

HOW START UPS AND NEW OWNERS SHOULD SELECT THE BEST TEAM FOR COMMERCIAL CONSTRUCTION PROJECTS, PART 2



We received a lot of great questions and comments from [last week's blog](#). I appreciate all the feedback and would like to expand on last week's topic and hopefully address some of the most common questions asked.

Once the best project delivery method is determined, the next steps are determining the procurement method and contract style. Throughout the article I will lay out a few key pieces of advice, some industry standards, and an explanation of multiple approaches that will greatly reduce the uncertainty in your course of action and assist with getting your business open on time, within budget, and without you pulling your hair out. In Summary: Development Made Simple.

Part 2 – Procurement Method – Choosing the Contractor

This is an industry term for choosing the right criteria for how you evaluate construction bids. There is no single correct procurement method. Different projects require different procurement methods.

While many owners will choose their contractors based on price, there are many other methods to judge your general contractors.

1. The first method, bidding on the lowest price, is called lowest bid procurement. In this method, competing contractors all submit their bid for the same project outlined by the architect. The contractor that bids for the lowest price will secure the project. This procurement method aligns best with the Design-Bid-Build project delivery method because the architect and contractor would be hired separately in this scenario.
2. The second most common procurement method is called two-step bidding. In this procurement method, the project owner decides on and requires technical criteria that bidding contractors have to meet. Out of the contractors who meet these criteria, called qualifying bids, the qualifying bid with the lowest price wins the bid.
3. The next procurement method is called best value source selection. In this procurement method, the project owner decides and requires other criteria for contractors to have besides a low price and technical capabilities. This criteria depends upon the owners preferences. Out of the qualifying bids, the qualified lead with the best value wins the bid.
4. Another industry favorite is negotiated procurement. The owner selects a contractor without competitive bidding. Instead, the owner negotiates with specific prices outlined in each of the contractors' bids and then picks the proposal with the most value.
5. The final procurement method is sole source procurement. This is when an owner chooses a contractor without having them compete with any other contractors. This will usually occur when an owner has a strong relationship with a specific contractor and has worked with them previously.



Type of Contract

Yes, there is more than 1 type of contract for a contractor. There is actually an entire service called Contract Administration dedicated to managing a vendor based on the type of contract that has been executed. In my opinion, this is one of the most important factors to consider during the procurement process. Depending on the type of project, different contract types are more appropriate than others.

Here are some different contract types to look out for:

1. **Cost plus Fee/Cost plus Percentage:** In this contract, the owner agrees to cover the costs of the project, plus an extra amount for the contractor's profit.
2. **Time and Material:** this contract is similar to the cost-plus fee contract in that the price is also made up of the cost of the project, but rather than charging extra as a fee, the extra amount is charged for the contractor's time.
3. **Guaranteed maximum price:** if the contractor proposes a guaranteed maximum price, this means that the cost of a project is guaranteed not to go over the price given to the owner. In the event that the project has additional costs exceeding the guaranteed maximum price the contractor will cover the costs. If the project ends up costing less than the guaranteed maximum price, depending on the contract, the owner may keep the savings or share them with the contractor.
4. **Hard Bid/Fixed Price:** a hard bid/fixed price bid is when the contractor accepts one price for the whole project. For this to occur, the costs must be specific and well defined.
5. **Unit Price:** in this contract, the project costs are calculated by unit prices of materials and services.
6. **Target Price:** in this contract, the owner and contractor come up with a target price for the project to be completed. If the project ends up costing less than the target price, the owner and contractor share the cost savings.

In summary, choosing the right construction team requires ample time and energy but when done correctly, will make the project all the easier. Planning the project correctly, deciding the right project delivery method, procurement method, and contract type will save time, money and headache in the long run, and will result in a Development Made Simple.

Next week I'll walk you through the last step in selecting the best construction team for commercial real estate construction projects. In Part 3 I will show you how to qualify your general contractor and other vendors.