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Why Lowballing Your Construction Bidding Is Holding You Back

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In construction bidding, the long-standing practice of low bidding, aka lowballing, has become ingrained in the industry's culture. Many owners have come to expect it, awarding the lowest bidder with the coveted contract. Contractors have also become accustomed to this, continuing to use the practice to secure bids. Put simply, it's "just the way things are done."

But perpetuating the lowball mentality and expectations that underpin this practice doesn't actually benefit any party involved in the contract.

For one thing, the lowest bid isn't a guarantee of quality, safety, workmanship, cost containment and adherence to the project schedule. This does not benefit the project owner.

As a contractor, taking an extra sharp pencil to your construction bid can cost a lot more than just slimmer profit margins. And you may have found yourself bearing the brunt — financial and otherwise — of the high-stakes effects.

When you look at lowballing honestly, it's likely holding your business back. Let's take a look at some of the main reasons for this, and what you can do to improve your bidding process so that you can still win but win with a greater measure of reality and transparency — for you and your project owner.

You're Caught Between A Financial Rock And A Hard Place

Low bids may win the job now but can seriously hamper you down the road. When you bid too low, you may not have enough money set aside for unforeseen expenses like change orders, coordination with other trades, or even creating a contingency fund for unexpected expenses — which are all likely to come up on any project. This will eat into your profits significantly later down the road.

And the potential range of risks — from mistakes in installation or construction, to unanticipated increases, to supplier pricing for materials, to no contingency plans in place due to unaccounted-for risks — can contribute to dire financial consequences. Because even if you willingly shoulder the weight of these and other risks, you essentially leave no room for error if there are unforeseen problems during the project.

Consequently, you might find yourself having to pivot unexpectedly to complete a project on time, within budget, or both. You could wind up having to cut corners with less-expensive materials that may not have the desired durability. Or to make up for incurred costs, you may feel compelled to submit change orders to make up lost revenue.

A Tight Cash Flow Can Whittle Down Investment In Your Company's Growth

It's rather ironic that lowballing bids is seen as competitive, because the ramifications can actually compromise competitiveness by diverting money away from reinvestment in your own company.

There are several growth-oriented investments you don't want to skimp on that can have a noticeable and measurable positive impact. For example, allocating resources for marketing is necessary to keep your name out there, build credibility, and effectively reach potential clients. Without adequate marketing, you risk missing out on bidding for potentially lucrative capital projects. Investing in training for safety protocols and equipment usage empowers workers to perform their jobs safely without incurring task delays, damage repair costs, and possible workers compensation claims. And technology spending, to which a growing number of construction businesses are allocating more of their financial resources, can dramatically improve productivity, safety, and time efficiency. Demonstrating adoption of software and advanced field technologies to owners can even be a swing factor in winning more bids.

Too Many Costly Change Orders Can Diminish Owner Confidence

Quality and performance are an investment, but they're not necessarily seen that way when construction bidding gets underway. This can start the owner-contractor relationship off on the wrong foot. Unfortunately, owners may not always have a solid understanding of how a project should be completed or what it costs to complete it. It then falls to contractors to surface this and explain the factors that go into what is really necessary to complete a project that meets the owner's requirements. But there's likely hesitancy to do so if a contractor feels it will cost them the contract. And so continues the lowballing cycle that can lead to costly change orders, which can reflect on the contractor.

Your General Business Reputation May Suffer

That reflection can result in a hit to your reputation that can be felt by the owner, subcontractors, and vendors in the supply chain. And this can have some serious ramifications that you don't anticipate as well. It may give the impression your company lacks experience in a type of capital project you're bidding on, or that you don't prioritize investments in technology or safety. You could lose out on future work from potential clients because they may assume that you'll cut corners to ensure their satisfaction at any cost (no matter how unfair that might seem).

Overcoming Lowball Construction Bidding With Transparency

Construction has been perceived more as a commoditized resource in past years rather than an investment in the value of what construction brings to a build: experience, quality workmanship, expertise, and safety. So it will take a bit of a perception and paradigm shift to change things, and that shift will have to be based on transparency.

That means it will fall to contractors to show their expertise in knowing what it takes to build a structure — the time, general costs, labor, risks to account for, etc. It also means not playing those bids so close to the vest, and also letting go of the assumption that sharing line item costs and profit margins will create an uncomfortable scenario in which the owner negotiates bringing the total cost down.

Thankfully, the tide is starting to turn in favor of a transparency-based construction bidding approach. Given the long history of bids and estimates being so far off the mark, owners are beginning to look less for the smallest number and more for accuracy and visibility into the real numbers — what the true costs of labor, materials, and equipment are, how long the project will really take, and what the potential risks are.

Supporting this shift is software technology that lends the kind of transparency and realism all parties can benefit from. It can do this by helping you leverage historical data from similar prior projects that serve as verifiable proof to owners of what their projects will actually entail.

The end result goes beyond just a more accurate bid. It fosters your own confidence and the owner's confidence that you can manage and complete their project according to their requirements.

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