without a set of requirements*. Make this a hard and fast rule - even if the client is your brother-in-law. Don't ever ball-park and don't ever speak "off the top of your head" about money. Make sure you have *some procedure* that assures you and the client that you know what it's going to take to get the job done. In our case, we get a requirements document. Sometimes we create it ourselves. We break every project down into component pieces and tasks. When the document is finished, we create a spread sheet where each component or task is a separate line item. We then we assign a minimum and maximum number of hours to the item. Here's a fictitious example based on a rate of \$80 an hour.

Item	Description	Min	Max	Min \$	Max \$
I.a	User Management Interface	12	14	\$ 1,020.00	\$ 1,120.00
I.b	Group Management Interface	10	11	\$ 800.00	\$ 880.00
II.a-c	Lead Management interface - add, edit and delete new leads.	24	28	\$ 1,920.00	\$ 2,240.00
II.d	Import Utility (import Lead List from various file formats)	20	22	\$ 1,600.00	\$ 1,760.00

	Lead Notification task				
III.a	(notifies Sales of lead status change)	5	6	\$ 400.00	\$ 480.00
	... and so on through all the components and tasks....				
	Debug and Revisions				
-	(15% of the hours totals of 320 to 380 hours)	48	57	\$ 3,840.00	\$ 4,560.00
-	Totals	368	437	\$29,440.00	\$34,960.00

2 things to note about this example. We have a *range* to work with. We can say to the customer, "This project will cost you between 29k and 35k." The second thing to note is that last line item. It says "Debug and revision" and it represents 15% of the total of hours up to this point. Both the Range and the debug line item are designed to make us more **flexible**. We know (from long experience) that the project the customer really wants may still be in his or her head - and it won't come out till they start seeing prototypes, test forms and the like. We want to make sure we have enough *wiggle room* to satisfy revisions and project creep. The range amount allows us to do that on an individual line item basis.

The line items perform another function as well. Invariably the customer will look to trim the cost of the project. Giving them a line item cost estimate allows them to "strike" features or components that may be unnecessary at this phase - reducing the cost of the project.

One more thing to note about the "range" amount. A careful customer will examine your line items and wonder, "Why is the range for *item N* so great?" He or she might wonder why you have chosen to indicate "20 to 30 hours" for a particular line item. This is your opportunity to explain the importance of detailed specification. The reason the range is greater is because there are more "unknowns" about that item - and if the client would provide a bit more detail about what he or she had in mind we could narrow the range quite a bit. In this way the estimate becomes a "vetting" of the requirements process. It helps those requirements be more detailed.

What to charge

Don't ever let the fact that a customer can find a contractor at 35.00 an hour to do a project, keep you from charging what you are really worth. We make a great living cleaning up after 35.00 an hour contractors (ha). If you are a guru, charge like a guru. If you devalue your services you will not be there for the big contract when it comes a'calling. In our case, we charge in the top 20% for our area. We are not the costliest, but we are certainly not the cheapest. Analyze your selling points. Do people hire you because of cost? Is that what you want? We want people to hire us because of our advanced expertise - not because they believe it will save them money (except in the long run).

More to the point, that 35.00 an hour contractor might charge you 20 hours for something, and the same task can be done (by us) for 8 hours. This is a point we illustrate frequently. We charge more, but our response time is better and you don't have to pay for us to "figure something out" - we know what we are doing. By the way, if you make that point to your customers, make sure it's true (ha). What you charge also depends on your ability to deliver. If you over-charge for your value it will eventually catch up with you.

Finally, do what's best for the customer. If they can't afford your rate, then find them a contractor who charges less. Yes, I said *find them a contractor* who charges less. It will benefit you in the long run. That same contractor will run into a project he or she can't handle and refer it to you. Or perhaps that referred customer will grow beyond the original contractor and come back to you for the next phase of his or her business development. Doing what is right for others (yes - even in business matters) will serve you well in the long run. You might make a friend in the process - and friends are far more valuable than clients in the long run.