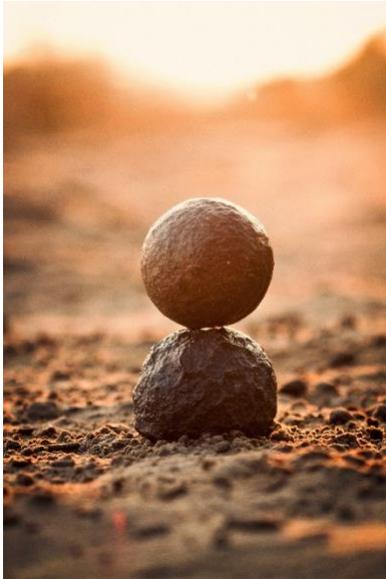


## Setting the Bid Unit Price: 2 Main Reasons for Unbalancing



**Executive summary.** Setting of bid prices on a unit price bid can have significant effects on the financial performance of a project. Set your unit prices in your proposals to have positive impact. Be strategic.

**What do you mean by setting of bid prices?** On bid day when a contractor is getting ready to submit a proposal to a client, the estimator must set the bid prices. Whether a contractor bids the silt fence bid item at \$0.01/LF, \$1/LF, or \$10/LF can be calculated by the software and/or can be manually set by the estimator. Ninety-nine times out of a hundred the estimator will manually review every bid price and, at a minimum, round off the unit price for ease of filling out the bid

form or for ease of use during the pay application time of the month for his/her project manager.

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### Balanced Bid Prices

*A balanced bid price is when each of the bid items shares equally in shared costs and profit. Insurance, field and corporate overhead, and profit are all examples of costs which are spread across bid items, or shared amongst the bid items – if these dollars are not spread in proportion to the value of the bid item, and the estimator adjusts this mathematically proportioned sharing, the bid item is considered unbalanced.*

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But besides this price adjustment for *convenience*, what are the strategic reasons for adjusting bid prices? There are two main reasons: quantity discrepancy and cash flow.

**Reason #1: quantity discrepancy.** It happens all the time. An owner pays more or less quantity of a bid item based on what's encountered in the field. But,

sometimes contractors are able to *predict* what bid items will overrun or underrun based on their quantity takeoff.

Take rock excavation for example. Say there are 100 CY in the bid item for rock excavation and the *fair* price you've determined over your career is \$100/CY (say that \$5/CY of this unit price is profit). But, you have determined that the quantity likely to be encountered is closer to 150 CY, not the 100 CY on the bid form. If the owner is simply going to pay for that additional volume of rock excavation off of your unit price, the additional profit you will make when bidding at the *fair* price of \$100/CY is  $50 \text{ CY} * \$5/\text{CY}$  or \$250. If you knew ahead of time that this was going to overrun and you adjusted your bid price to be \$120/CY, the additional profit on the same overrun quantity would be  $50 \text{ CY} * \$25/\text{CY} = \$1,250$ . [ Note: the \$25 is calculated by the original \$5 of profit in the fair price plus the additional \$20 you added onto the bid price because you knew the bid item would overrun. And, it follows that  $\$5 + \$20 = \$25$  of additional profit. ]

**Reason #2: cash flow.** The three most important things to a contractor are cash, cash, and cash. Of course, contractors say it's safety, but let's be real, I've never heard a banker say "we'll expand your line of credit because your EMR is below 1.00". I digress.



Cash flow is hampered by untimely payments from change orders, slow pay by owners, retention, et cetera. So, the goal is to get as much cash as early as possible to have the owner fund their own project, not the contractor funding the owner's project.

So, this concept of positively effecting cash flow by intelligent setting of bid prices is easy: overbalance the bid prices of items which occur early in the project. If mobilization costs \$100,000, bid it at \$200,000 or the allowable contract maximum. If erosion control costs \$50,000, bid it at \$80,000. These overbalanced prices, however, will result in underbalanced prices later don't forget. That means that bid prices for late items like landscaping, striping, and paving will be bid near cost, or even under cost!



**My story.** I had a client in Hawaii that on every project they awarded me, the last bid item would always be the asphalt paving. And on every project, they would remove that bid item and pave the job later under another contract. So, on bid day when I got the proposal for paving from the subcontractor for, say, \$250,000, I started putting \$200,000 as my bid price. So, yup, you got it – I made \$50,000 the easy way when they deleted the work. This is an

example of taking advantage of a quantity discrepancy – this was the most extreme case wherein they remove all of the quantity!

In case this client ever figures out who they are, they can rest a little more easily knowing that they took some out of me with the dust fence. I always overbalance early items in the project, and dust fence was one of them. I want to say that the balanced price for 2,000 lineal feet of dust fence on another project was \$45/LF. I bid it at \$100/LF to try to improve cash flow since it would be paid on the first pay application. Well, they deleted about half of the dust fence and I got double-whammied – first of all I didn't collect as much money as I had hoped for cash flow purposes, and secondly, I negatively affected the job's profit.

Being a contractor is like being in Las Vegas every day. Seven come eleven!

Work safe!