

**Viewpoint**  
By Denise R. Norberg



## The power of price

**A**s subcontractors, we have the power to control 80 to 100 percent of any construction project, yet we always seem to turn to others to help us control our futures and enforce our rights. We don't believe that we have power within our industry, and that lack of belief becomes its own reality.

This coming year, let's begin building our own base of power, instead of relying on outside assistance. In the ensuing months, I'd like to explore 11 areas in which we can assert control over our future. Let's begin by looking at the power of price.

Several years ago, I found the following saying on the letterhead of a Japanese company: *"The bitterness of poor quality is remembered long after the sweetness of low price is forgotten."*

John Ruskin (a renowned English writer best known for his studies of architecture) reinforced that idea when he wrote these words: *"There is nothing in this world that someone cannot make a little poorer and sell a little cheaper, and those who consider price alone are that man's legal prey...it is unwise to pay too little...the common law of business prohibits paying a little and getting a lot...if you deal with the lowest bidder it is well to add something for the risk you run...and if you do that you will have enough to pay for something better."*

Every type of owner, from the federal government to private developers, is starting to re-evaluate the value of the low-bid system. We know that selecting the lowest price without consideration for performance is a high-risk proposition. Why, then, is buying by the numbers still so rampant in our industry? There are several reasons.

First, the construction industry is easy to enter, and many new businesses find their first customers by offering a low price. Without adequate business training, they don't realize that they are losing money. Their businesses are dying from the time that they are born, but while they are alive, they are driving prices down for the rest of the industry.

Second, the customer cannot resist trying to "beat the system." He often knows that an outrageously low number cannot possibly be real, but he is thinking short-term. He forgets that the potential cost of hiring an unrealistically low price may be realized in delays, extra materials costs and eventual substitution of a higher priced firm.

Third, this industry does not value loyalty or long-term relationships. In fact, we are so accustomed to this that we follow the siren call of low price and destroy good past relationships without a second thought. Buyers forget the "training cost" of constantly hiring new subcontractors and suppliers.

There are two types of power inherent in price: the power of the highest price; and the power of the lowest. Sellers of high-priced goods, such as Tiffany's and Rolls Royce, realize that there is a type of customer who perceives value only when the price is high enough. That customer will be demanding, but will pay for elaborate, complicated, unique or technologically advanced products.

My company builds stairs, and we have chosen to take on the most difficult work. Taking that risk allows us to earn a margin that is higher than average, and we rarely compete on a low-bid playing field.

On the rare occasion that our company has the lowest price, we are often simply more experienced in the type of work to be done, while others have been scared into inflating their prices. We are sometimes the only responsible bidder, and that makes us the low price bidder.

When you are the lowest responsible bidder, do you use that advantage to negotiate fairer contract terms or a reasonable schedule? Most subs don't. The real value of having the lowest price lies in using it to control your ability to manage the conditions of the job, so that you can maximize your ability to make a profit, even though you may start out with a tight margin in your bid.

Until the construction industry and its customers have truly recognized and changed the procurement systems under which we operate, subs and suppliers should take advantage of the power of price, whether it is the highest or the lowest. Remember the adage of one of the major airlines: *"You are always the victim of your dumbest competitor."* This year, let's get smart.