

The Difference between the Right Price and Low Price

By Jesse Morado, CR, CAPS

I recently advised a homeowner on a remodeling project and recommended that she not hire the lowest priced contractor because the contractors cost breakdown and timeline to complete the project appeared to be unrealistic. She had four bids, one low, two that were relatively close in price, and one that was higher than all the rest. She stated "I am confident that I can manage this contractor to perform to the *right price* presented and get him to complete on time." She elected to move forward with the *low priced* contractor contrary to my advice. Eight weeks later I received a call from this owner in tears. She was terribly upset that her project was only 30% complete and had exceeded the scheduled completion date. She was also in trouble with her boss for taking so much time off of work to focus on her project. She told me that her contractor was a nice guy and listened to her concerns but just never executed or did what he said he would do. She was at the end of her rope and decided to terminate the contractor and begin searching for a new one for the project. She confused "right price" with "low price."

Today's economy has really brought low price top of mind. Many of us today are much more sensitive to what things cost and are looking for discounts or mark downs where we can. Our buying behavior has changed and we are making more sacrifices to keep our financial house in order. This is great and I am all for saving money today but we also must be aware of risks that come with accepting the lowest price. This is highly important when it comes to home improvement projects. Contractors today are being asked to cut margins, discount materials, and shave labor costs to get the project down to a number the owner wants to spend. Owners today are talking to five, six and, yes, even eight contractors (2 to 5 more than you really need) looking for the best price. In getting this low price do they know what the contractor has given up or failed to include for the sake of landing the sale? Will they be comfortable giving up quality due to the contractor hiring unskilled labor, performing substandard construction applications, and installing used or second hand materials? Do they still expect the contractor to be on site every day to keep their project moving, clean up, protect their home, and be responsive to questions or concerns?

Who is discounting the contractor's rent, phone charges, truck payments, gas, insurance, license fees, utilities, etc.? Cutting margins puts the contractor's business at risk which in turn puts the project at risk. When a project is abandoned, compromised in quality, messy and unsafe, under-staffed and lags on forever the contractor will only bear the bad press for the customer's negative experience. The decision to hire the lowest priced contractor by the owner who chose to accept the "lowest price" and the contractor who compromised his pricing model for the sake of landing the job have been forgotten at this point of the project. The focus now is how they are both going to settle their differences. Unfortunately, no one wins in this scenario.

A good solution is to select a contractor who can meet your customer service expectations and quality standards and then to discuss how you can work together to value engineer the project to meet the budget you have in mind. Discuss material and product options for your project to determine where you may be able to save. Look at efficient space saving design approaches to manage square footage and labor intensive details. Also consider providing some sweat equity for tasks like demo, site protection, and even clean up to keep your project costs down. Working with a reputable contractor who can assist you in achieving your goals, meeting your timeline and producing the project for an agreed to budget is a much better approach. Be careful today and don't become a victim of the low price, make sure you have a contractor who can deliver for the right price.

Happy Remodeling.

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