

WHITE PAPER ON THE SMART WAY TO BUY GENERAL CONTRACTING/CONSTRUCTION MANAGER SERVICES



WHY NEGOTIATE VS TRADITIONAL BID DELIVERY

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THE COMPONENTS OF COST AND COMMON BUYING ERRORS™

1. FEE

Definition Builder's markup.

Impact to Total Cost Very low; even a wide variance between competitors would be quite insignificant as compared to total cost.

CONTRIBUTION TO TOTAL COST

4 - 13%

2. GENERAL CONDITIONS

Definition Equipment, supplies, and people required to put the project together.

Impact to Total Cost Low; generally any builder will require the same or similar General Conditions so little variance from one builder to another.

8 - 12%

3. COST OF WORK

Definition The actual "sticks, bricks, and materials" of the project, as well as the third party subcontractors to put the work in place; the "end product."

Impact to Total Cost Very high.

Opportunity This is where the real opportunity lies to save money or create value, and where uninformed decisions can lead to an expensive scope of work. Countless decisions to be made here. Expert advice in these decisions will be critical. And these decisions must be made in early design, not in late stage design, as 75% of cost impact decisions are made in schematic design.

75 - 88%

4. TOTAL COSTS

Definition The sum of 1, 2, and 3 costs; aka Lump Sum Price or Guaranteed Maximum Price, depending on contractual methodology.

Common mistakes of inexperienced or infrequent construction buyers:

1. Asking for a total cost based on little information or concept drawings, and subsequently making a buying decision on this arbitrary pricing. You will receive an "apples to oranges" pricing comparison which could lead you to select a contractor that irresponsibly "left things out" to "show low."
2. Bidding out final construction drawings without the critical early scrutiny of cost of work decisions will result in selecting the lowest general contractor on that defined scope of work, but not the lowest cost of work possible.
3. Not engaging a builder in early cost of work decisions will result in opportunities lost and could break the budget.

Totaling
100%

THE SMART WAY TO BUY CONSTRUCTION SERVICES™

- 1. Pick a Construction Partner** based on Qualifications and Team Chemistry.
- 2. Negotiate the Fee and General Conditions** such that it is fair to both parties. Now, both the owner and builder are on the same team, as “what the builder profits” is now no longer a variable.
- 3. Work hand-in-hand with this construction partner** throughout the design stages to make the best decisions on layout, materials, systems, and methods. It's these early cost of work decisions and price checkpoints that will save you money and create value. Your builder will show you several alternatives so you can make informed business decisions. This approach will allow you to focus on the major cost drivers, as opposed to the pennies. And this approach ensures you stay in budget and avoid scope creep. There may also be opportunities to create an earlier-than-expected delivery through concurrent tasks.
(See benefit #1.)
- 4. Your construction partner will competitively bid all scopes** to 3-5 subcontractors per scope once final decisions and drawings are made. This ensures you get competitive numbers where it matters most - cost of work. And, by engaging one builder as your partner, you get the lowest combination of prices.
(See benefit #2.)
- 5. A final total cost is created.** If you are satisfied, time to build. If not, you can still bid the project. You have nothing to lose and a lot to gain.

BENEFIT #1

SCHEDULE EFFICIENCY + PRICING CHECKPOINTS

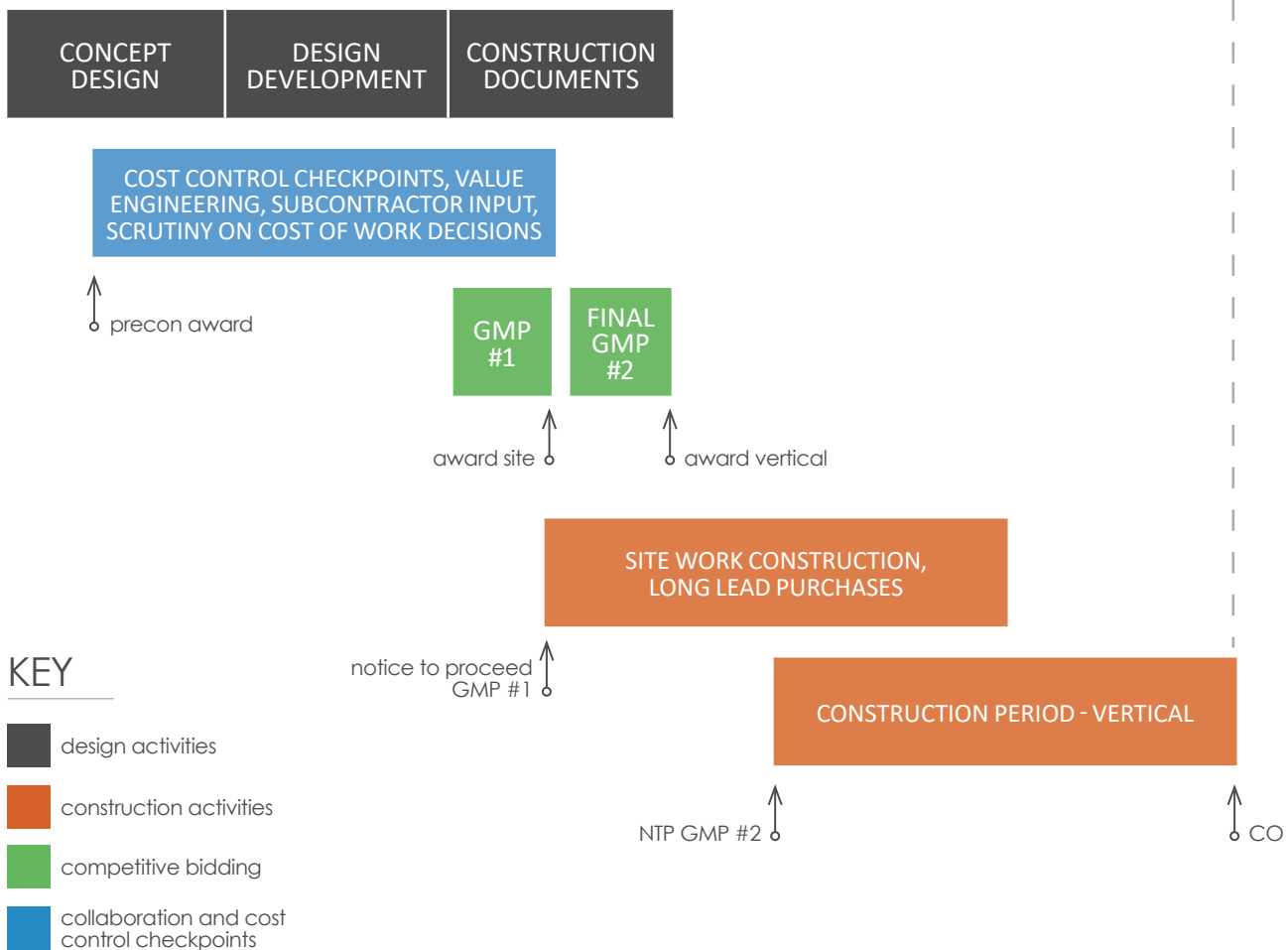
Traditional Bid Delivery

(sequential tasks, limited collaboration or price control)



Negotiated Construction Partner

(concurrent tasks, heavy collaboration, design/budget control)



KEY

- design activities
- construction activities
- competitive bidding
- collaboration and cost control checkpoints

**CONCURRENT TASKS EQUALS EARLY DELIVERY.
PRICING CHECKPOINTS KEEP THE SCOPE IN BUDGET.**

BENEFIT #2

CAPTURE THE BEST PRICING

Traditional Bid Delivery vs. Negotiated Construction Partner

TRADITIONAL BID GENERAL CONTRACTORS	EXAMPLE SUBCONTRACTOR PRICES				BID
	ELECTRICAL	PLUMBING	CONCRETE	STRUCTURE	
A	\$1,000,000	\$500,000	\$1,900,000	\$1,100,000	\$4,500,000
B	\$850,000	\$450,000	\$2,100,000	\$1,150,000	\$4,550,000
C	\$1,110,000	\$350,000	\$2,250,000	\$900,000	\$4,600,000

EARLY NEGOTIATING WITH ONE CONSTRUCTION FIRM	EXAMPLE SUBCONTRACTOR PRICES				TOTAL
	ELECTRICAL	MECHANICAL	CONCRETE	STRUCTURE	
YOUR SELECTED BIDDER	\$850,000	\$350,000	\$1,900,000	\$900,000	\$4,000,000

COMPETITION IS MAXIMIZED BY CAPTURING THE LOWEST COMBINATION OF PRICES.

PRAGMATICALLY SPEAKING:

All general contractors bid to the same geographic subcontractor pool. But they get different prices from the pool. Selecting one builder ensures that all the best prices are collected in combination.

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