

THE FALLACY OF “COMPETITIVE BUDGETING”

Using a competitive budgeting process at the preliminary design phase can be an ineffective and even *dangerous method* of selecting a contractor.

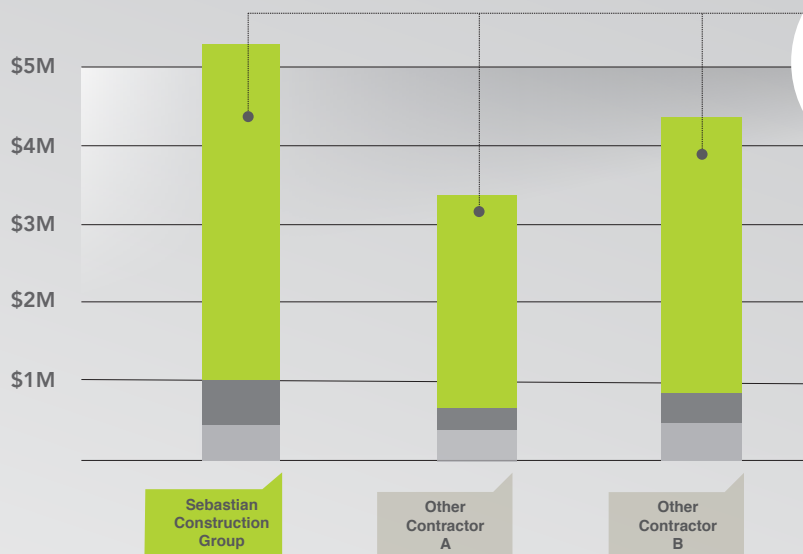
The budgeting process will always result in a wide range of estimated hard construction costs by the contractors, because each firm uses interpretation and guesswork at this early stage.

But that creates a problem - the client wants to believe the lowest preliminary guesstimate and often selects a contractor based on what they perceive to be the same house at a lower cost point.

In reality, the lower cost point represents assumptions of lower quality, craftsmanship or detail. Once the information and drawings for the project are complete, *the hard costs for all contractors will be within the same 3% to 5% range.*

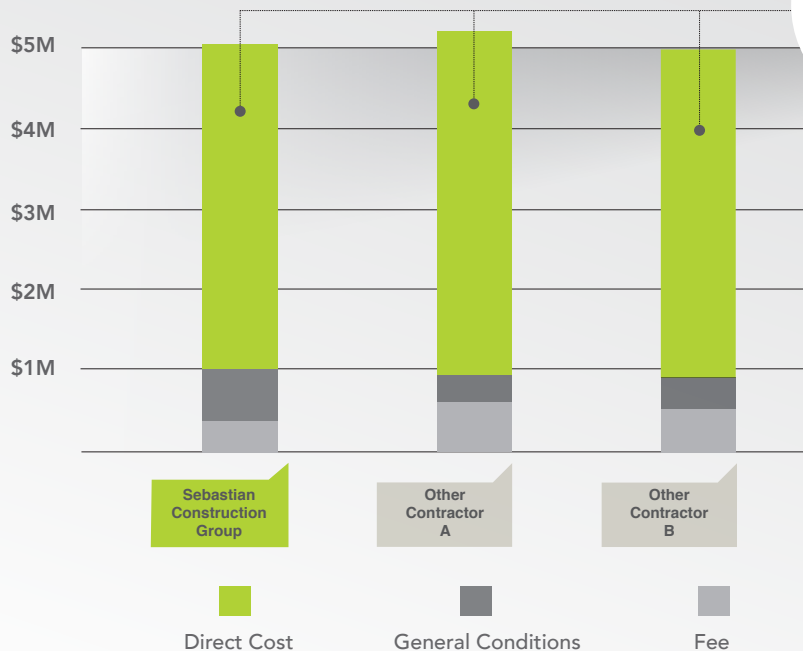
The bottom line is that the contractor should be selected based on fee, general conditions, and qualifications for the project, as the hard construction costs will be nearly the same once the design is complete.

Budgets at Schematic Design Phase



Budgets at early design can vary widely - commonly +/- 40%

Budgets at 100% Complete Design



Budgets when design is complete will generally vary by 3-5%

Direct Cost

General Conditions

Fee