



GEM STATE HOME GROUP

111 North 7<sup>th</sup> Street #868

Coeur, d'Alene, ID 83814

## **CONSTRUCTION MANAGEMENT MODEL VERSUS TRADITIONAL GENERAL CONTRACTING**

At Gem State Home Group, we employ Best Practices by entering into Construction Management contracts with our clients as opposed to traditional General Contractor agreements. Construction Management has many advantages over straight General Contractor methods in Residential Construction or in hiring a separate Project Manager. Construction Management is a progressive, more convenient method of construction project administration that leaves the Owner with only one direct contact team and with total control over cost and decision-making. In the end this is more efficient, ensures accurate budgets and timelines, and leads to lower costs. The Owner benefits from savings and efficiencies, not the General or Sub-contractors.

Here are some key points that support this relationship:

### **1. Construction Management contracts better serve to align the Contractors objectives with those of the Owner.**

The primary difference between negotiated and hard bid contracts has to do with the incentive for performance. A General Contractor "lump sum" contract uses 100% completed drawings to establish a set price for the construction of a project and the General Contractor is rewarded to the extent that the project costs are less than the bid price. As a result, it becomes the objective of the General Contractor to construct the Owners home at the least cost possible. The problem is, as the General Contractor determines ways in which to reduce cost, the Owner receives no additional benefit. The objectives of the Owner and the General Contractor are at odds from the beginning.

Alternatively, in a Construction Management contract the fee is established as a fixed amount. Beyond the fee, everything else is a "cost of work", providing no other opportunities to the Construction Manager for additional profit or income. As a result, the Construction Manager and the Owner share a common objective to get the best price, from the right contractor or supplier, for the cost of the work. In this fashion, the Owner, Architects, Designers, and Construction Manager work together to ensure the project's success. The animosity inherent in the General Contractor approach is avoided under the Construction Management approach. It becomes the duty of the Construction Manager to protect the Owner's interests with subcontractors and suppliers throughout the construction process.



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**2. Negotiated Contracts allow a Construction Manager to be “On-Board” early and participate in the pre-construction process.**

There have been many studies done about the design process throughout the years, and they all continue to arrive at a similar conclusion. That conclusion is that the decisions made at the early stages of the design and planning process have the most impact on the success of the project. This is not only true with respect to satisfying the projects needs, but also in terms of establishing a project's budget and schedule as well. Given this understanding, the role of the Construction Manager as part of the pre-construction/design phase cannot be overemphasized.

During the pre-construction phase, an Owner can expect the Construction Manager to provide information, both data and recommendations, which will enable the Owner to make the best design decisions possible. The Construction Manager ensures that all design direction are feasible and within budget and can also recommend alternative designs that would be less expensive to build. As importantly, the Owner is insulated from being presented tempting design concepts that ultimately cannot be permitted or are outside of the budget constraints. Having the Construction Manager in place during the design process also allow the budget to be developed concurrent with the design and therefore saves valuable time in the process.

The Owner can rely on the Construction Manager to provide input about the project with respect to:

- Estimates of the cost of construction
- Estimates of comparative costs for different systems (i.e. structural frames, HVAC, roofing, etc.)
- Alternatives to materials, systems, and design approach
- Schedules for design, sourcing and construction
- Develop value engineering alternatives to design
- Estimates of permitting times and requirements
- Recommendations for material and equipment selections
- Price checks on the entire process from design to completion to ensure it stays within the budget
- Recommendations for subcontractors and the bidding process



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There are, of course, a variety of other issues in which the Construction Manager will focus on during the design and pre-construction phase as well, but those listed are necessary to the Owner's and Designer's decision making process. With both accurate and timely input from the Construction Manager, the Owner is best positioned to make good decisions and therefore is able to maximize the use of his/her construction dollar.

Another important role throughout the design and pre-construction phase for the Construction Manager is the role of the design reviewer. As such, the Construction Manager troubleshoots the design to prevent change orders and redesign. By reviewing the design, the Construction Manager can also advise on subtle changes that drastically affect the ability of the project to be constructed.

**3. Construction Management Contracts allow for flexibility in defining and changing the project scope.**

Construction Management contracts, unlike any other type of delivery method, are exceptionally good at providing a means to allow flexibility for an Owner during the development of the project. Because Construction Management contracts align the objectives of the Construction Manager with those of the Owner, they in fact create the resources necessary to respond to an Owner's needs throughout the process. The collateral costs and challenges faced with Owner directed changes during both the design and construction process can be met with contract-defined processes to manage the changes. Because changes do not provide a means for the Construction Manager to enhance his fee, they can be dealt with in an open book fashion jointly with the Owner and Construction Manager.

**4. Construction Management Contracts provide an owner access to all of the project costs.**

One of the primary by-products of a Construction Management contract is the Owner's access to actual costs. With a hard bid project, the General Contractor bills for an estimated percentage of completion for scheduled values of work. Therefore, the Owner is left to judge whether the scheduled value of work as well as the estimated percentage of completion is accurate. As a result, the Owner pays for work that may or may not be completed at that time. With a Construction Management contract, an Owner only pays for costs that are actually incurred. The burden is on the Construction Manager to provide the back-up to substantiate costs and to the extent that backup cannot be provided; the Owner is not required to pay.



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**5. Construction Manager allows for flexibility in the bidding process.**

The Construction Management delivery method allows an Owner and Construction Manager to design a bidding process specific to the needs of the project. For example, if a project has a short construction duration, but the construction schedule is constrained by the site work, the Construction Manager can design an early bid package to competitively bid just the site work, while the rest of the design is being completed.

Another tangible benefit to the Construction Manager's involvement in the bidding process is the ability to pre-qualify a select list of subcontractors and suppliers. In doing so, the Owner can be assured that each bidder will have the capacity and resources necessary to complete the work to the satisfaction of both the Construction Manager and the Owner.

**6. The selection of a Construction Manager focuses on qualifications.**

An Owner not only wants the lowest cost, but an assurance that they will get the best quality for the money and a timely delivery. The General Contractor approach really only considers lowest costs when selecting a Subcontractor. The other, more qualitative variables tend to be overshadowed as though they are equivalent for each candidate.

The Construction Management process on the other hand, recognizes 90% of the job costs will be competitively bid among subcontractors and suppliers, and given that assurance; the important criteria to be evaluated when selecting a Construction Manager are mostly qualitative.

Therefore, the Construction Management approach focuses on characteristics such as:

- Company Experience
- Company Resources
- Pre-construction Performance
- Approach to Owners and Architect's/Designer's
- Experience of the Project Team
- Track record for delivering similar projects



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Obviously, this list is abbreviated, but the point is that the Construction Management contract seeks to develop a “team” of professionals skilled in developing your project and as such, recognizes the importance of qualifications to ensuring success.

Our principals has over 50 years of business, management, design and construction experience. In addition to our experience and know-how we bring a state-of-the-art, client-friendly, construction management and communication software program that allows the entire project to be managed in one location. All decisions are suggested and approved through this system and the budget and construction timeline are constantly updated in real time. This has proven to be a win-win for everyone throughout the entire design and build process.

**7. Construction Management Contracts result in fewer change orders to the contract.**

Recognizing that the Construction Manager has participated throughout the design phases of the pre-construction process, it is reasonable to assume that the Construction Manager should have a broader perspective of the potential issues that may arise during construction and which may ultimately require changes to the work. As a result, the Construction Manger will be better prepared to address modifications that may arise like unknown conditions or the clients/architects requests to make changes to the scope of the project.

Minimal changes are directly related to the ability to establish a budget on a Construction Management project and manage those changes that invariably occur on every construction job. Although often unwanted, it is prudent for an Owner to recognize that many of the changes are inevitable and is a result from factors outside of the architect's practice. The design and construction of a home is not a static process with predictable and controllable variables, although that is what a bid method assumes. The design process instead, is an evolution of requirements, methods, and materials changing from design through construction and ultimately into the Owner's move-in period. With the General Contracting approach, the flexibility to respond and manage these changes is limited; and typically, the result is an increased project cost, since many of the changes are unavoidable. The Construction Management approach, however, enables an evaluation of the changes, consideration of alternatives and options, and a balancing of the budget to maintain the anticipated cost.



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### **SUMMARY OF ADVANTAGES OF CONSTRUCTION MANAGEMENT CONTRACTS**

1. The CM can orchestrate the bidding of individual bid packages to enable fast-track approach to construction.
2. The earliest possible starting and completion dates are obtainable due to phased construction.
3. The objectives of the Owner and Construction Manager are aligned. The Owner, Architect/Designers and CM work together towards the projects success. The animosity attributed to other contract formats is avoided under the CM methodology.
4. The CM acts to protect the Owner's interest with subcontractors throughout the construction phase.
5. The Owner is able to maximize the use of his/her construction dollar due to the cost input during the design and pre-construction phase.
6. Pre-purchasing of long lead-time items is available in order to prevent delays in the construction process.
7. The CM troubleshoots the design to prevent change orders and redesign. The CM also checks constructability and construction methodologies.
8. It is possible to redesign certain portions of a project without affecting the schedule during construction.
9. Price checks by the CM throughout the design phase keep the project in budget and on schedule by preventing redesign.
10. The CM schedules and administrates the bid process.
11. The CM works on a fixed fee basis with all of the construction savings being returned to the Owner.
12. There is input on costs, materials, and scheduling throughout the design phase. The Owner is best positioned to make good design decisions when armed with accurate and timely information through the pre-construction involvement of the Construction Manager.
13. The owner is afforded an open-book to job costs and is billed actual costs rather than estimates of costs.



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14. There are typically fewer change orders on the CM projects than there are on bid jobs.
15. The selection process for CM focuses on qualifications rather than price.
16. Bids are received from a select list of pre-qualified subcontractors, thus giving the owner the benefit of a bid project.
17. Most costs are paid for after they are incurred.

It is our opinion that the Construction Management methodology offers the owner the greatest benefit in terms of construction value for the dollar. This methodology also allows the owner the greatest degree of flexibility in determining the specifics of the final design. The Construction Management contract format has become increasingly popular as it offers the Owner the pre-construction expertise of an entity that is actually involved in the construction of the project.