Business

Still Bidding After All These Years?

by Dan Kolbert

A recent experience got me thinking about the competitive bid process. I met with the potential clients and we hit it off, so I encouraged them to keep me in the loop during the design phase in case I could help with pricing options. The client chose an architect I know and like, and I was optimistic things would go well.

Months later, I got the completed plans and learned I was one of five companies invited to bid. One builder immediately dropped out after learning how many others were involved. I don't know what the other bids came in at, but we were all well over the anticipated budget for the job. The client was mad at the architect and unsure how to proceed. Sometime after that I got another plan to bid — this one essentially a back-of-the-envelope sketch of a dramatically simplified version of the job. I did the repricing, but at the moment the job is in limbo.

Hardly out of the ordinary for contractors, right? And we keep doing it this way because — well, we've always done it this way. I might be willing to continue if I thought the process brought value to the client, but I'm increasingly convinced that competitive bidding from completed plans doesn't serve anyone's interests.

A Variety of Perspectives

Let's start with the clients. They hire someone to design the project. That person, whether an architect or not, may have wonderful design sense but a poor idea of what the work will cost — which is to be expected, because pricing is somebody else's job. In my experience, architects typically underestimate by 30 percent to 100 percent. So the clients pay for a set of plans complete enough to be put out to bid, only to discover that they can't afford the design. By then they've blown the design budget, so the necessary redesign is done on the cheap, which typically produces incomplete or inconsistent plans that are even harder to estimate accurately.

And what of the bids themselves? I doubt that they provide any useful comparison. For example, take the job I described: Despite reasonably detailed specs, two of the bidders clearly didn't bother following the architect's directives and the other one missed several mistakes and inconsistencies in the plans. Those variations alone prob-ably counted for several percentage points difference in the bids. While I could potentially use these oversights as selling points for my own thoroughness, it's still an uphill battle to convince a prospect that your bid, while higher on paper, is actually a better deal.

In his article "Farewell to Competitive Bidding" (*JLC,* 7/97), Massachusetts contractor Paul Eldrenkamp provides a great set of "rules" for how clients regard prices:

1. The high bid is always inaccurate and unfair, no matter what.

2. The low bid is always more accurate than the high bid, unless it's lower than the client's budget by a greater margin than the high bid is higher than the client's budget, in which case it's less accurate, but more fair.

3. The accuracy and fairness of any bids in the middle depend on where they fall in relation to the high and low bids and to the client's budget.

Most of us have experienced this. And yet some of my clients have chosen our company even when we were the highest bidder, so clearly price is only one of several considerations. Comfort, trust, personality, and — of course — previous experience and references can all outweigh price differences. So why should contractors put themselves through the competitive bid process? Why doesn't the customer interview several and pick one early on, when his or her utility could be put to full advantage?

The architect. Architects aren't served well, either. They've got ticked-off clients and a design that will either never get built or have to be scaled back — often in poorly thought-out ways — in order to come in on budget. And because the client is often not well-disposed toward paying the architect for the many little details that need to be worked out during construction, the design may get further diluted. Wouldn't the designer be better off having a contractor involved from inception, to ensure that the builder has bought into the final design, understands it well, and can price it accurately?

GCs. I hardly need mention the contractor. If three builders are invited to bid, at least two of them (and often all three) are wasting their time. Estimates are free, naturally, because — again — they've always been free. And because we need to cover the overhead for all these free

but unsuccessful bids we're preparing, the clients who do hire us end up subsidizing those who don't.

On the design side, we can critique the plans as drawn, but by the time we see them it's generally too late to make substantial changes. At that point making comments just annoys the architect and discourages the client. So we get two weeks to absorb all the details and nuances of a design that took six months to create before throwing a binding number at it. Often, many details are still taking shape.

Is There Another Way?

Here at my company, we like working with architects, we like the projects they bring to us, and we generally like the clients as well. But with each large job we do, it becomes clearer that the current model isn't working — at least not for us.

So what would work better? There are any number of choices, depending on the size and abilities of your company.

Just say no. This is the approach Eldrenkamp advises in his article, and it's hard to argue with his logic. He explains how he came around to the realization that past clients, not architects, were his most reliable source of good leads and that he should focus his marketing efforts there. If that meant getting fewer big "glory" jobs — or none at all — so be it.

Likewise, I sometimes question whether our company would be better off with more small- to medium-sized renovations and fewer big remodels and new homes. The disadvantage to this approach is that I would be doing a narrower range of projects and not much new construction, if any.

Design-build. If the same people are both designing and building the job, they are much more likely to know what everything costs as the design progresses, and they are much more likely to meet the budget. Moreover, a company's "signature" details should become better and cheaper through repetition.

There are potential downsides, though: The contractor assumes the overhead and liability for the design team; the builder moves from being a "trade partner" of architects to a competitor; and designs may become less sophisticated and varied. Also, going the design-build route could just internalize the problem — friends of mine who work in larger design-build firms have described tensions within their companies between the design and build sides.

Insisting on early and continued involvement in the design process. This is the approach with the most appeal to me, although it's perhaps the hardest to implement. I've had limited experience and success to date, but my modest proposal is that the client picks a contractor to be involved from early in the process. The contractor gives input on how design affects price, offers advice based on experience with various materials and techniques, and helps with issues of form vs. function. Ideally the same contractor, after acting as consultant, would become the builder — but it needn't be mandatory.

The contractor would be compensated, either hourly or with a fixed fee for a defined service or number of hours. To me it's clear that this would be a worthwhile investment: It would save time and money by eliminating the need for late-stage redesigns. And if the client still decided to put the project out to bid at the end of the design phase, the scope of work would be much more clearly defined, making the bidding process go more smoothly for the contractors involved.

Integrated project delivery. An architect I've discussed these ideas with has been looking at "integrated project delivery" as a possible model. The American Institute of Architects describes IPD as "a process that collaboratively harnesses the talents and insights of all participants to ... increase value to the owner, reduce waste, and maximize efficiency through all phases of design, fabrication, and construction." IPD teams, according to this definition, can include members "beyond the basic triad of owner, architect, and contractor. ... Integrated projects are distinguished by collaboration between [all parties] commencing at early design and continuing through to project handover." While this approach was developed for large commercial jobs, it could be useful in complex residential work as well. (To receive the AIA's IPD guide, fill out the form at info.aia.org/aia/form_ipd_guide.cfm.)

The Reality

If a future without bidding sounds too good to be true, perhaps that's because it is. There may never be a way for contractors to avoid competing on price. Most homeowners are still convinced that they'll be taken advantage of if they don't go to bid. And architects are still attached to the current model; changing it would require that designers and contractors alike put their cards on the table in ways they may not be comfortable with. Ultimately, though, I believe it's a future worth working toward. The earlier in the process we builders get involved — and the less time we waste competing with each other — the more we can focus our energy and resources on the work at hand and the greater the likelihood that the project will be successful.

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