

The Contractor Selection Process

In the process of considering general contractors to build their project, many clients are understandably confused by what to consider and how to best select a contractor.

To start, get several contractor recommendations from your development team: your real estate agent, project manager, architect and the building management of your targeted buildings will all have suggestions of qualified firms. (For example, some Landlords have approved lists of contractors that are restricted to those with prior experience in the building).

- ✓ **Tip:** I recommend considering at least 3 but no more than 5 contractors — no matter which of the approaches you follow below.

Selection Options

There are two basic selection approaches:

- ▶ Take “*Lump Sum*” Bids (i.e. a *fixed cost*) for the total project cost;
- ▶ Or solicit “*Cost Plus*” Fee Proposals and interview the contractors’ proposed team of project professionals.

- ✓ **Tip:** Taking Lump Sum Bids from 4 General Contractors is the ***most competitive*** and clear cut route when your scope of work is well defined and your architect has been given the time to fully develop and engineer the plans.

But (and this is a critical “but”) having the plans and specifications in a “bid-ready” state is vital to the success of a bid approach.

Neither a “Building Permit” or a “90%” set of plans are sufficient for competitive bidding — they need to be complete and the bidding scope of work well defined. (A “90%” complete set implies there is still work to be specified; so that is handing a contractor the built in opportunity to submit additional costs . . . and who likes getting change orders?).

(However having the time to really complete the drawings is frequently not available in office leasing schedules).

So when time is an issue, or there are other unusual complexities, a better selection method is to ask contractors for a Cost Plus proposal and a presentation by the construction team to be assigned to your project.

Comparing Contractor Proposals & Presentations

When evaluating contractor proposals, look for 3 main points (in order of priority):

1. The Presentation by a contractor's Project Manager & Superintendent:

Projects are built by *people*, not companies!

You should weigh and compare the skills, experience and approach of the individual Project Team members proposed by each contractor.

For example, sometimes smaller companies can propose a more talented or experienced team than that of a larger company, even on 'big' projects.

You are about to spend many months together, entrust a significant cost and the success of your project to a small group of individuals.

Watch how the proposed team (not the salesman or company principal) interacts and supports each other during their presentation. Do they display the confidence, experience and communication skills you want to represent you?

✓ **Tip:** Your chemistry with the working Project Team is also an important and justifiable metric, so don't ignore it in your analysis!

2. General Conditions costs:

These are the contractor's cost to run and manage the project: primarily the weekly salaries and related expenses of the Project Manager and Superintendent assigned to the project.

The total of these costs is a function of the length of the project. When asking for proposals from contractors you should let them know how long they have to build the project and ask them to tell you if they need more or less time. But initially compare their total costs on the same project duration in weeks.

Because salaries are comparable across companies (even large & small companies pay their people roughly the same), the proposed General Conditions' expenses should be very similar from all companies, large or small.

✓ **Tip:** Consequently be wary of and question differences in a comparison of these costs. Significant variances may mean that a company is either not committing the staff time necessary to manage your project or has failed to be up front about all the costs they will eventually charge you.

3. Fees/Profit:

These are generally expressed as a percentage of the total cost of the project.

Fees should be the least important variable in the selection process. Even on a \$1,000,000 project, a 1% difference in Fee proposals amounts to only \$10,000.

Although nobody would pay an extra \$10,000 if all other things are equal, consider that typical contingency is usually budgeted at 5% – 10% of the total project cost (in our example that's a \$100,000 item).

Consequently the best team's ability to anticipate and avoid change orders will likely save far more than a 1% Fee difference on a project.

- ✓ **Tip:** Ask the Project Manager (**not** the salesman or Principal) how "transparent" their project cost accounting will be and who will benefit from subcontractor "buy out." Ask him/her to explain both these terms to you during the presentation. You may learn a lot about the firm's approach to your best interests in how they answer these questions.

Bottom line: Pick the **best** team, not just the lowest Cost or Fee.

About the Author

Marty Wilson leads the **MDW Group**, a professional Project & Construction Management company. He has a Master's Degree in Construction Management and a BS in Civil Engineering from Stanford University.

Prior to forming the MDW Group, Marty founded and managed the commercial construction company CIC Associates, a frequent entry in the SF Business Times' Top 25 Contractor List. Specializing in tenant improvements, structural rehabs, and low rise building construction, his firm built over 8 million square feet of projects in California and several States.

The MDW Group offers clients the benefits of over 25 years' experience managing complex projects and the Project Teams designing and building them, including work in over 90 San Francisco Financial District buildings.

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