

Don't Kill Your Business With a "Suicide Bid"

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The trend of contractors submitting bids at prices that can't possibly cover their cost to do the project is not new, but with the economic downturn hitting contractors especially hard, this practice has been on the rise and getting out of control. We've seen this trend increase to the point where it is getting some significant press. I can't claim credit for the term "Suicide Bid," but Construction Enquirer has a great overview article on the bids that are coming in across the construction industry.

Contractors may think they are doing their employees a favor by providing them with work and providing their businesses with cash flow. Unfortunately, these "suicide bids" can be just that for a construction company – suicide. Many of these bids are submitted on the assumption that the contractor or sub-contractor will just request a change order when things go "over budget." Depending on how the contract is drafted, that may not be the case – and if it isn't, the contractor or owner of the company that submitted that bid will be left holding the "bag" of liability to the property owner or general contractor.

In commercial construction, contractors aren't bound by the strict constraints placed on residential contractors; however, the standard concepts of contract interpretation still apply. If the subcontractor's bid submitted to either the general contractor or the property owner seems to be submitted as a complete bid to cover all work on the drawings and/or proposals, the cost to do the work better actually be the cost to do the work, or at least be close enough so that the contractor's profit margin or company cash flow can cover it. If not, when the change order is submitted and surprises the general and/or property owner, they may refuse to pay any additional money and insist that the "suicidal" contractor finish the work with the funds provided. Depending on how serious the overage has become, this could spell the end for the underbidding contractor. Polls in the industry have reported suicide bids as low as 40% below the actual cost to complete the job – can your company afford to absorb that cost?

To prevent this, contractors should either be qualified or work with qualified estimators, and ensure their contract is sufficiently specific so that the general contractor and/or property owner is clear regarding what is and what isn't included in the bid and following contract to perform the work. Contact an experienced construction attorney licensed to practice in your state for help.