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Strategic Bidding Tactics Can Improve the Bottom Line



Fluctuations in construction pricing can make all the difference in whether a project moves forward. With margins on land development projects shrinking, it pays to understand the inner workings of the site work bidding process. Knowing how material costs and time sensitivity contribute to bid price variability can help get the shovels moving on your project while protecting your bottom line.

Site work material prices in the past few years have fluctuated more than at any other time in recent memory. Shortened supply chains mean less available inventory as material producers strive to be leaner. As a result, prices can rise sharply as inventory is depleted.

Dramatic crude oil price fluctuations have also had substantial impacts on material prices. Construction materials that contain petroleum are directly affected; these products include ductile iron pipe, PVC pipe, and asphalt-based products such as bituminous pavements. Indirect effects also occur. Higher oil prices increase transportation and equipment operation costs, which in turn affect all materials regardless of their petroleum content.

Still other materials, including copper pipe and iron fittings, are subject to commodities pricing. These prices have been rising as the demand for the materials has grown. By following the prices of these products, we can better understand the basis of contractor pricing.

With material costs in a constant state of flux, contractor bid pricing is much more time-sensitive than it used to be. The pricing that many suppliers provide is now good for only 30 days. Additionally, if the lead time for a project is too long, contractors will raise their bids to cover the risk of potential increases in material prices.

There are two keys to offsetting problems with price sensitivity: (1) bidding and awarding projects in a timely fashion and (2) communicating schedule intentions to contractors. Another cost-saving tactic is to allow contractor flexibility in the start and end dates for a project. For example, spring is a great time to bid bituminous paving projects, when those contractors experience a lull waiting for utility work to be completed. Spring bidding allows the contractors a long completion window to keep flexibility high and bid pricing low. Similarly, awarding a project early in the year can help contractors avoid the road weight restrictions that limit site deliveries during the spring months in northern climates, thereby saving on overweight permit fees and costly low-weight loads.

By understanding the variables that affect contractor costs, land developers can reduce project budgets. Smart bidding of site work turns project deal-breakers into deal-makers.

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