

Can You Afford the Lowest Bid?

By Jim Slack, Jr.

No doubt about it, low prices win work in the construction industry. But what is the cost of letting price rule business decisions without careful examination to ensure accurate cost comparisons? Truth is a low price can be deceptive if it doesn't include the full scope of work a project requires. At the end of the job, the low price may not be as low as it at first seemed.

Imagine this scenario: When the ACME Tower project began, Subcontractor John Doe hit the ground running. A couple of months in, the general contractor begins to wonder about the reasons behind a few hold ups and notices quite a few change order requests coming in from John Doe. Seems many of the items being submitted as change orders should have been included in the original estimate. Although it is too late, the general contractor decides to compare John Doe's bid to the other, higher prices, he received. Turns out that several of the higher bids were actually more complete and even though John Doe's price was the lowest, his bid left out key components of the job.

In this economy, it is especially tempting to choose a subcontractor because they submitted the lowest bid. While the low bid is always attractive, it's important to know if the estimator did his due diligence to understand the scope of work and prepared an appropriate plan of action. A complete bid will show that the estimator took a "what will it really take to build this job correctly" approach and came up with unique solutions that can save time and money without sacrificing quality. In other words, the complete bid is always the right bid, regardless of the price.

It's hard to see these nuances when looking only at the bottom line of a bid. Unless it is known how the subcontractor got to the price presented on bid day, it's dangerous to use a price-only comparison when awarding work. John Doe's ACME Tower bid is a perfect example of a bid that was submitted incomplete; chosen because it was the lowest bid; and in the end, cost the owner more than competing bids that were more comprehensive.

I have long committed my company to the goal of submitting complete and honest bids, even if they are not the lowest. I believe this goal differentiates Slack & Co. in an industry where this mentality is becoming more and more unique.

Sadly, a truth exists in our industry that is becoming harder and harder to ignore: there are subcontractors who are intentionally submitting incomplete estimates so they will be the lowest price on bid day. They know that being the low bid means they win work. As long as there is a feeling among subcontractors that price is the only factor general contractors consider, the bidding game will continue to be played dishonestly. Not only does this behavior tarnish the integrity of our industry, but it also ultimately hurts projects and owners.

Action must be taken on both sides of the equation to improve the bidding process. General contractors must ensure they are comparing scopes of work when reviewing bids. And subcontractors must remember their responsibility to be good stewards of the owner's money—meaning they must in good faith, present a bid that is complete to the best of their knowledge.

It seems that one way for general contractors to fully understand the scope of work presented on bid day is to offer an opportunity for competing subcontractors to explain what their cost entails and outline thoughts for how to deliver the job efficiently. Discussing details forces subcontractors to be honest about what their price includes, allowing general contractors to easily see which bids are complete and uncover those that are not. Unfortunately, subs are often guarded about sharing the very details general contractors really need to know to make an informed decision in awarding a contract because experience has told them that some general contractors may ask a competing sub to provide pricing based on the solution they share.

There is a negative cycle at work here we have to break. If we don't trust one another we cannot work together effectively. We are all on the same team. We should consider ourselves partner firms.

Industry-wide, we must set higher standards for ourselves. General contractors should have faith that subcontractors are submitting estimates that are accurate and comprehensive. The subcontractor who uses their ingenuity and knowledge to present the best solutions in a complete bid should be awarded the work. And subcontractors should have confidence that general contractors are comparing bids on more than the bottom line without disclosing the subcontractor's unique ideas.

By doing business with integrity and accountability, and making fair practices policy, we all win. If we don't and we continue to perpetuate deceit among one another, we all lose—general contractors, subcontractors and owners alike.

When I stand back and look at this situation it frustrates me. Yet it also inspires me to attempt to start an open conversation about how we, as an industry, can work to instill a stronger sense of business ethics and higher standard of integrity for the way we work.

So, now I ask you to sound off. What are your thoughts on this issue? What suggestions do you have for how to move forward and raise the bar? The future of the construction industry will be built on the decisions and practices we put in place today. Please comment in this space and share your thoughts.

Presenting a bid that matches the full scope of a project is a standard that Slack & Co. strives to always meet. Asking questions, offering suggestions and doing our homework at the start of the project are part of the pre-construction services we provide our clients when estimating a project. Taking these steps before a project begins helps ensure we get it right the first time, minimizing unexpected costs and delays down the road. Our clients can rest assured the price we present covers every last detail. That's how Slack & Co. builds success.