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Pursuit of value and quality favors Guaranteed Maximum Price (GMP) contracts

January 26, 2012 - Spotlights

The economy of the last few years has limited the number of project opportunities for contractors and this is unlikely to improve dramatically in 2012. One by-product of the highly competitive construction landscape is increasing demand for lump sum bids. It's easy to see why owners and developers might believe that hungry contractors with the sharpest pencils will yielded the lowest prices and give them the best deal. However, there are a number of inherent risks with the lump sum delivery that affect the final cost, quality, schedule, and the team chemistry. Real value is often only realized through a construction manager (CM) with a Guaranteed Maximum Price (GMP') contract that weighs quality, expertise and team as much as cost.

There are projects where lump sum contracts are a fine choice. These are straight-forward projects with little complexity, fully scoped plans and drawings, and schedules that are easily achieved. Lump sum works well when accurate as-built drawings are available and no surprises are anticipated.

A lump sum contract has the potential to set up an adversarial working relationship among the owner, the architect, and the contractor that discourages teamwork and problem solving. There is significant pressure on the design team to rush completion of 100% CDs knowing that one major omission could jeopardize the project budget. The low-bid contractor, forced to include the slimmest of fees in its bid, begins to seek overlooked items that translate into change orders as a means of improving the project's profitability and sees no incentive to proactively flag issues before they require costly solutions.

The need to hire the lowest cost subcontractors - rather than the most qualified ones - supersedes the team's vision of quality. In a lump sum bid, the contractor is often pressured to assume the numbers of unknown (and often unqualified) subcontractors in order to secure the lowest bid. A financially unstable and/or nor-performing subcontractor can have a negative impact on a project's quality standards and final schedule as well as its overall success.

With lump sum, the project does not benefit from valuable contractor input on the project's cost, schedule, logistics, and constructability during the preconstruction period. When you engage a construction manager in the early stages of project planning, you receive all the benefits of that firm's experience and knowledge to avoid pitfalls that might add costs and time down the road.

One of the values of being involved early in the project is the CM's ability to perform a risk analysis during preconstruction to identify problem areas in the design, specifications, and site and then to develop a mitigation plan. Most often, issues arise where dissimilar materials come together in a building - areas like a window system with air and vapor barriers abutting window frames and wall components. The CM, architect, and owner would construct system mock-ups of these areas and fully test them to gain insight into potential problems. This testing and team collaboration is something that just is not done in a lump sum scenario.

In a CM at Risk contract, the contractor negotiates a realistic GMP budget that can be achieved and is held to its proposed fee and general conditions. The CM, even when the contract specifies that all savings go to the owner, has the possibility of a repeat working relationship as the incentive to produce the best possible outcome - an incentive that just doesn't exist in "one-off" lump sum projects.

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