

Holding prices

How some contractors maintain the bottom line.

By Brian T. Sutton

Paul Chuma Jr., president of Meridian Design Build LLC, says he's seen more movement in the past few years on the prices of construction materials than in the past 15 years.

Specifically, across the Midwest, in the past 18 to 24 months, most of the increases have been in steel products, concrete, roofing insulation and foam products. Often petroleum is a direct contributor whether it is used as a part of the manufacturing of the product or in the cost of shipping an item.

The volatility means that a contractor could bid a mirror image building to one completed in the last few years and know they cannot quote the same prices.

"It is very competitive right now and many contractors are vying for the same projects," Chuma says. "Not only are prices volatile, there are more contractors bidding."

Howard Green, an executive with Deerfield, Illinois-based Meridian, says that it's a process to stay on top of pricing.

"I know there have been numerous instances where we can come back 60 days after bidding the job there will be increases," he says. "We have some developers award a project again since it didn't play out as quoted."

Tim Glenn, manager of estimating for Graycor Inc., says getting involved in the preconstruction effort helps hold prices. Also, working with a number of subcontractors is also helpful. Sometimes you never know if one subcontractor is quoting a higher price for some reason. Getting bids from multiple sources can sometimes help determine true market rate and lock in the most favorable price.

Kwame Thompson, executive vice president and general counsel for the St. Louis-based Kwame Building Group and Kwame Constructors, says one way to guarantee prices is by an ironclad contract.

"For long-lead times we rely on our in-house engineers and estimators and search for the best price. Then we lock that in."

Another way to handle it is to change materials, Thompson says. In one project, switching from steel to wood saved millions. In another case, on the East Terminal project at Lambert, a unique curtain wall was bid to upwards of \$7 million because there was only one manufacture of the type chosen. Thompson says his team found alternative materials to that and saved \$5 million.

Greg Harrelson, chief estimator with Kansas City, Missouri-based Walton Construction Co., says that while there is volatility, pricing changes shouldn't come as a shock to anyone.

"It seems in our industry we do get ample warning," he says. "It's a given that with materials there will be volatility. Certainly there is much more today than in the past, but we seem to be able to react in time. It comes down to management."

Prices are different in each market often. Walton has projects in the Midwest and in the South. Harrelson says you have to price materials project to project.

"You're an idiot to price steel at yesterday's prices. We didn't used to have to do it that way. You used to be able to price at six-month old prices or even long and they would hold for a year. That certainly has changed."

Harrelson says that if they run into a developer who is starting a new project an hasn't done one in two or three years, they are in for a wakeup call. But for those active developers, they know prices have increased and what is causing it. They also know multiple bids serve them well.

Some contractors will buy and hold materials in warehouses. Others compare that to gambling and put it on subcontractors to buy and hold materials at a price today to avoid perceived increases.

However, every contractor knows someone who was burned by storing materials.

For those working with union labor, employee costs are set by contract and there's enough warning of a change. Also, for those using union labor, there's no worry that there will be a labor shortage when Gulf Coast rebuilding from hurricane damage commences.

Chuma says the bottom line of watching the bottom line is careful management, having multiple subcontractors to turn to and strong relationships to keep up with price changes.

"From a service standpoint, we try to identify what all the deadlines are and if an award needs to be made we don't keep deadlines a secret. It all comes down to careful management, relationships and communication."