

How to Solicit Construction Bids

A Guide & Checklist to a Better Construction Bid Solicitation [Rev 050114]

McKenzie-Douglass controls the costs of construction for capital repair projects, building restoration, renovations and new construction. We find and eliminate the bid preparation errors and the misunderstandings of the owner's intent that inflate the cost of construction bids for over 90% of the projects we review to allow the church to use that money for a better purpose. We provide guidance to minimize those errors and secure more accurate pricing without sacrificing project quality or the contractor's fair profit.

Construction bids are prepared on many levels, from the prime contractors that you may personally invite to bid because of their experience and integrity, to the various subcontractors, their sub-subcontractors, and the suppliers of the materials and equipment for the project, most of who probably have no relationship with the church and view your project as no more than just business. Even though your favored prime contractor bidder might have your best interests at heart, it's no assurance that the sub-bidders further removed from your prime construction contract share the same dedication to the financial success of your project.

In spite of your best efforts, and of your design professionals, you can't control the price that the bidder inserts on the bid form. There are many factors beyond the control of both the owner and its professional consultants that can negatively affect the bid price. Even when you and your design professionals properly perform your own work, avoidable bid preparation errors by those preparing pricing for your project still occur. Often the subcontractors and their suppliers who may not even be known to the prime contractors you have personally invited to bid are responsible for a significant inflation of bid prices. They can include quantity errors during the take-off process, inaccurate supplier pricing, math errors, duplicate charges for secondary costs, and even typographical errors. Inflated prices are frequently traced to incorrect sales tax rates, inaccurate permit fees, and failure to take advantage of available special discounts and cost-saving opportunities that are unique to your project. In addition to common data entry errors, inflated prices often result from a general misunderstanding of the project's actual needs by a supplier further down the pricing chain who is not fully aware of what is really needed to satisfy the construction contract.

Even factors that have nothing to do with your own project can affect your price. Bidders, including your potential low bidder, frequently withdraw from consideration late in the bid period. Others might not have time to thoroughly prepare your bid, but will submit a 'safe' (high) bid anyway. And if your otherwise low bidder wins a major contract just before your bids are due, they are no longer likely to be your lowest bidder, and you will pay a premium for bidder number two.

We offer this general guide to a more effective bid solicitation, but there are unique circumstances affecting every project that deserve more specific scrutiny before awarding any construction contract.

McKenzie-Douglass is pleased to review your project's bid documents before you solicit bids, as well as the bids you receive to see if your bids are consistent with what we believe to be a fair price for the work. For those who may be overwhelmed by contract procurement the process, we are pleased to offer assistance at all levels, including consultation regarding specific concerns, owner representation, or complete project management to guide all aspects of the project.

What You Should Do Before Bidding

1. If the construction work will require a building permit, it is likely that a registered design professional will be required to prepare your construction documents. Those documents can be used for competitive bidding, but they alone will not assure error-free pricing.
2. If a capital repair or other project of limited scope or complexity doesn't require the services of a design professional, the bid solicitation documents should be prepared by someone very familiar with the issue to be resolved, the specific scope of the work required to resolve it, and its technical requirements. Be certain that the work requested will resolve the issue.
3. Eliminate any possible conflicts of interest that could affect the award of the construction contract. Potential conflicts of interest can include;
 - a. The author of the bid solicitation documents being permitted to submit a bid for the project.
 - b. Specifying proprietary materials, equipment, or construction methods that can be provided only by a limited number of suppliers.
 - c. Professional consultants who can influence the contract award being compensated as a percentage of the construction cost.
4. The bid solicitation documents should set forth the project requirements completely and thoroughly, but simplify the bid solicitation. The bid solicitation documents should not be overly complicated. Make your intentions clear and your bid documents easily understood.
5. Be certain that the primary objective of the bid solicitation is not obscured by secondary issues. Do not ask for more work to be done than is actually necessary to resolve the issue.
6. Be fully aware of the financial impact of all project decisions required.
7. Consider the projected lifecycle cost when establishing the scope of work and preparing the specifications for all materials and building systems, and not just the initial cost.
8. Eliminate unnecessary, onerous contract compliance requirements, such as a liquidated damages clause, or unreasonable deadlines.
9. Avoid making the contractor responsible for occurrences and project conditions that are beyond the contractor's control.
10. Don't use overly complicated bid forms. Ask for only that information that is necessary to differentiate the bids. Details that will not affect the price or other issues critical to the contractor selection can be addressed in the final construction contract.
11. Eliminate restrictive schedule, work site, or other unnecessary project requirements that could cost the contractor significantly more money, but can be avoided by modifying your own requirements for the space during construction operations.
12. Make all decisions about the project, its scope, design, materials and equipment required before bidding, and incorporate those decisions into the bid documents. Changes made later create more opportunities for error and inflated costs.
13. Establish specific contractor qualification requirements. Choose the contractors or vendors for the approved bidders list based on who is best suited to perform the work. Suitability would include less tangible issues of integrity, prior customer satisfaction, and similar matters, but more personal considerations, such as likeability, should not be a factor.
14. Do not include any bidder on the approved bidder list who you are not willing to hire for the work if they submit the best bid.
15. Allow the bidders sufficient time to prepare their bids, but not more than necessary.
16. Require all bidders to visit the site of the work and become thoroughly familiar with all site and other project conditions affecting the work, especially if the work must integrate with related work being performed by others or the existing conditions at the project site.
17. Use alternate bids to compare prices for acceptable alternate materials or building methods, but use them judiciously in the bid solicitation documents. Preparing unnecessary alternate bids can be time consuming for the bidders. They can unintentionally lead bidders to believe that you may be trying to manipulate the bid process, and they may not respond to your bid solicitation in earnest.
18. Independently determine what a realistic cost of the project should be so that you're prepared to make an informed decision soon after bids are received. Don't rely on generalized unit costs to establish your budget expectations. And don't plan to rely on the competitive bid prices you receive to

influence your decision as they could all be unrealistically inflated.

Consider Including the Following in the Bid Solicitation Documents

1. Include unit cost provisions for items whose quantities are likely to change as the work progresses.
2. Include the general requirements to be met by the contractor that could affect the cost of the project, such as insurance requirements and other soft costs.
3. Include requirements for how owner-approved change order costs are to be determined and calculated for both additions to, and deletions from, the project.
4. Address the limitations and/or opportunities for the contractor's substitution of materials or equipment for that specified. Where possible, list any specific alternate materials that will be accepted as being equal to that specified. If a specific list isn't practical, define how an 'equal' will be determined, and by whom.
5. Include project specific requirements that could affect the contractor's cost of the work, such as job site access, safety protection, security, work schedule, hazardous materials present at the site, etc.

What You Should Do During the Bid Period

1. Designate one qualified individual, such as the project's design professional if there is one, to address all questions from bidders during the bid period.
2. Address all bidders' questions promptly. All bidders should receive the same response to all questions raised by any one bidder.
3. Never provide answers to bidders' questions orally. Responses should be in writing and issued to all bidders.
4. Notify all bidders in a timely manner regarding any necessary changes to the work that may be discovered during the bid period.
5. Be wary of a request for an extension of the bid period that will benefit the needs of one bidder only, and not directly benefit all bidders or the owner.
6. Consider having a pre-bid meeting at the project site with all interested bidders attending if your project is of sufficient size, scope, and complexity to warrant it. When all bidders and their subcontractors visit the site at the same time, it saves you the time consuming task of conducting separate site visits with the various bidders. A pre-bid meeting also gives the bidders the opportunity to ask questions that can be answered for all bidders, but don't expect many. Few bidders are willing to publicly share what may be of concern to them to avoid alerting competing bidders to any way that they might reduce their own costs.

What You Should Do When Bids Are Received

1. Include on your project team someone who is very familiar with construction costs and can assist with the evaluation of bids from an unbiased perspective; one who can evaluate your bids against what the true cost of the project should be, and not just compare them with the other bids received.
2. Don't rely on a perception of competition between the bidders to influence your decision regarding the award of the contract.
3. Don't assume that the bidders have the right price simply because their bids are consistent. They may have all used a price from a subcontractor who made a mistake in their own bid preparation that inflated the cost for all of them.
4. Consider carefully any low bid that is significantly lower than the other bidders. They might have missed critical issues that you'll be asked to pay for later. But they could also have been the only correctly prepared bid.
5. Don't assume that the lowest price bid is error free and is the right price. Even the lowest price bid can be over-priced due to bid preparation errors.
6. Don't assume that every bidder, at all bidding levels, preparing pricing for the project made no

mistakes when preparing their bid. Pricing errors during bidding are prevalent at all levels. Identify them and eliminate them before it's too late to benefit the owner.

7. Don't assume that a bidder's objective is to give you the lowest price possible because they are in competition with other bidders.
8. Don't assume that a bidder's objective is to give you the lowest price possible because they don't have enough work.
9. Don't assume that your trusted invited bidders can give you the lowest price possible because of their relationship with you. Even with that intention, mistakes are still made by the many subcontractors, their sub-subcontractors, and their suppliers that provide pricing for your well-intentioned prime contractor that they probably know nothing about at the time bids are submitted.

What If Bid Results Are Unfavorable Anyway?

Don't Panic. A rush to an alternative plan of action following an unfavorable bid solicitation can lead to bad decisions and unintended consequences. Without careful consideration;

- Don't be tempted to agree to an offer from a bidder to negotiate the construction contract with them alone, or to have them value engineer your project to lower their price.
- Don't be tempted to re-bid the project.
- Don't be tempted to reduce the size, scope, or quality of the project to lower your cost.

The better alternative is to thoroughly analyze the matter from an experienced perspective, take whatever time may be necessary to determine the real reason the budget was exceeded by the bids received, and allow yourself time to proceed in a methodical manner. Do not discount the fact that bid preparation errors can increase the bid price by as much as 22% for new construction, and significantly more than that for renovation work and capital improvements. Find the bid mistakes that inflated the price and eliminate them, and you won't have to sacrifice your intended scope or the quality of the project to reduce your costs.

Here are some things to keep in mind when your bids are over-budget.

- Eliminating part of the project because bids are too high usually just results in the remaining part being overpriced.
- Value engineering often results more in increased profits for the supplier than increased value for the owner.
- If you re-bid the project, something must change from the original bid solicitation.

Before Awarding the Construction Contract

Interview your favored bidder(s). Be wary of prospective contractors who send only their marketing representative to the interview. They are there to sell, and you won't see them again after the contract is awarded. You need to talk to the field superintendent and the project manager that the contractor intends to use to construct your project, as well as the owner of the company. And if the owner of the company isn't interested in attending the interview, they're likely to show the same level of interest when a problem arises later as well.

Their presentation should include resumes and references for all key personnel.

At the interview, ask the difficult and project specific questions. Ask them to address your specific concerns in the context of 'What will happen when ... ?' or 'How will you handle it when ... ?'. Be concerned if all of their answers to your interview questions are what you want to hear. If they tell you that there will not be any change orders, that there will be no delays, that there will be no unforeseen conditions, or that there will be no communication problems, be very concerned. Those issues are common to most projects. The real issue is how the contractor will address them when they do occur, not that they can be avoided. They cannot be avoided.

Be thoroughly familiar with your options. Know fully what your alternatives are, the ramifications of every option and, most importantly, what the real cost of your project should be. Don't assume anything. If you don't have the unbiased expertise that you need available to you, McKenzie-Douglass is pleased to guide you through the process.

For More Information about Specific Subjects Raised Here, Visit the Following Websites

If you're considering re-bidding the project;

<http://www.mckdoug.com/considering-re-bid/>

For preparing a Request for Proposals for professional services, feasibility, and other special studies;

<http://www.mckdoug.com/effective-construction-rfp/>

The benefits, and pitfalls, of value engineering;

<http://www.mckdoug.com/recognizing-true-value-value-engineering/>

Why capital repairs can be so expensive;

<http://www.mckdoug.com/capital-repairs-expensive/>

Timing the bid solicitation;

<http://www.mckdoug.com/better-time-solicit-bids/>

The impact on a project of negotiating the contractor's profit;

<http://www.mckdoug.com/dangers-profit-lines-construction-orice-reduction/>

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