

## Beware of the Low Bid

Why does remodeling seem to cost so much? Why are some bids so high?

One of the most important reasons a 30-40% gross profit is necessary is that a remodeling business is actually a retail service business that requires a tremendous amount of customer communication and coordination. New homebuilders, who really are contractors and not retailers, can often work with a 20%-25 gross profit and still make money. If they control their lots, they are making markup on the land also.

**“...the bitter flavor of poor work last long after the sweet taste of a low price...”**

*- Construction proverb*

Commercial contractors and national builders, who have dedicated purchasing agents and the advantage of leverage or scale, can produce a net profit with a 10% - 15% gross profit. But the remodeling business is very different from new home or commercial contracting, and failure to recognize this is usually why some bids are so low, while a bidder who is aware of all his cost and business economics has a higher but fair proposal.

Which one will be more focused on **your** project at your house?

Here are 10 other reasons to be cautious of a low bid:

1. Did all contractors bid off the same scaled blueprint. If not, did they include a drawing with their proposal? Was it bid by word of mouth at separate meetings?
2. Swag Bids. Are quantities (actual number - 80 sq. ft) listed for all or most trades or is it lump sum? Remember, SWAG stands for **Scientific Wild-\_\_\_ Guess.**
3. Add more later. Does it spell out what isn't included? Will they try to come back and get more for things they 'honestly missed' or 'misunderstood'? Will the low bid end up costing more?
4. Insurance. If there's an injury on your site, is the contractor covered? If not, it could be on you homeowners policy.
5. Licensed. Can they legally work in your state and municipality?
6. Will they be around? Do they warranty their work?
7. Can they be done in a timely fashion? Nights and weekends can get old.
8. Do they include, cleaning, silt fence, re-seeding/sodding and other collateral damage repairs?
9. Did they miss anything, especially hidden things like foundation waterproofing or compliance with energy codes that require sealed penetrations?
10. Do they know the spec and have they listed it?