

35th Weekly Crisis-era Message to Contractors from: Tom Schleifer, Ph.D.
Reader Questions and Answers

An excellent question and observations from a reader suggests to me that we need to explore in more detail at least one of the items listed in the last Crisis-era Message under the heading “**New Year’s Resolutions**”.

Reader’s Question: *Dr Schleifer, I think your 10 new year’s resolutions are great. If the construction industry could widely and successfully implement the changes you discussed it would have an incredible effect on the industry. You said you will be discussing the points in upcoming articles so maybe you will get to this, but I have a question about the first goal you listed: “**We will let “low-bid” contracts become an historical curiosity. No reasonable business manager would bind their firm to a contract designed to squeeze every last nickel out of their profit margin.**” How would you advise contractors to practically do this? Bid lists have been steadily growing and creating a buyers’ market the last 3-4 months and it only seems to be getting worse. Accordingly, I foresee 2021 being a buyers’ market and leading to more low bid procurement, not less. Companies are getting desperate to fill backlogs to create some security for their companies so I wonder how there could be widespread abandonment of the low bid method. Owners obviously want it and it seems like they will have all the leverage in 2021. If it were 2018/2019 (sellers’ market filled with more owners wanting projects done than contractors able to do them) it would be easier for me to visualize contractors successfully demanding alternate procurement methods to low bid but given the current circumstances it’s hard for me to visualize. I would love to hear what you think.*

Answer: I like the above reader’s observations and I agree with them. Some background of the topic may be helpful: Alternative delivery methods such as CM, CMAR, DB and various hybrids have been around in the construction industry for a long time but during the early 2000s their use expanded. Many owners and buyers of construction services were on board with alternative delivery methods because they were beginning to realize the pitfalls of the low bid delivery method. Alternative delivery lost ground during the 2009-2012 construction market decline because during a down cycle construction becomes a buyers’ market. The construction market returned to a sellers’ market again during the 2015 to 2019 as market growth stimulated the rebound towards alternative delivery methods again. The current persistent pandemic will drive another buyers’ market and alternative delivery methods will lose ground again but the industry should not give up on reforming delivery methods.

I continue to emphasize alternative delivery methods and recommend against low-bid procurement because in every construction market downturn margins suffer and the construction business failure rate accelerates. My concern is that we do this to ourselves and it is preventable. In a low-bid down market bid lists grow out of control and every project looks like the last job available, so the profit comes out of the work as contractors attempt to maintain their size (annual sales) from a shrinking market, which is mathematically impossible unless half the other contractors agree to shrink their size twice as much. In serious market downturns we often experience aggressive bidding that might be referred to as a “feeding frenzy”. I have been trying for years to convince construction professionals that if the market shrinks 10% or 15% and we contractors also shrink our size 10% or 15%, margins could be supported. I also maintain that doing less work is better than taking work at a loss.

In short, I cannot in good conscious support low bid construction, even during a declining market, even though I know the sentiment falls on deaf ears, particularly among buyers of construction services. However, I will use this reader’s question (without names) in this crisis message and explain this in

greater detail in hopes that some contractors and owners may listen. The message is: when the market declines it is better to cooperate with the market than to fight it because you can't win. That is precisely why I developed the Flexible Overhead process which makes downsizing during the periodic construction market downturns painless. These are not unexpected downturns. Construction market downturns have been occurring regularly since WWII on average every 10 years--some shorter, some longer. Therefore, when they occur they may be a surprise but cannot be considered unexpected.

Send questions/comments to tom@schleifer.com. *To receive the free weekly Crisis Message send your email address to tom@schleifer.com.*

Note: Overhead management, including Flexible Overhead information is found on letstalkbusiness.net click on "Manual", then Managing Overhead in the table of contents.

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