

HONEST BUILDINGS INSIDE TRACK

Guide to Building a World-Class Construction Vendor Bench

FOR COMMERCIAL REAL ESTATE OWNERS & MANAGERS



HONEST BUILDINGS



Table of Contents

- 02 GOTTA GUY?**
- 03 BEING SKILLED ISN'T ENOUGH**
- 04 THE MINIMUM NUMBER OF VENDORS YOU NEED**
- 08 SIGNS YOU SHOULD ADD VENDORS TO YOUR LIST**
- 09 THE DANGERS OF HAVING TOO MANY VENDORS**
- 11 CONFIDENTLY SOURCING NEW VENDORS**
- 13 USING YOUR PREFERRED VENDOR LIST**
- 14 LEVERAGING DATA FOR BETTER HIRING**



THE COMMERCIAL REAL ESTATE OWNERS' GUIDE TO BUILDING A WORLD-CLASS CONSTRUCTION VENDOR BENCH

The real estate industry is built on relationships, and few are more important than the ones you've built with your service providers.

No doubt you have a few stories about your vendors putting doorways in the wrong places, painting over light switches, misplacing very large pieces of equipment in seemingly small spaces, or any number of things that make you want to bang your head against a wall.

But you probably still think of that vendor as your “go-to.”

“I’ve got a guy for that.”

— EVERY PERSON YOU KNOW IN REAL ESTATE

That's because over time you've built trust in each other. You share expectations, a familiarity with the process and the ability to work together to bring your projects to successful completion.

You may even consider your vendor bench to be one of your competitive advantages: a trusted group of experts who can be relied upon on to bring your company's vision to life.

So, how can you make sure your list of preferred vendors is optimized to get your projects completed on time and on budget? The key is having the right number and the right kind of service providers.



Being Skilled Isn't Enough

The minimum threshold for feeling comfortable when hiring a vendor is that they can execute well on the task at hand. But you really need your “go-to” vendors to do more.

As you hone your preferred vendor list, consider the additional ways your best and most trusted service providers go above and beyond to add value to your team:

- Providing preliminary pricing that you can quickly share with a tenant or an Asset Manager
- Offering unique insights on the market based on their recent project experience that helps you shape your scope
- Identifying places to cut costs and value engineer your plans to maximize ROI
- Touring properties with your acquisitions team to do a quick-and-dirty evaluation of the physical attributes in order to help refine an underwriting capital plan
- Being available for questions during the planning phase, and being flexible through scheduling hiccups during the work phase

Each of these services benefits your projects enormously, but vendors don't get paid for them. Your service providers only recoup the cost of these services if they're hired to complete the project. Therefore, they will only continue to help if they're confident that your bidding process gives them a fair shot at winning projects and that developing a relationship with you will lead to paid work.

As you assemble your vendor bench, remember that you want to find vendors who have these well-rounded talents and are interested in building a mutually-beneficial relationship with you.



The Minimum Number of Vendors You Need

Do you only have one, two or three “go-to” vendors? There are a few reasons that you may have too few service providers on your preferred vendor list, or within a particular trade:

- The construction market is hot
- Your company hasn’t had a lot of projects in the past so vendors don’t know to pursue your business
- It’s hard to get comfortable with new vendors who may not understand your processes or comply with your RFP requirements
- Sticking with the few vendors you know seems easier than spending time to build new relationships or opening yourself up to the risk of an untested vendor
- Your team hasn’t allocated resources to research new vendors

No matter what the reason is that your vendor bench is shallow, or how much you like your “go-to” contractor, you need to have more than one or two options.

THE ADVANTAGES OF COMPETITIVE BIDDING

Aside from avoiding situations where that one vendor you usually work with is busy and can’t take your job, having multiple bidders allows you to get competitive pricing. According to a [study published in Journal of Construction Engineering and Management](#), triple bidding leads to an 8% reduction in the “bid low price.”

Additionally, competitive bidding can help you mitigate risk in an industry that is rapidly adopting innovative technologies and solutions. If you’re sticking with vendors based solely on



past relationships, you might be falling behind the curve. Are there newer ways to manage your projects? Are there more efficient ways to get quality work done at better prices? You won't know unless you're ready to run and execute an efficient bidding process.

DOES 'TRIPLE BIDDING' MEAN THREE BIDDERS ARE ENOUGH?

Competitive bidding is sometimes called triple bidding, but that doesn't mean that having three vendors for your job is necessarily the right number.

First of all, inviting three vendors to bid may not result in receiving three bids. It's a good idea to track your bid submission rate across projects. If you find that you generally have one or two vendors who don't participate, you already know you'll need to expand the pool of bidders.

No matter how much you like your “go-to” vendor, you need to have more than one or two options.

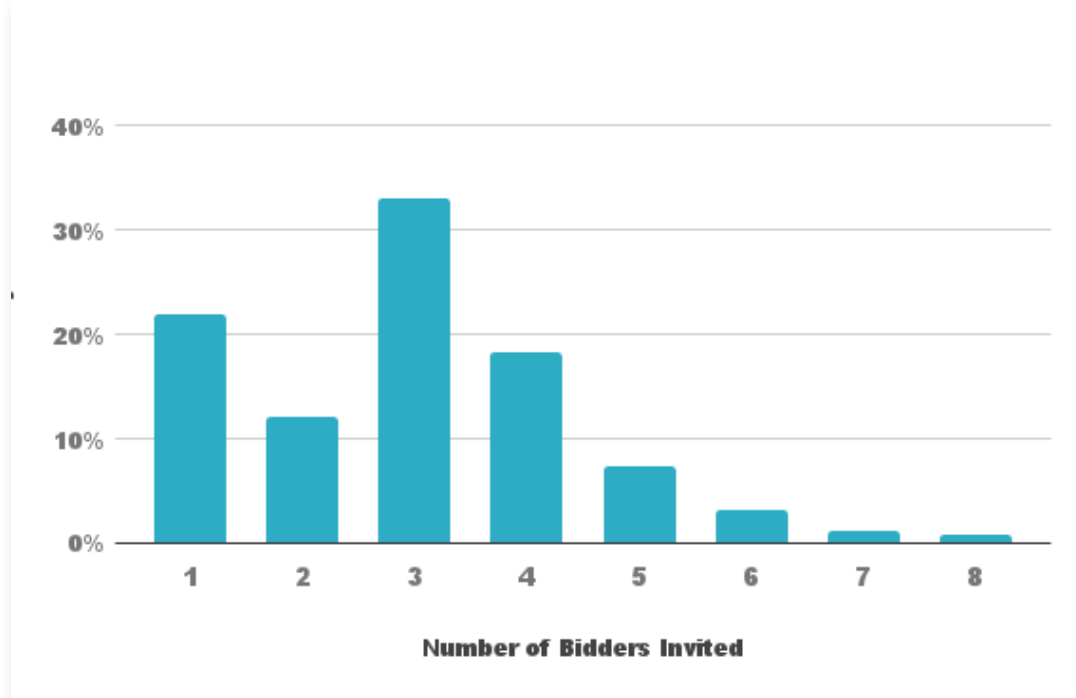
The size of your project will also play a factor in determining the right number of vendors to invite to bid. We've found that owners using our project management platform typically invite an average of 3.3 bidders across all projects.

However, when we segment the data to projects between \$100,000 - \$500,000, an average of 2.96 bidders are invited. For projects between \$1,000,000 - \$5,000,000, the average number of bidders grows to 3.81.

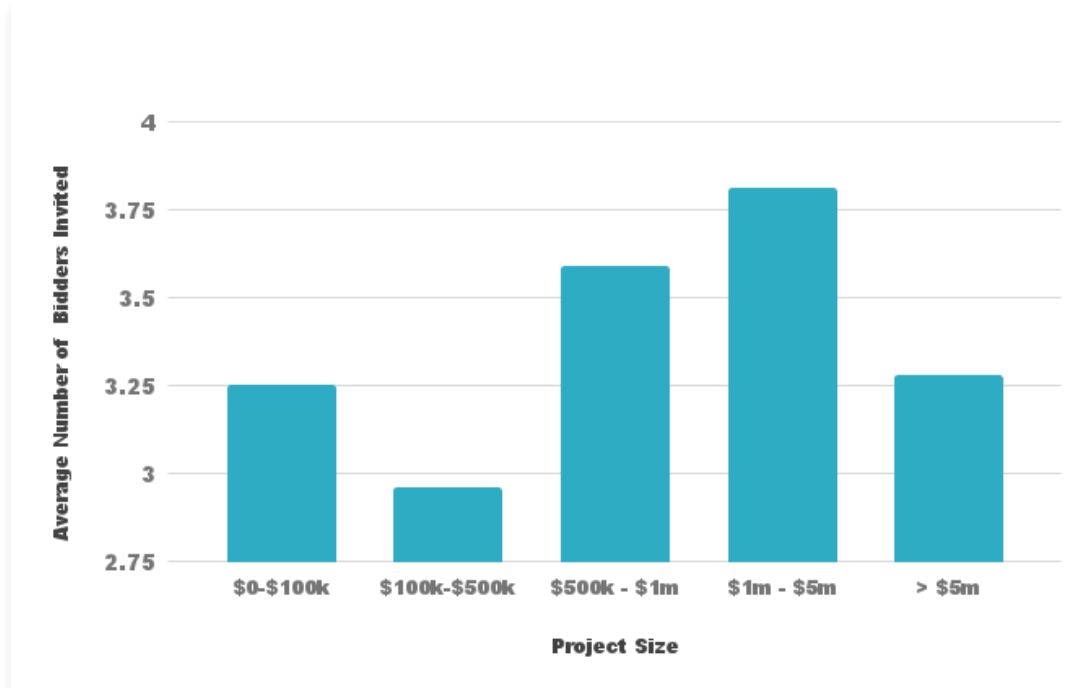


INSIGHTS FROM THE HONEST BUILDINGS PLATFORM

Average number of bidders invited per project across \$6B in project volume run through Honest Buildings



Average number of bidders invited by project size





GETTING THE RIGHT FIT

Once you have an idea of how many vendors you need to invite to run a competitive bidding process for the project at hand—keeping in mind that it’s not an exact science—you’ll need to decide which specific vendors to invite.

Your team knows best which specific skills, accreditations and capabilities your vendors need so we won’t bore you with generalizations about what to look for (although you can get specific tips on how to vet new vendors in the chapter *Confidently Sourcing New Vendors* on page 11).

Instead, we just suggest you keep the following in mind:

- Vendors often want to take the biggest job they can get because these tend to lead to the highest profit margins. You should find out their average project size to make sure yours isn’t more of a stretch than they can handle.
- If a contractor doesn’t have experience in a certain type of project, they’re unlikely to have the subcontractor relationships they’ll need in order to build out the team and get the job done on time and on budget.
- Sometimes a vendor will take on a project that is smaller than their average in order to build a relationship. That’s good. Sometimes they’ll only take on a small project if they know they’re going to be able to get a high bid through and they will make a big profit. That’s bad.
- Make sure you have the latest and greatest information on the vendors. Those who you thought were too big, too small or who specialized in one area in the past may have changed over time.

The final thing to keep top of mind is that the bidding process needs to be completed quickly. Your vendor bench needs to be ready to pull from at any time or your project might be delayed.

After all, if you only have two General Contractors on your list and one is too busy to bid on your project, you’ll have to scramble to backfill your GC list and get competitive bids. Or worse, you might decide you don’t have time to wait and move forward without getting competitive pricing, meaning you won’t get access to the cost savings that ‘triple’ bidding can provide.

If you had prepared your vendor bench in advance, you would have had enough time to go through a competitive bid process without slowing down the project.



Signs You Should Add Vendors to Your List

- ❑ *You always use the same vendor again and again*
- ❑ *One bidder is awarded more than 70% of your work for their particular trade*
- ❑ *The types of projects you're executing have expanded beyond the skillset of your current vendors*
- ❑ *Some of your vendors are getting busier and no longer provide quality bids or competitive pricing*
- ❑ *You feel that certain vendors have "gotten comfortable" and are no longer providing the level of service or attention to detail that they've historically provided*
- ❑ *The bid process is taking longer because you're struggling to get enough bids to run a truly competitive process*
- ❑ *You're receiving fewer than three bids on your projects, or the number of bids submitted has been decreasing over time*
- ❑ *Your list feels stale and you have a gut feeling that you could be doing better*



The Dangers of Having Too Many Vendors

Remember the study we referenced earlier that found that competitive bidding reduces costs? The same study determined that savings continue to increase as the number of participating bidders increases.

So does that mean you can invite dozens of bidders for every project and cash out on an early retirement? Sadly, no.

The time and effort it takes to prepare a quality bid is often significant for a vendor. Therefore, they will evaluate your project based on their chances of winning the work. In general, vendors look to win 20-30% of the jobs they bid, or one out of every three to five projects.

In general, vendors look to win 20-30% of the jobs they bid, or one out of every three to five projects.

If you have lots of bidders on a job, the win rate for each vendor will be low and some vendors will decide to drop out. Some might tell you directly that they no longer want to bid on your business because it's too unlikely that they'll win.

However, others will just stop providing their most competitive pricing, or they will put sub-par effort into estimating because they know their chances of getting the job is too low to



justify the cost of investing the time needed to put their best foot forward.

Let's not forget that you need the goodwill of these vendors to do things outside the scope of work that you pay them for, like providing an early estimate of walking an acquisition site for you. If you're active in the leasing market, where time is of the essence, you'll really need to make sure that you have GCs available who are willing to quickly turn around estimates for your leasing team to send to tenants.

The moral is that vendors have overhead and expenses and profit margins to manage, just like you do. Create a process that treats them with respect and fairness in order to maximize their investment in your relationship and their willingness to execute high quality work.

Here are some common signs that your vendor list is too big:

- Contractors won't return your call or are actively opting out of your list
- You have a low participation rate in your bid process and the number of bid submissions is declining over time
- You have contractors bidding regularly without winning any work



Confidently Sourcing New Vendors

If it turns out you don't have enough vendors on your bench, or that you don't have enough of the right kind, you'll need to scout new ones.

Since everyone in real estate seems to "know a guy" who can do whatever it is that needs to be done, you probably won't need to look far. Circulate your request internally, ask former colleagues at similar companies and check with your other consultants who usually have wide networks.

If that doesn't turn up any leads, look into publicly available data. Many of the permit records at the Department of Buildings identify which vendors have worked which jobs. Research projects similar to the one you're planning and generate a list of vendors with relevant experience.

Once you generate a list of new vendors, you'll want to take each one through a prequalification process.

***Each vendor is your potential partner
on future projects.***

Each vendor is your potential partner on your future projects. Ensure they meet your standards before putting them on your list to do any work. The rigor of this process can vary based on scope, but we'd recommend using the most meticulous process possible to proactively uncover any problems.



CHECKLIST FOR PREQUALIFYING NEW VENDORS

As part of the prequalification process, request the following information from the vendors:

- ✓ Copy of W-9
- ✓ List of company license numbers
- ✓ List of state sales tax numbers
- ✓ List of state unemployment insurance numbers
- ✓ List of insurance agreements
- ✓ List of current projects
- ✓ List of recently completed projects
- ✓ Current financial statement
- ✓ Bank information
- ✓ Dun and Bradstreet information
- ✓ Surety information
- ✓ References from three suppliers
- ✓ References from three contractors
- ✓ Independent verification letter supporting Experience Modification Rate for the last three years



Using Your Preferred Vendor List

Since your team may be working with vendors across a number of different buildings, it's important to arm them with your preferred vendor list so they can pull bidders from the bench and avoid any blacklisted contractors.

This means that your list needs to be an actual list.

You would be surprised to know how many owners don't realize that their list of preferred vendors is not actually written down anywhere. Your team needs to be able to easily access this information or your efforts are wasted.

Your list needs to be an actual list.

It's also important to have a process in place for keeping the list up to date over time. Assign someone on your team to be the vendor bench coordinator. This person will ensure that the list is accurate and current—a valuable, real-time asset for you and your team.

Our final recommendation for building a world-class vendor bench is perhaps the most important: make time for it. It's important that you actually spend time doing this stuff.

Measure your vendor list and make the improvements. If you're weak in certain trades, focus on building relationships in those areas. Set a goal for how many qualified vendors you want to have in a certain category and talk about it in your monthly internal construction meetings until you hit the goal.



Leveraging Data for Better Hiring

By tracking a few key metrics, you can compile a brief but powerful historical record of each vendor who has worked on your capital and construction projects. In addition to your project manager's notes on performance specific to a project, consider also tracking:

- WHAT PERCENTAGE OF TIME DOES THE VENDOR SUBMIT A BID WHEN INVITED?
- HOW COMPLETE ARE THE VENDORS BIDS?
- WHAT PERCENTAGE OF TIME DOES THE VENDOR WIN WORK THEY BID ON?
- HOW MANY RFIS HAS THE VENDOR SUBMITTED?
- WHAT PERCENTAGE OF THE VENDOR'S CONTRACT IS COMPRISED OF CHANGE ORDERS?
- IS THERE A RELATIONSHIP BETWEEN THE RFIS THEY'VE SUBMITTED AND SUBSEQUENT CHANGE ORDERS?



HONEST BUILDINGS

Build Your Own World-Class Vendor Bench

Get context around your vendors' past performance and make better hiring decisions in the future with the vendor management system built into Honest Buildings project management platform.

Learn how leading owners across North America are using their vendor data to reduce project costs, mitigate risk and complete projects faster.

LEARN MORE

The screenshot displays the 'Vendors' page in the Honest Buildings platform. The header includes the company logo and navigation links for 'PROJECTS' and 'BID ROOMS'. The main content area is titled 'Vendors' and includes a search bar with 'Architect' entered, a filter icon, and a '+ ADD NEW VENDOR' button. A list of vendors is shown on the left, with 'CCS Architecture' selected. The vendor profile for CCS Architecture includes contact information (New York, ccsarch@gmail.com, ccsarchitecture.com, 555-555-5555, ID 46578) and certifications (Non-Union, MBE Certified, WBE Certified). The 'Engagement Summary' section states that CCS Architecture is working on 5% of all Noble Capital Projects. The 'Bidding Stats' section shows 25 bidrooms invited, 14 bids submitted, and 9 contracts awarded. The 'Contract Stats' section features a donut chart showing 20 total projects: 9 contracts from bidding worth \$19,000 and 11 contracts without bidding worth \$1,259,000.