

BID VS. NEGOTIATE
WHY COMPETITIVE BIDDING DOESN'T
ALWAYS GUARANTEE LOWEST PRICE FOR A BUILDING PROJECT

Conventional wisdom regarding construction costs holds that the only way to get the lowest price on a building is to get competitive bids from several general contractors. This is not necessarily so, and here is why.

Let's say that you have the plans and specifications for your new building prepared by a design professional. You're ready to get prices. There are two principal options available to you at this point.

The Two Options

You can select several qualified general contractors to submit *fixed-price bids*, awarding the contract to the lowest bidder.

Or you can select the single most qualified construction company and *negotiate* a contract with them. This contract may be on a "cost plus fee" basis, which means the general contractor's compensation for managing the project is agreed upon before construction begins with no further mark-up on actual construction costs. Or, it may be on a "cost not to exceed" basis, where the general contractor commits to completing the project at or below a mutually agreeable price, with any savings shared by owner and contractor on pre-arranged terms.

The Role of Subcontractors

You probably know that most general contractors do not do all of the work with their own employees but use the services of specialty companies in the construction industry. These companies, the subcontractors, frequently account for 40% to 60% of the value of the work. While Peck & Associates may handle some of the work with their own forces... like the concrete and carpentry work ...they will contract with other firms for work in the specialty areas. For example, the electrical work, the plumbing, the painting, the heating and air conditioning, the elevators, the fire sprinkler systems, and landscaping.

The reason is obvious. It would take massive resources to maintain active crews with all the varied talents required for a building project. Fixed costs and financial risks are reduced by "subbing-out".

Now, competition requires that a general contractor get bids from each of the sub-contract trades in order to put together, hopefully, the lowest possible price package to submit as his total bid to the client. Each bidding general contractor has their own favorite subcontractors who will be invited to submit their individual bids.

Prices from Competing G.C.'s

It would be the sheerest of coincidences if one of the general contractors received all of the lowest bids from the group of subcontractors on the project.

No general contractor has all of the low bids (indicated by the darkened boxes). The award will probably be made to general contractor "A", whose total combination of subcontractor bids is the lowest at \$156,450, compared with \$166,750 for "B" and \$159,150 for "C".

It's more apt to happen like this:

Subcontractor Bids	General Contractor A	General Contractor B	General Contractor C
Elevator Subcontractors	\$42,000	\$49,000	\$ 51,000
Electrical Subcontractors	\$23,000	\$19,000	\$ 22,500
Plumbing Subcontractors	\$16,000	\$18,750	\$ 15,400
Heating Subcontractors	\$40,000	\$46,350	\$ 42,000
Painting Subcontractors	\$11,800	\$10,750	\$ 9,500
Masonry Subcontractors	\$23,650	\$22,900	\$ 18,750
Total	\$156,450	\$166,750	\$159,150

Alternative Solution

Now let's look at an alternate solution. What can happen if an owner decides to go with a single, particularly well-qualified building firm on a negotiated contract basis? In addition to the other benefits of working with a single firm from the very beginning of the project, the client can get the lowest subcontract prices from the bidding subs.

In this example, assume that the same subcontractor bids are available to "Builder X", who has already been selected to act as general contractor (or as construction manager, a new concept gaining wide-spread popularity). Because he is not involved in the competitive bidding process with other general contractors...he already has the job...he is then able to attract and select the best available bids in the marketplace.

Builder X, by virtue of his favored status with the owner, is able to put together a price package totaling \$145,150 which is \$11,300 under the lowest total price received through traditional bidding.

Of course, a negotiated contract with any single firm does not *automatically* assure a client of the lowest final price. One key lies in selecting the right builder...one of proven experience and excellence in reputation. Another key is maintaining close communication with that builder during the project's life.

Results are apt to look like this:

Builder X	Subcontractors		
	Low Bid	2nd	3rd
Structural Framing Subcontractors	\$42,000	\$51,000	\$49,000
Electrical Subcontractors	\$19,000	\$22,500	\$23,000
Plumbing Subcontractors	\$15,400	\$16,000	\$18,750
Heating Subcontractors	\$40,500	\$42,000	\$46,350
Painting Subcontractors	\$ 9,500	\$10,750	\$11,800
Masonry Subcontractors	\$18,750	\$22,900	\$23,650
Total	\$145,150	\$165,150	\$172,550

In many cases, a client is reluctant to put his project into the hands of even the most reputable builder on a single-source-of-responsibility basis. He has too long been a victim of the concept that the way to obtain the lowest possible price is to get as many competitive fixed-price bids as he can. But, as we've shown, competitive bidding, by its very nature, doesn't always guarantee a client the lowest price for his project.