

## A slow economy doesn't change the rules of bidding

If you're a homeowner, now is a terrific time to build or renovate. The punishing economy has left its mark on a lot of builders, and if you're ready to move a project forward, a number of contractors are ready to offer their services at competitive prices.

For homeowners, getting the lowest price for a project often means putting work out for bid. But most general contractors I've met with recently have complained about the conditions under which they are being asked to bid residential renovation projects, and these complaints have increased as the economic environment has encouraged more owners to put projects out for bid.

Contractors say that too many homeowners and architects are naïve in their reliance on the bid process as the major tool to lower project cost and that they ignore the negative impact this process can have on the quality of construction, the level of service provided, and the development of the trust needed among all the parties for a successful outcome. If builders see that a bid process is not supported by thorough drawings or structured to ensure that all bidders develop accurate costs, they feel competitive pressure to provide lower bid figures that increase the chances of getting the job rather than finishing it the way the owner intends.

### **The basics of bidding don't change:**

Before offering some observations of bidding practices in the current building climate, it's helpful to remember a few basics about the conditions under which the process works best.

**Rule #1: For bidding to be an effective pricing tool, every bidder has to have the same detailed information on which to base a bid price.** This information has to be plentiful, accurate, and documented (both drawn and written) to minimize the number of different design and construction

assumptions that bidders will be forced to make to develop their bids.

This means homeowners need a full set of architectural drawings and specifications. Sketchy or schematic drawings without construction details, as well as undocumented verbal requests, do not work. With every assumption a bidder makes because design information is missing, the homeowner and architect lose some design control of the expected building outcome and face greater difficulty comparing bid prices.

**Rule #2: Even with reasonably complete drawings and specifications, the bid process won't be useful if bidders are markedly different.** Contractors should be comparable in size, with similar overhead

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costs; in capacity, in terms of employee skill level and experience; and in culture, with similar values as reflected in workmanship and with regard to how they treat customers and employees.

No comparable price information is gained when, for example, one bidder has his office in his home, employs two relatively inexperienced laborers to whom he pays wages but no benefits, and doesn't take time to return every customer call promptly or clean the construction site at the end of each day, while another bidder has a downtown office with three people managing projects and 12 skilled field employees, responds to requests right away, and shows respect for a homeowner's property by taking time at the end of each day to make certain the job site is both clean and safe.

**Rule #3: Developing a thorough bid for renovation projects takes a lot of time.** For modestly sized projects—say, \$100,000 to \$300,000—compiling a bid may require two to three weeks of effort from the contractor. In addition to his own work, the bidder must also ask a number of subcontractors and suppliers to develop price information for different portions of the work.

The cost of producing this estimate is significant and compels smart contractors to be selective about the projects and the conditions under which they are willing to bid. Favored projects are those that have the most profit potential, are well documented, and are put out to bid by homeowners and/or architects whom the contractors believe are fair people who have

realistic expectations about the cost of the construction quality they desire.

### **Bidding in a climate of unrealistic expectations:**

Here are the most prevalent mistakes I see many homeowners and some architects making when bidding projects in today's weak economy.

**Mistake #1: Inadequate information on bid documents (construction drawings and specifications).** This is the most common complaint I hear from contractors. While there is no single standard for the proper amount of information that should be included on bid drawings for every project, an architect should provide enough information for bidders to compile a reasonably accurate project price. Because the architect has mentally

“built” the project while doing its design, he should be aware of the parts of the work that will be more challenging to construct and that required more detail to price correctly.

The judgment about how much information to provide on drawings and in specifications is influenced by the amount of the architectural fee the owner has agreed to pay and by the level of professional thoroughness the architect brings to his work. In most cases, a homeowner should not expect the second factor to trump the first. An experienced architect sows the seeds for an effective bid process by requesting an adequate fee to produce good bid documents. A homeowner acknowledges the importance of good documents for pricing the work accurately by agreeing to pay that fee.

This relationship can be thrown off balance in times of economic uncertainty. A homeowner may feel pressure to minimize project costs by lowering the fee paid to the architect (for work that is, despite its importance, largely intangible), who may take on work for a fee that doesn't support

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doing it thoroughly. Thus, both are responsible for unfairly pushing the quality/cost mismatch down the road for the contractor to reconcile.

Regardless of the reason, the impact of incomplete bid drawings and specifications can be felt long after the bid process is over because they typically lead to a much higher number of reasonable change-order requests from the builder that a contractually bound homeowner, with few practical options, must accept. In my experience, the final cost of a project bid with inadequate drawing and specification information will commonly exceed the original bid price by 20% to 40%—not good for the homeowner at any time, and certainly not good for one with a limited budget.

**Mistake #2: An excessive number of bidders.** As noted earlier, developing a

thorough bid requires a big investment. Small-size general contractors with limited cash reserves typically do small renovation projects. These builders will not take the time required to produce a thorough bid for a project they have little chance of getting because the number of bidders is high. Many think that no more than three contractors should be asked to bid on small projects.

Occasionally, I suggest that homeowners get four bids because of the increased confidence I have that a grouping of three similar prices indicates there may be a problem with a fourth bid that comes in either unusually high or low. A very low bid should be questioned rather than seized upon as an opportunity to save money.

**Mistake #3: Bidders who are not comparable.** Homeowners and inexperienced architects may include a company in a group of bidders that has a definite operating-cost advantage over its competitors, such as a smaller, less-well-known firm without an extensive record of project work. They may

believe that this company's bid will be a useful reference for what the project “should” cost, and they may even try to use this figure to leverage a lower price from the most desired builder, presumably via charging a lower markup on the project's direct costs.

This idea may appear to be a clever negotiating tactic. But if the preferred builder elects to retain its markup and lower its bid price by substituting more expeditious, less prudent building methods than those it had included in its original price, the likelihood of future building problems will rise. It also should be clear that any bidder asked to spend time and money to develop a thoughtful bid is treated unfairly if an owner and an architect know that they will not select this bidder to do the work, regardless of its price, but are

simply seeking another cost figure for comparison.

Remodeling and construction are service businesses, not commodity businesses. In a slow economy especially, homeowners and architects are well advised to remember this fact when selecting contractors. Although

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bidding can provide a homeowner with a low initial price to do a project, it is likely not a good way to select a contractor to get high construction quality. To do this, it is best to choose the most desirable contractor based on a perception of his competence and fairness; his track record of building well-designed projects; and insightful comments received both from customers and architects with whom he has worked. After a contractor has been selected and has carefully reviewed and commented on the information in the drawings and specifications, then it's time for him and the homeowner to negotiate a detailed price for the work.

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