

Making Sense Out of Bids

“How to choose the right contractor when the bids you receive are all over the lot”

Many of the steps involved in hiring a contractor look simple on paper, but they quickly get complicated when you try to put them into practice. Take the process of getting bids from remodelers. You do your research and find three contractors who are licensed and insured, have good reputations in the community and are recommended by friends who were pleased with their work.

Before having them bid, you meet with each one to explain the project. You give the same details to each: You want your kitchen remodeled with new mid-priced cabinets, countertops, appliances and flooring. Your plans also include an island and an eating area with a bay window. Seems simple enough. Any one of the three contractors bidding appears to be a good bet, so choosing the right one should just be a matter of taking the lowest bid. The first contractor, Jim, calls. He says he is confident he can do the whole job for \$23,000 and is putting a proposal letter in the mail. So far so good. Then Harry drops off a short written proposal that totals \$25,000. You haven't heard anything from the third contractor, Bill, and you call to remind him of this.

When you get his bid, it announces proudly that Bill's company will make you dream kitchen a reality-for \$32,000. How can there be such a difference in pricing for a straightforward project from three reputable contractors? Your first response is to make sure everyone was bidding on the same project. What you find is they were all bidding on “your” kitchen, but in different ways. For instance, Harry's proposal leaves all the painting to you. Although doing the work yourself could save a lot of money, it's not really clear how much. Upon closer inspection, the fine print in Jim's proposal says you're responsible for the building permit. You've now gone from comparing apples to apples to comparing apples to pears. While on hold with the building department to find out what a permit costs, you discover Bill's bid doesn't include appliances. When you ask him why, he explains that with the discounting offered to homeowners these days, he finds many of his clients like to make their own purchases. Once you include the appliances in Bill's bid, the spread from the lowest to the highest bid is more than 50 percent. You're now comparing apple to pears to guavas. Could you have made things easier and clearer, or is this just a process with no mercy?

Deviation is Standard

The first thing is to realize you're not alone. Wide-ranging bids are common in remodeling. “Nothing surprises me when it comes to bids,” says Denver architect Doug Walter, who specializes in remodeling work. “Even though we work to prequalify contractors, and pin down what they are bidding on, we are used to seeing some very wide ranges between bids. It often takes a day of research and clarification just to determine which is truly the lowest bid.”

Get the Scope Right

Invariably, some or even all of the difference in price can be traced to each contractor including a different scope of work or choosing different products and materials. For instance, much of the difference in Jim's and Bill's bids is due to the fact that Bill specified a custom Bay window, while Jim figured Brand X would be fine. Other time, the difference is in how competing contractors solve a remodeling problem. One contractor might add a soffit overhead to hide an existing heating duct that will be in the way, while his competitor will stay true to the plans and relocate the duct, which is a very expensive proposition. The one way to prevent this confusion is to give contractors bidding on your job as much detail as you can up front. But walking three contractors through even a moderate-size job and simply discussing alternatives is not enough to get you

comparable bids. Your call for “mid-priced” cabinets-if you don’t clearly specify brand, style, finish and size-will lead to a huge disparity in interpretation. That leads to a huge disparity in price. The solution? Don’t price any remodeling over \$10,000 in value without blueprints or at the very least a clear list of specifications.

Wide and Narrow Margins

Once differences in the hard facts of the work scope are settled, price differences among contractors typically are based on more nebulous distinctions, like markup and how busy the contractor is.

All contractors mark up their anticipated job costs to cover overhead and net profit. But contractors differ greatly in the amount they mark up. The low end is around 10 percent on top of the actual cost of the labor and material to do the job. You might be tempted to choose someone with a low markup, but contractors who charge this little often are in danger of going out of business soon because they aren’t aware of their true overhead cost. The high-end up to 70 percent over job costs-typically is charged by a full-service contractor who maintains a staff, a showroom and a high profile in the community.

The size and complexity of your remodel should determine whether you need a contractor who offers all the amenities. Just remember that the larger the markup, the more extra resources and services the company typically can offer. The best time to deal with this question is up front, before you decide who you want to bid. Another factor that strongly influences pricing is how busy the contractor is. The greater the contractor’s need for work, the more favorable your pricing will be. If the contractor already has a backlog of work, he can afford to keep your pricing high. If you don’t say yes, there’s time to find other clients before work runs out. This might well explain Bill’s late bid and high price.

Miscalculation

Search long enough, and you can probably find a contractor who will do you \$10,000 job for \$9,000 because he has made a mistake in figuring costs. A great opportunity for you/ Think again. This guy is on his way to going belly up or, at the very least, to developing a bad attitude toward your project. You won’t save money in either case. Again, the best way to deal with this situation is to make sure you prequalify the bidders. A contractor who has been in business five years or more is much more likely to be thorough in his bidding and to have developed a better sense of his costs. Also make sure that these contractors are people you would want to do business with. This way, when it comes time to sort out bids, you can focus on the numbers. Finally, look for clustered bids. If you have three apples-to-apples bids and two are within 10 percent of each other, chances are good these two are reasonable. There are lots of factors to consider in picking a remodeler. When it comes to competitive bidding, make sure you’re getting apples-to-apples bids so you can make a decision without a lot of second-guessing.

Seven Steps for Avoiding Sticker Stupor

Here’s how to get clear bids you can choose with confidence:

1. Prequalify all contractors you ask to bid so you know-in advance-that you will be happy with any of them.
2. Nail down scope of work with blueprints and written specifications. Be sure brand names, models and even color are specified. Your goal is to make sure each contractor is pricing exactly the same work.
3. In any area where you can’t specify your choices, settle on an allowance amount to be included by each contractor. For instance, the contract might incorporate the following: “Include a \$2,000 allowance for owner’s choice of bath fixtures.”

4. Ask the contractors to point out any unclear area where they are forced to make an assumption; then clarify it with each of them.
5. Ask for written and specific proposals by a certain date. Review them carefully for any ifs, ands or buts.
6. When choosing a contractor, look for a price cluster. If your three prices are \$22,000, \$24,500 and \$36,000, choose between the first two. If your prices are \$22,000, \$34,500 and \$36,200, credibility favors the latter two.
7. If your bids are still wildly different, ask for a rebid based on a new scope of work that combines the relevant specs and proposals of the first round. Contractors won't grumble about rebidding if they know they have a fair shot.