

# FAREWELL TO Competitive Bidding

Competitive bidding  
wastes time and  
discourages teamwork.  
Here's a better way.

**I** hate competitive bids. I hate them because I have to put in a lot of time and I don't always get the job. Instead of wasting time, I'd rather spend it on almost anything other than estimating a project.

by Paul Eldrenkamp

I also don't do well with competitive bids, because the process focuses everyone's attention on the one area where my company doesn't look so good: initial price. We charge a lot for what we do, and if the focus is on initial price, we're going to be at a real disadvantage.

Bidding isn't all bad, though. I would have missed the chance to work for some gracious clients and talented

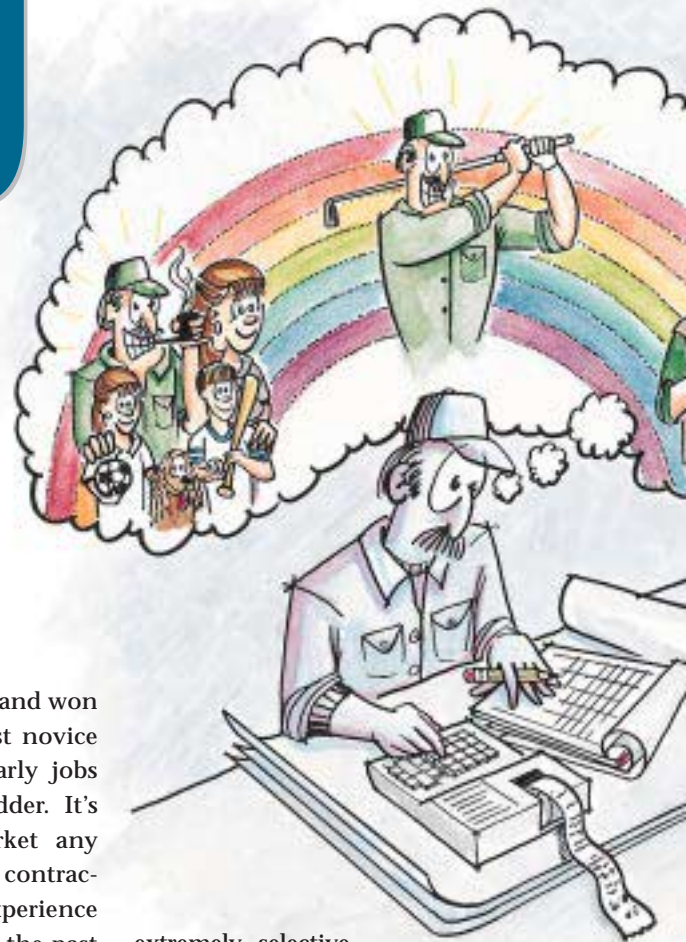
architects had I not submitted and won competitive bids. In fact, most novice contractors get all of their early jobs because they are the low bidder. It's hard to break into the market any other way, and like all novice contractors, I got a lot of work and experience because I was so cheap. But in the past ten years, my priorities, both as a businessman and as a father and husband, have dramatically changed the way I want to spend my time.

So a while back, when the market was strong, I decided to reward myself for all the work I'd put into developing a top-notch crew and an exceptional client base. My reward was to stop bidding, except very selectively. Eventually, all of the lessons I learned from being

extremely selective about where I bid convinced me to stop bidding altogether. This article is about why and how I did it.

## The Rules of Bidding

Over the years, I have deduced the following set of "rules" that clients use to determine the accuracy and fairness of bids. These rules apply to any collection of three or more bids, for any project, at any time:



1. The high bid is always inaccurate and unfair, no matter what.
2. The low bid is always more accurate than the high bid, unless it's lower than the client's budget by a greater margin than the high bid is higher than the client's budget, in which case it's less accurate, but more fair.
3. The accuracy and fairness of any bids in the middle depend on where they fall in relation to the high and low bids and to the client's budget. For instance, if the low bid is right near the client's budget, a middle bid that is close to the high bid and way over the budget is neither accurate nor fair.

However, if a middle bid is much lower than the high bid and very close to the client's budget, then it is both very accurate and very fair.

The fascinating thing about these rules is how they apply absolute meaning to relative data. When a contractor's bid is high compared with one group of competitors, the bid is by definition wrong. But compared with an entirely different set of competitors, the exact same bid becomes, as if by magic, both accurate and fair. Or "more reasonable," in the parlance of clients.

The assumption underlying all of these rules is that the plans and specs are so clear and unambiguous that any randomly selected, reasonably competent contractor will be able to do the job exactly as envisioned. It follows from this assumption as well that any over-budget bids are not due to different interpretations of the plans and specs — which are, after all, perfectly clear — but are the result of the bidder's sloppy estimating, high overhead, and inefficient construction practices.

The fact is, however, that the more

thought and research that goes into a bid, the higher it becomes. When proofreading an estimate, for instance, contractors will more often find omissions they need to add than waste and inefficiency they can safely take out (unless, of course, they really need the job, in which case they can find all sorts of waste and inefficiency to take out). In the grand irony of bidding, then, estimates that are slapdash and carelessly prepared tend to be "more reasonable"; estimates that are thoughtful and carefully researched tend to be "less reasonable."

### Anecdotal Evidence

Everyone has a story about a bid, and here's mine. I once participated in a sealed-bid competition with two other companies for a moderately large residential remodel. When we opened the bids in the client's dining room, I was somewhere around \$180,000 and one other bidder was somewhere around \$165,000. The "winning" bidder had already turned white as a ghost by the time his bid of \$119,000 was opened. I thought he was going to lose his lunch when one of the clients, in an attempt to be helpful, said, "That seems very reasonable."

Although the best possible outcome would have been to win the bid by a just a little bit, I was the happiest contractor in the room because I had received the second best possible outcome, which was to lose by a whopping margin. Next comes losing by a little bit. But the absolute worst outcome was to get the job by a whopping margin.

But is this any way to run a construction company?

### Cost Benefit

Bidding experiences like the one just described might have been enough to convince me eventually to stop participating in bidding competitions. But the real reason I stopped bidding was a moment of revelation I had during a meeting of ten remodeling contractors gathered together for intensive peer review of our businesses. I was standing before this jury of my peers, each of

whom had a copy of my marketing data, reporting confidently that architects were a good source of work for my company, and that I was, therefore, cultivating those relationships diligently.

At one point, a remodeler in the group said something like this: "You got 30 leads from architects, but only 2 jobs. You got about 60 leads from past-client referrals, and 40 jobs. Why are you schmoozing architects and not past clients?" The truth of his insight was as hard to avoid as the blinding light on the road to Damascus: Architects were a great source of bids but a bad source of jobs.

Let me be clear that I have a profound respect for the difference a good design professional can bring to a project. While I have often regretted not bringing an architect into a project, I have never regretted using a good architect to help us through a tricky design or detailing issue. Yet many architects and their clients believe that bidding is essential, that the best way to choose a builder is to dangle a project in front of three or four of them and see who wants it most desperately. Although the bid process does not eliminate the possibility of good teamwork, it does nothing at all to cultivate or encourage good teamwork. On the other hand, the alternative — a good architect and a good builder working together with a client from the beginning toward a common goal — can make an unbeatable team.

Try telling this to a client: "I'm looking at four jobs right now for that time slot. They're all good jobs, so I'll be picking the one that will make me the most money." How interested will that client be in you or your services? But we builders are supposed to be interested and committed when a client says: "I'm talking to four builders. They're all good companies, so I'll hire the one who gives me the best price."

While more and more clients are aware that they can't just hire the low bidder, few do much research about which contractors to ask for proposals. Who can blame them, when we contractors play along? A free proposal is like an ante in poker: It's the minimum



required to get into the game.

Contractors tell me, "If I stop bidding, I won't have any work." This fear sure weighed heavily on me, and long postponed my decision to stop bidding. But consider how much work comes your way without your having to bid for it. Sure, you may not get "the big jobs" that way, but the big jobs are often better for the ego than the bottom line. I'll bet your most profitable jobs were negotiated, not bid.

### Sales Fright

I don't like being a salesperson — I don't even like the word. I want people to hire me because I'm a nice, honest guy and because I do good work. If I try to talk people into hiring me and fail, that's a real blow to my self-esteem. In this sense, bidding is completely safe. If I get the job, it means I offered a good price because I'm fair and fast; if I don't get hired, it's not because I don't do good work and am not a nice guy — it's because some back-of-the-pickup, low-bid bubba undercut me by a few thousand dollars. There's no way an honest, quality builder like me can compete against *that*.

I think competitive bidding means we don't have to be good salespeople — in fact, we don't even have to call ourselves salespeople. I hear so often from contractors (including myself): "I like meeting people; it's one of the best parts of my job. But I hate sales, and I hate estimating even more."

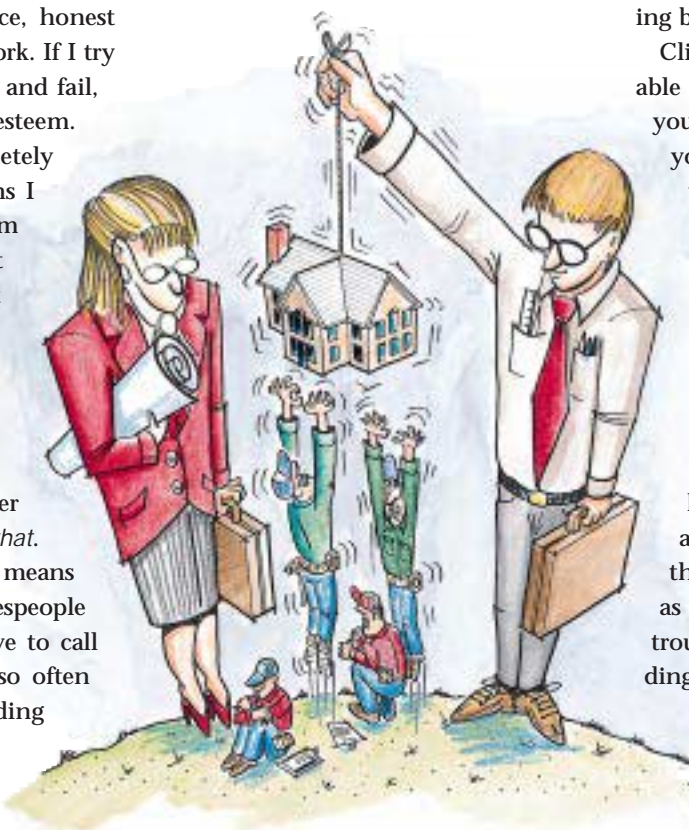
There's a connection between those statements. It's true that we like to meet new people; we like to be invited into someone's living room to talk about a project and to be listened to as an expert. We usually establish a strong rapport and often go away thinking, "I'm the one they want to hire." But after we do the estimate and realize how much the thing is going to cost, we start thinking: "Boy, they're not going to like me quite so much after they see this price."

At that point, we have two choices:

We can stick the proposal through the mail slot and run away, as if we've just egged their house, or we can try to sell the job.

### Sell It — Don't Bid it

Choosing not to bid means choosing to develop your sales skills. This may require sophisticated training and penetrating self-appraisal — it's not for the faint of heart. I have benefited tremendously by working with Fred Huyghue of the SSIM Group (617/237-6900), who has taught me more clearly than anyone (other than my clients) that



integrity, openness, and a commitment to service need to anchor any serious, sustainable sales effort. I have also realized that a salesperson has the most credibility with prospective clients when telling them something they don't want to hear. A contractor is supposed to slip on his own drool at the opportunity to bid a big project. If you tell the prospect you won't do that, you will, ironically, have more credibility — and more of the prospect's attention — than the four or five other contractors who are panting into the phone.

### Apples to Apples?

In remodeling, as a builder friend once told me, "We're building the prototype and the finished product all at the same time." There's no such thing as an "apples to apples" comparison of bids when you're offering such a unique combination of services and highly customized products. Services are notoriously hard to sell because their value is not understood until after the services have been delivered. So whenever a prospective client uses the phrase "apples to apples" in an initial conversation, I make sure I explore at length just what they mean by that. Or I start walking backwards out the door.

Clients are mostly good, fair, reasonable people. If you explain to them that you play by different rules, and that you do it in the interests of better service, you will have their attention. They will not run away scared or laugh in your face. If they do, they are probably not qualified prospects anyway.

### Value, Not Price

How you get work depends on how you are perceived in the marketplace. Do people come to you for a bid, or do they come to you to do the work? If you're perceived mostly as a bidder, then yes, you may have trouble getting work if you stop bidding. But it's not preordained that a builder has to be seen exclusively, or even predominantly, as a bidder. If you want to get out of the bid arena, you need to make sure your marketing maximizes the number of leads that come your way that are to do the work rather than to do a bid.

How? In my case, I used the insight of that builder friend I mentioned earlier and started marketing to past clients. I stopped spending money on Yellow Pages ads, newsletters, and door-hangers, and put it into free, unsolicited warranty work for my past clients (see "Follow-Up Visits Win Referrals," 3/93).

Of course, you still have to change the way you respond to inquiries. When a prospective client calls to ask you for a



bid, tell them, "I'm sorry, but my company policy is not to provide bids." They will either hang up on you (although that has not yet happened to me), or they will ask you to explain how you do business. This second result, if handled well, gives you a wide-open opportunity to shift the client's focus from "Who's giving me the best price?" to "What are my needs and which contractor is best equipped to meet them?" Now you have a chance to discover early on — usually within an hour or two of conversation — if there's going to be a good fit between you and the prospective client. If there isn't, you can part company amicably, having lost little and gained time for other activities or more promising clients.

If there is a good fit, you can talk some more. If nothing gets in the way of a win-win agreement, then the job is yours as long as you continue to identify and satisfy the client's needs, and they reciprocate with a commensurate financial commitment. Make no mistake, however: Clients who work with me exclusively don't often get the "best price," but they always get the best value we can ever offer. They benefit from our full attention throughout the process. Competitive bidding discourages such relationships because of the uncertainty of the outcome. I remember a John Wayne movie from years ago in which a kid eagerly asks John Wayne what his horse's name is. In his gruffest voice, Wayne responds: "You don't name something you might have to eat one day." I haven't worked this analogy out to the point of knowing who the horse is — the client or the contractor — but the moral is the same regardless: It's hard to make a commitment when there's no guaranteed relationship.

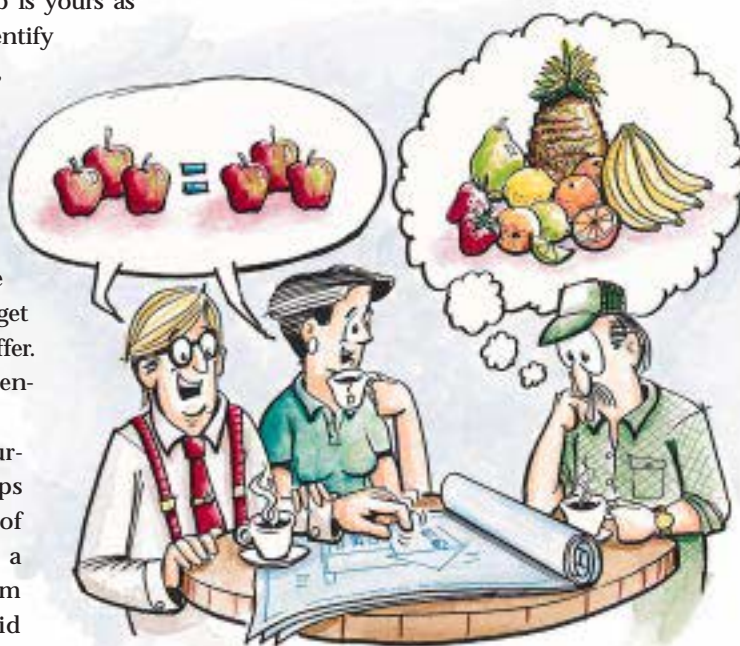
### What Refusing to Bid Does Not Mean

Refusing to bid doesn't mean you get a free ride. Here's a list of consequences that will not occur:

**You cannot charge whatever you want.** In fact, you will have to be even more focused on value than before. You may also have to be a lot more open about where the money goes, but your clients will be more comfortable with what they pay for your services.

**The sales cycle will not be shorter.** To the contrary, you will spend more time at each step of the process for each lead you choose to pursue. But you will be spreading this effort over many fewer prospects, so the net effect will be a time savings.

**Clients can still talk to other contractors.** Instead of discouraging clients from interviewing a number of contractors, you should encourage them to focus on the relationship until they find a good fit. If your



goal is outstanding client service, you have to understand that you cannot possibly be the best choice for every client. Be prepared, as part of your service, to offer referrals to other contractors who might be a better match.

**You are not guaranteed to get the job.** The job, however, will be yours to lose. If you don't get the work, it's probably because you failed to ask enough leading questions, or you mishandled the process to the point of losing the client's trust. Occasionally, you'll lose a job because a client takes

advantage of you. Usually, the warning signals will have been there from very early on and you will have chosen to ignore them.

### Time Well Spent

The time I used to spend on putting together a bid was of service to the client only if I got the job. So 80% of the time, my effort benefited absolutely no one. The exceptions were cases when, in the course of putting together my losing bid, I offered new ideas about how to approach a problem or raised warnings about troubling products or details in the plans or specs. But this sort of free consulting was not a very good strategy for making a living from my knowledge and expertise in a demanding field.

Since I've stopped bidding, the time I devote to turning a lead into a contract is spent exclusively on activities that will be of real service to the client. I identify the client's needs and budget, and devise a plan that enables those two sometimes conflicting priorities to converge gracefully. I am able to profit by managing the process to everyone's benefit. Alternatively, I spend time determining that I am not a good choice for the project. This process also benefits the client by saving them time and by helping them think about what would constitute a good fit.

With a no-bid policy, I get a lot of work with very little traditional marketing. I don't need many leads, just enough really good leads. I don't waste resources bringing in four or five times as many prospects than I need to meet my revenue and gross profit goals. Most important, I can focus my marketing efforts on serving past clients, who are without exception the single biggest and best source of any good contractor's leads.



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