

How does client advocacy create value?

The concept of bidding a construction project on the basis of a Stipulated Sum Contract has been the “gold standard” for the last century. It evolved and became the basis of American contract law back when general contractors employed tradesmen, either directly or through contracts with trade union locals. Many general contractors created advantages for themselves by specializing and developing efficient methodologies that allowed them to make an adequate profit on competitive pricing.

To some extent, this specialization and the relentless pressure of minimizing exposure to liability by “contracting it away” led to our current industry organization where many general contractors are primarily managers and brokers. Often, most of the trade work on any project is done by subcontractors. This leads to multiple markups for overhead, insurance, profits and so on.

Now how does the competitive process work? Largely by collecting the most competitive group of trade contractors, and by making a competitive judgment as to what level of overhead and profit the general contractor is willing to take to organize and manage the construction process. Because a Stipulated Sum Contract has some financial risk (and operational risk), general contractors need to make enough profit to cover the project contingencies, and to also cover the cost of assembling bids that they do not win. Even so, not every project is profitable, which means that any savings discovered during the construction have to be applied to past or future losses. It is not an environment for the faint-hearted and general contractors become experts at being opportunists in the field. Even the very best (and

there are many very good general contractors) have a difficult time aligning their interests with those of building Owners because they have to maximize profits to stay in business.

So what if a firm approached construction differently. What if the contractor was paid a fee (usually fixed) to compensate for their professional services in buying out a project and then managing the construction process. This fee does not have to cover bidding risks or past and future losses. There would be no mark-ups and all energy during the project would focus on strategies for creating the best possible value for the client.

Note that value is never achieved by “beating up” trade contractors. A wise old general contractor once counseled me that “you never beat someone at their own game.” A reputation for fairness will always yield the most competitive bids from the trade contractors that will actually do the work and will create a project culture where they are willing to come forward and offer suggestions that result in better value.

At the same time that there is no conflict of interest between contractor and Owner. There is also a clear understanding on the construction site that contractor’s job is to be a fair advocate for the interests of the Owner. No one is surprised with the attitude of “do it right the first time”.

When all of the conflicts of interest are removed from the process, it is surprisingly easy to focus on accomplishing construction in a way that is profitable for the trades and creates value for the Owner. It really is a great way to work and it produces amazing projects.

[For more information please see “The Guild Master” white paper.](#)

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