Don't Fall for It!

Customers make the mistake of selecting their contractor by what his initial budget is. Contractor's know this and go one of three ways; 1. They tell you what you want to here in order to get their foot in the door or, 2. Give you a range based upon similar jobs they have done or, 3. Wisely suggest that they can provide market comparables, however that your actual budget needs to be developed once the two of you have met and understand exactly what you desire.

The oldest trick in the contractor's arsenal, one that is used every day is simply for the contractor to lowball your budget. Let's suppose you are talking to two different contractors, both say they'll do a cost plus contract. That's OK, but you need to know how much it is going to cost, so it's important you get a budget from each one. One contractor says he will do your job Cost-Plus 20%; his estimated cost is $125.00 per square foot. The other Contractor wants Cost – Plus 15% with an estimated cost of $135.00 per square foot.

Contractor A	3000 sf	x	$125	$375,000
Contractor B	3000 sf	x	$135	$405,000

Which one do you pick?

Most people would jump on the low budget. After all, it's a simple mathematical equation. Pick Contractor A and save $30,000. Well maybe or maybe not. If these contractors thought you would make a decision based upon this budget, then it would only be to their advantage to lowball the budget to get the job. After all, it allows them more profit and the owner's selections and decisions control the budget.

   If Contractor A's budget reflects $9,000 for windows and you select a window package for $16,000, you increased your budget $7,000 plus the contractor's markup of 20% another $1400. After you do the same on your cabinets and flooring, your budget will end up at the budget price of the Contractor B. Hmmm ! Maybe Contractor B had a more accurate budget. Let's make another point. If the job ends up costing the amount of your highest

budget, which contractor would have provided you with more for the dollar? Let's answer this mathematically:

	Completed cost	Markup		Cost less markup
Contractor A	$405,000	-20%	$81,000	$324,000
Contractor B	$405,000	-15%	$60,750	$344,250

Which Contractor would give you the most for your dollar?
The Point to this exercise is... DON'T FALL FOR IT !!

Don't select your contractor based upon his budget. A budget should be a realistic analysis with your input to arrive at a realistic cost to satisfy your needs, not a tool to select a builder.

Further, it only makes sense that if two contractors did everything exactly the same their cost would be virtually the same. In that case the difference in your total cost would be the contractors mark up. Let's assume that if Contractor A's original budget was too low and Contractor B's budget was high and your actual cost ended up in between, how would this graph out. See graph below:

	Completed cost	Markup		Cost less markup
Contractor A	$390,000	-20%	$78,000	$312,000
Contractor B	$390,000	-15%	$58,500	$331,500

Once again Contractor B gave you the best deal for your dollar.

Now please do not assume by these examples that you automatically select the contractor with the high budget or low fee. The purpose of this exercise is to emphasize that you do not select your contractor based upon preliminary budgets. Further, what if both contractors lowball the budget in order to get the job? If the owner and contractor understand that you are not selecting your contractor based upon the budget then their budget will be more realistic.