I’m a builder—and that’s difficult enough—but the problem with being a builder and discussing competitive bid is that anything negative that I may say against this age-old construction award procedure can come off like whining. And I also run the ever-present risk of sounding like someone who just came in second at a bid-letting. But despite this hazard, I’ll give it a try.

The problem is the competitive bid process itself. It has—to be politically correct—“issues.” And it appears I’m not the first to have noticed. Indeed, it’s difficult to pick up any construction industry publication nowadays and not encounter some discussion on competitive bid and its shortcomings. The articles cover similar subject matter and generally trumpet the benefits of negotiated and/or design-build work while chastising competitive bid. They come replete with the varying slants, prejudices and convictions of the author, but regardless of the theme or eventual conclusion of the piece, there is always a common thread allying all these discussions: the element of trust.

The trust (or more accurately, the lack of trust) I’m referring to is that among the players in a typical construction deal: the project owner, builder, and architect. The problem? We don’t trust each other. We say we do, but we don’t. Why? There is a myriad of reasons encompassing a long, sordid history and reactionary human elements that go into explaining why. Unfortunately, a truly complete and comprehensive discussion would be hardly containable in one book, let alone one magazine article. Suffice it to say, there have been some misunderstandings.

But this complexity does pose a problem for the person attempting to explore the subject. With the cause and effect so sweeping, complex and ethereal, it can be quite difficult to focus on the “big picture” (the linear argument of competitive bid) without being drawn off into peripheral and spontaneous side issues. So, for clarity sake, let’s break down our discussion into smaller, more manageable illustrations—taken from my own experiences—to show, from the builder’s standpoint, how and where trust can fall prey to eroding and degrading elements. Though admittedly biased, I hope that through these illustrations the reader can glean a better understanding of the mind-set of the GC and the effect of the competitive bid process on the typical builder.

So, with these ground rules in mind, I’d like to offer some reflections on the competitive bid process (CB) and why CB, by its very nature, drives damaging and detrimental wedges between the construction team players, who’s true goal should be to work together as a team to achieve a successful and similar end.

The Competitive Bid Process

When applied to the construction industry, competitive bidding is the simple pitting of two or more building companies against one another in a pricing competition for a particular building project. From (ideally) identical bid packages—commonly consisting of architectural working drawings, specifications and other information such as addenda—the competing companies analyze, estimate and agonize over the documents in an attempt to arrive at a true and competitive price for the completion of the project.

Before a pre-determined deadline, the combatants deliver their completed bid form(s) to the owner’s representative. In their signed proposals, they include all requested cost items along with any additional information requested of the contractor by the owner and architect.
This may include items such as bonding info, subcontractor listings, material suppliers and applicable affidavits.

Once received, the bids may or may not be read aloud. If read aloud, the opening is known as an “open letting.” At a closed letting, the bids are opened by the owners or his representatives—often the architect—in private session at an unannounced time and location. Once read, the results then may or may not be made public.

Now of course, the good thing—from the builder’s point of view—about the open letting is that he knows (from a pricing standpoint, at least) where he stands. In the closed letting scenario, it may lx days, weeks or even months before the bidders are notified with results. Sometimes they’re never notified. These occasional long, silent waits are quite frustrating to the builder attempting to schedule manpower requirements based on known work load.

This lack of communication by the architect and owner is one small example of the erosion of trust that can occur through a (perceived?) lack of respect for the effort that the bidders put into their proposals.

But, even the open letting has its perils. Being announced low at the letting, although generally a pretty positive sign, doesn’t necessarily assure the builder of getting the job. There’s almost always some type of jargon in the bid specifications that gives discretionary power to the owner to choose the contractor who best suits the overall needs of the project. Now this is a pretty obtuse directive and was likely included as a tool to “weed out” inexperienced or unqualified contractors. Unfortunately, what it means to the builder is that the owner and architect may choose virtually whomever they please, for whatever reasons deemed appropriate. This rather lopsided caveat detracts greatly (in the builder’s mind) from the oft-expressed fairness doctrine of the open letting scenario. And so, just like that, another bit of trust slips away!

Now, you may say, “C’mon, these are isolated incidents. No system is perfect. CB’s still the best game in town. After all, the owner’s the one with the money on the line. He’s got to have some control! Besides, CB just provides plain, old, healthy, American competition. Good for everyone, right?”

Well . . . not exactly. There are other problems.

The Owner/BUILDER Relationship

This reason alone, if genuinely understood, should be enough to cause sane owners to run screaming from CB. From a relationship standpoint, CB is a nightmare. Why? Because the moment the owner has selected CB as the vehicle for establishing his future contractual relationship with a builder, intrinsically, the following will almost certainly result: The owner-architect-builder relationship will become adversarial. No, I don’t mean there’s going to be screaming and punching (well, maybe). In our context, “adversarial” simply means that the parties are now in competition—financial competition—with one another. Once
the gun is sounded, it’s “1, 2, 3 . . . grab-your-money”—and whoever grabs the most wins! And, yes, the architect is grabbing right along with everyone else!

Next, the owner and builder now view one another as cold, detached and uncaring business entities. Since no real attempt was made to establish any genuine understanding or empathy for the other’s situation, none exists. There is no bond or trust. There is no partnership or comraderie. The construction project becomes a clinical, antiseptic business transaction, and if one party suffers in relation to another’s good fortune, then it’s justifiable in the minds of all the players as “protecting one’s own interest.” If the project goes smoothly (few errors and change orders) than the relationship may well stay civil or even friendly. But the hierarchy of need (and greed) never waivers: money first trust, loyalty and empathy last.

**The Bid Documents**

The bid documents themselves are another problem. In my opinion—when discussing CB—the quality of the architectural plans and specifications is the single biggest obstacle to the competitive bid process ever being universally accepted. Throughout my career, the majority of my experience in construction has been as an estimator. I’ve worked and bid with scores of architectural firms and compiled hundreds of estimates. Over that time, I’ve come to realize a tremendous disparity between the best and the worst in the architectural field. Even more unsettling is that this trend toward mediocrity appears to be getting worse rather than better.

The problem is real. Ever more frequently, I find myself involved in competitive bids where, due to the absolute incoherent and/or incomplete state of the bid documents, the only avenue left to me to arrive at my bid number was through my own experience and intuition in determining the “intended” scope of work. What do you suppose the odds are that we all interpret the documents the same way? Ever heard of comparing apples and oranges?

I’m aware that somewhere in the cacophonous specification it says that we should notify the architect of any mistakes, omissions or discrepancies that we find (or something of the sort). I’m sure this passage sounded wonderful to the optimistic soul who created it, but the reality is there are just way too many errors and omissions on many plans and specs.

Even if the builder were so inclined (or allowed) to make the corrections, it would require an additional full-time draftsman/estimator (which we can’t afford) to adequately detail and address the faulty and missing information.

But suppose we do make the call to the architect. It’s a classic case of “damned if you do, damned if you don’t” when we call (and we call a lot) with questions or request for clarification. The odds are evenly spread that we’ll receive any one of the following

- The right answer to our question.
- The wrong answer to our question.
- The architect’s voice mail. (He will not call back.)
- The receptionist, who will tell us the
Here’s my personal favorite: I (finally) get an answer to my question, but not before I’m made well aware that I am nowhere near qualified enough and have no business questioning the hallowed and sacred tablets know as the architectural documents.

Alright, so I got some shots in. My point is: Most people (unfortunately, the very same people who make up future owners) have always assumed that we bidders in a competitive bid situation receive and bid off of complete, pristine and professional construction documents. The reality is that nothing could be further from the truth! I personally estimate that perhaps 5 percent of the plans from which I prepare bids are adequate complete to genuinely offer the owner an apples-to-apples competition. Fifteen percent are pure folly and the remaining percentage makes up the middle ground between the best and worst. This means that—more often than we care to admit—the low bidder on CB projects is likely arriving at his number through a means other than a thorough and precise understanding of the construction documents.

Another bit of neurotic skepticism I’ve had to endure over the years from my builder cohorts goes something like this: The lack of information in the bid documents is actually a pre-meditated and desirable element (created by the owner and architect) of the CB process. This theory suggests that crucial information is left out of the documents in order to (and here’s the neurotic part) “trick” one of the bidding contractors into being substantially lower than the pack—and then legally and contractually forcing him to perform the work at a (below market value) loss.

Now, I’ve never personally bought into this for two reasons. First, I (perhaps naively) still believe that the people are simply too honest to stoop to that level. Second, I don’t think they’re smart enough to pull it off without being exposed. However, there is a lesson here. It’s important to understand that there are members of the building community who swear that this is true. We even have joked about it. It’s known as the “who-missed-what” method of construction award or (put another way) “Congratulations(?), you’re low!”

Whatever you call it, it isn’t good. And whether it materialized through the (unlikely) pre-meditated efforts of the owner/architect or just plain apathy incompetence and laziness on the part of all the parties, including the builder (far more likely), we in the building construction industry have allowed ourselves to be slowly, but methodically drawn into an award methodology that forces us to often employ less than desirable and ethical strategies to achieve “success,” including a “who-can-stick-it-to-who” mentality that starts early in the bid process and remains throughout closeout.

Many in the building industry have become transformed into closet con artists—constantly on the lookout for ways to skirt the bid process (and our competition) in order to gain necessary market share. No matter what side of the fence you’re on regarding CB, it’s clear that this is no way to conduct business.
Here are some other observations regarding competitive bid:

- It’s become an actual bid strategy by many builders to simply not bid any (clear) omissions in the bidding documents, knowing full well there will be a change order to the owner after the bid is let. Now some of these items are captured in time to be put out as an addenda, but many (most) aren’t. The bidding builder’s reasoning goes like this: If he does make the extra effort to account for error, it almost always results in the bid price going up, losing the bid and rendering all his hard work for naught.

So he doesn’t correct the error and indeed ends up low at the letting, and is awarded the job. The document errors that allowed him to be low aren’t discovered until well after the post-bid negotiations begin. At this point, the bidder asks for more money. The owner and architect are too deep into the process to begin anew with the next highest bidder—and besides, there’s still the cost-difference between the first and second place bidders that would have to be added back in. Also, keep in mind the tremendous pressures that always exist on all the players to break ground on the project. So, the owner bites his lip—accepts the add from the contractor—and moves on.

- The situation becomes even more convoluted when the post-bid negotiations also include value-engineering (cost-saving) ideas that are now needed because the architect’s budget estimate (the estimated budget cost for the project originally given to the owner by the architect) was too low. This happens a lot! Now, the typical post-bid confusion is heightened due to the alteration, re-pricing, redrawing and general mass chaos created in the name of cost-savings. With all the re-pricing going on, it makes it that much easier for a scheming low-baller to make up ground lost from being too low in the first place.

- I’ve been to a lot of bid lettings and the simple fact is that sometimes there are tremendous spreads between the lowest and the highest proposal amounts. This phenomena alone should immediately throw up a “red flag” to the owner, signifying potential problems with the bid documents.

- Despite what many people believe, builders really have little competitive advantage over one another when it comes to cost. With minor exceptions, we all purchase the same building materials, labor, subcontractors and equipment for about the same outlay.

In truth, most of the time, the difference between winning and losing is more a product of minor differences in overhead, profit margins, work load and just plain aggressiveness.

There are no tricks, no warehouses full of deep-discounted materials and no mystical technical knowledge that really distinguishes one builder from another. Indeed, if you are searching for a difference, your time would be better spent examining the more non-technical attributes such as integrity, experience and reliability.

- Unless there is a thorough pre-screening process for the bidding competitors, the owner can quickly find himself with a veritable melting pot of quality, experience and competency among those participating. A horrifying visual example...
of not having this pre-qualification requirement is where the long-established, venerable, bondable and experienced building company gets beat out by Bill and Ted (who were just laid off from the GM) and—since Monday—now call themselves B&T Builders. This is truly a situation where the owner “gets what he pays for!”

- It is quite expensive, in terms of office overhead and employee time, for builders to prepare estimates for competitive bids. Couple this with the motivation provided by possibly losing the potentially profit-generating work, and you have adequate (at least in the builder’s mind) justification to seek “advantages” over competitors through less-than-laudable means. It’s quite easy to surmise that the other guy is doing it!”

In the past, I’ve read discussion regarding the possibility of owners offering a stipend of some kind to all those invited to bid their projects, to cover some of the overhead expense. Although an excellent idea, to date, I’ve never received (or ever heard of any builder receiving) remuneration for their estimate expense. Let me know if you have.

- Many old and established building companies simply don’t do competitive bidding anymore (for the all the reasons we’ve discussed). And why would they? They have repeat clients and ongoing trusting relationships. With these venerable companies removed from the “bidding pool,” the owner using CB is left (from the very beginning) with a gaggle of less-experienced, less-responsible and lower quality bidders.

- By choosing CB, the owner loses the huge benefit of having the builder involved in the value engineering process (VE). VE allows for expensive or superfluous items to be reviewed (and possibly substituted or eliminated) before they become part of the actual building package. There are ranges of quality in virtually every line item on a construction estimate, and many different products and applications can often be considered-reducing the cost.

And these savings can be staggering. Why? Because (and listen carefully)—the owner and architect have nowhere near the expertise and knowledge of the builder when it comes to knowing the cost of material, labor, subcontractors and equipment. This is true simply because the builder works with these costs all the time while architects and (most) owners do not.

- The total project schedule (from conception to carpet) is lengthened due to CB, due to the fact that one phase (i.e., the plans must be fully conceived and completed) must end before another begins. There’s little overlap between, say, the design and bid stage. With negotiated and design-build work, the design and bid processes are performed concurrently. The total construction window is decreased, and problems and/or clarifications with the documents are handled by all players, working in unison. Shorter schedules allow for cost-savings through interim (construction) interest dollars, less down-time for the owner, reduced overhead costs and a much less stress-filled atmosphere for all involved.

So, If Not Competitive Bid, What Else?

There are alternatives to competitive bidding. Unfortunately they all involve trust. The most popular is the negotiated deal where the owner works together with the builder from the beginning to create the project. If the builder doesn’t have in-house design services (most don’t), an outside designer may also be brought in as part of the team. These relationships can branch off into a myriad of contract structures such as cost-plus percentage or fixed-fee, guaranteed max, lump-sum, and/or any combination and variation that the parties feel comfortable with. The important thing is that the decisions are made as a partnership from the very beginning planning stage, with equal say given to all.

There is mutual trust. Even the accounting books are often opened up to the owner (or his accountant) to peruse, as a gesture of good faith, so the owner may be content in the knowledge that he’s getting the best possible value, and the builder is content he’s negotiated a fair fee for his work—all this while minimizing dispute and delays.

It’s no secret that many architects see negotiated and design/build deals as an assault on their turf so you’re probably not going to find many recommendations from them any time soon. It’s also entirely possible that, indeed, I am letting my builder bias show through. But it’s not out of greed. I genuinely and sincerely believe the competitive bid process to be a seriously flawed affair. I also believe that a partnership built on respect, trust and honest negotiation is the only true avenue to real and mutual value to all parties.

And isn’t value what it’s all about? 😊

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