The Low Bid is Not Necessarily Supreme Under This Emerging Measure of Construction Dollar Value

By George B. Roscoe

Out of the ferment of the 1960’s and the early part of the 1970 decade has evolved a consumer-oriented concept that can be turned to advantage by the wall and ceiling contractor.

Indeed, it offers a way out of the low-bid syndrome that has, beset the construction industry since the days of the Great Depression, eroding profits and giving the customer an inferior product.

The concept is life cycle cost.

Concept Evolved Slowly

This is not something that developed overnight. It has been evolving over the last two decades as a result of the disillusionment about dogmatic adherence to the low competitive bid as the absolute monitor of the contract award being the solution to all competitive problems in the building and construction industry.

Life cycle cost is simply the original cost of the construction or installation plus the cost of owning and operating that system over a specified number of years or for the life of the structure.

Thus, the cost of installation of a particular wall system, for example, including the labor, material and contractor margin might be $1,000. The cost to the owner of keeping those same walls in serviceable operation for 20 years might be $800. This would make the life cycle cost $1800.

In some instances the life use expenses over the projected life of the structure will be more than the initial installation, and this only goes to demonstrate the prudence of putting in an appropriate, quality system in the first place. Serviceable life is longer; there are fewer service calls for such things as repair and upkeep—and the customer is happier with a system that does the job better, longer, and more economically.

Take, for example, an installation that costs $1,000 but will last only five years without replacement or extensive repair. On a low bid basis this should win hands down over one that costs $1,500 but will last 20 years without significant added expense.

On a life cycle cost basis the $1,500 installation has a vast competitive advantage over the $1,000 short-lived installation.

You may ask how this concerns the specialty contractor who essentially has a one-shot business opportunity at any given project.

The practicality aspect enters into it.

Knowing the intended function and life use period of a proposed partition system, the competitive wall and ceiling contractor is in the best position of anyone to recommend the kind of system most responsible to owner needs—the the most economical system over-all.

If the ability to move partitions is important, the cost of installing and (Continued on Page 67)
then changing around the partitions will be considered jointly. Perhaps salvage of the original partitions can also mean significant savings. These costs, too, would be considered in any formula used to compute the cost of any given system.

The same principle would hold true where the characteristics of one system could produce significant savings in another. The low-cost attitude toward an acoustical ceiling installation would undergo some changes should accessibility to, say, the electrical and mechanical system above the ceiling be necessary.

Allowing maintenance men to work unimpeded above the ceiling system may achieve savings greater than the additional cost to install a ceiling system that would permit it. At the same time, the added installation costs necessary to better control an element as important as humidity may more than offset the probable damage costs of high humidity during the lifetime of the building.

The point to remember is: under low-bid competition the initial installation cost makes the determination, but under life cycle cost the installation plus any other costs attributable to a particular system’s lifetime are used in the decision making process of selecting one system over another.

Under such conditions, the contractor would have a much longer association with a job than under the conditions of a low bid situation. Normally, an owner likes the original installing contractor to work on any system because of his obvious familiarity with it. In life cycle costing, the incentive is even greater.

While there has been little of it in the wall and ceiling industry, construction experts do see a trend developing whereby in addition to the construction contract for the installation there is another continuing type agreement for the installing contractor to perform work on the system he installed.

For a complex ceiling or acoustical installation, it is conceivable that the installing contractor may eventually bid the construction and maintenance together. If he does, the customer can be reasonably certain that top grade components go into the original construction since no prudent contractor will want to bear the burden of original shoddy material and equipment.

“If he must maintain it, too . . . no prudent contractor will want to bear the burden of original shoddy material and equipment.”

want to bear the burden of original shoddy material and equipment. Given a sufficient number of installations on a life cycle cost basis, the specialty contractor could possibly free himself from the cyclical hazards of boom or bust in the construction industry.

He would not only receive the opportunity to realize profits from a continuing agreement on the walls and ceilings systems but also to sell up and improve the property from time to time as user needs change.

Transforms Contractor

Life cycle cost has the great benefit of transforming the wall and ceiling contractor from being on an adversary basis with his customer to one of being a member of the team, both searching for mutual benefits.

For more than a half a century the biggest single buyer of construction services—the federal government—followed a policy of competitive bidding on its construction work. The policy was fixed into law in 1913 with the enactment of the public contracts law prescribing advertising, public opening of bids and award to the lowest responsible bidder.

This put the low bid in the driver’s seat. Over the years price became the sole criterion of federal public works award.

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Now, some 50 years later, federal government purchasing officials are realizing that this was not the great panacea it was supposed to be. And, in the 1960’s, a group within the government proposed a new purchasing system for construction.

Out of research by building technology experts in the Commerce Department’s Bureau of Standards came the new systems concept in construction which envisioned a facility whose purpose was to produce a desired result or a product. Thus, the shell of the building, its walls and ceilings components, its electrical-mechanical system, the decorative as well as the structural elements became an integrated unit aimed at achieving a desired result.

To achieve it, two-step bidding was recalled as a viable federal procedure. First, there was competition on competence, experience, capacity, and technology. Then, there was price.

Life cycle bidding came as a natural sequence to these developments.

Under the traditional low competitive bid system the bidder set forth a detailed list of construction components and stated his lowest price. Experience showed that under this method the buyer received about what he paid for.

Life cycle costing takes into account not only the original cost but the amount of maintenance, repair and service over a specified period.

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Implicit is the guarantee based on the integrity of the supplier and the contractual liability to perform and provide.

Systems construction still is a controversial issue and is by no means fully accepted by all segments of the construction industry. However, large segments are gradually adapting to the new order.

When the federal government, the biggest single customer of construction services, expending approximately 10 per cent of the $130 billion annual construction volume, sets out to impose a new procedure it is a pretty good bet that the private sector will eventually fall into line.

It is of little consequence if the various elements of the construction industry maintain a skeptical view toward this new way of purchasing. Customers are the ones who will in the long run set the terms and tempo for the change. And the federal government seems determined to follow the new procedures and require adherence to them.

And customers—the buyer of construction services—are becoming more and more sophisticated. They are weighing the cost of ownership over a fixed period and not just the original installation cost.

Customers will not be fooled by the bid shopping and bid peddling sideshows. They are beginning to understand that the low bid may not always represent the best value. And “they will demand that any “savings” from bid shopping and bid peddling revert to him and not to the general contractor.

They will be more interested in what you as a wall and ceiling contractor can offer than what the general contractor says will be provided.

Resists Obsolescence Idea

The construction industry won its reputation for value by its adherence to the principle of giving the customer a structure that would endure. It has traditionally resisted the lure of building to an obsolescence factor like the automotive industry.

And life cycle costing offers a way out of the growing morass of customer skepticism that has been engendered in recent years.

It offers opportunities to the contractor who has the organization, the experience, and the desire to build an enduring customer relationship rather than depend exclusively on the dictates of the cyclical building pattern.

It perhaps more than any other single procedural change offers promise of reinstating value in the construction dollar both for the customer and those who serve him.