

PRICE VS. COST

HOW TO CHOOSE A BUILDER



smallfish



PRICE vs QUOTE

They aren't the same...

Price is how a builder charges his time (and that of his staff) and how he charges for the other things included in his quote - managing other trades, materials, etc.

A **quote** is what you get when he applies his pricing model to the technical solution to the problem you ask him to solve.

Most builders and trades will charge an hourly rate for the various roles of their team involved in a job. They can include: *Project Manager; Site Supervisor; Carpenter; and almost any other trade.*



WHAT'S IN THE PRICE?

In addition to the time of their in-house staff...

They'll charge you for materials they supply. They will usually charge what they paid + a margin (usually between 15% and 23%).

Finally, they'll charge for the other trades they engage and manage to complete the work of your project. They'll charge a margin on what they pay here too.

So the Price is comprised of these elements - hourly rates for various people + margin on materials + margin on other trades.



UNDERSTAND THE RISKS

Do you think it's unreasonable to charge a higher rate?

If it sounds unfair for your builder to charge a margin on top of the trades and materials he supplies to you and on top of the time he charges you for, understand he's also wearing a whole host of other costs and risks:

- He wears the risk of fixing up a job done by another trade or of losing time and money while arranging to fix someone else's mistakes.
- He pays other trades and risks you being slow paying to him.
- He has to pay for insurance for the job (which protects you) and for all the people on the site (protecting them).
- He pays for people and time that he doesn't charge you for (except in the margins) to administer the ordering and supplying and management of the materials and the other trades.

The work of your builder goes far beyond the time he charges you for your project. All quotes will be built from these basic building blocks, just like your house.



COST

What is it?

When your builder (or other trade) puts together his quote for you, taking your plans as his starting point and using the price structure he's explained to you, he'll produce a quote.

This is what your project will **cost**.

The difficulty, for you as a customer, is that no two quotes are ever the same...

COMPARING QUOTES

Quotes are never the same.

Even if two builders use exactly the same price structure (they mostly aren't that far apart), they'll produce two different quotes. If you are trying to choose a builder by asking them to give you a quote and comparing the total cost of each quote, you have a very difficult job indeed.

When a builder takes your drawings, even if you've had an architect specify down to the smallest detail what is to be done, the builder will have to apply his own experience and his expert opinion on how to build the building as drawn. If this sounds a bit fluffy and unclear, I'm sorry.

I'll try to give an example: *One builder might choose to use a certain type of brick over another or a certain waterproofing process. He might choose a different safety barrier or elect to provide more or less supervisory man-hours.*

So, if you choose your builder on price, without understanding this detail, you might find yourself choosing a different solution entirely - and you aren't comparing apples to apples.

One builder might be providing a high-quality build with quality materials and appropriate safety and supervision. One might not.





THE RISKS OF A CHEAPER BUILD

The cheaper solution might come with a whole lot of risk

Do you want a lower quality (cheaper) build (this is not necessarily the wrong thing, but I'm sure you'd rather get what you think you are getting than otherwise).

Risks of a cheaper build include:

- Low quality materials
- Poor workmanship as people rush to get work done quickly
- Risk of cost overruns and disasters

It's a true statement that if one builder is much less expensive than another and yet their price is similar (see above) then something is wrong somewhere.

Why is the cheaper guy cheaper?

Has he forgotten something (what happens if he has?)

Has he left out something important?

Are you going to pay for that later?



HOW TO CHOOSE A BUILDER?

Follow these simple steps.

1. Find one or two builders that you like and trust. Spend time with them to understand their approach to you and to your project.
2. Check references and speak to their current or latest clients - ask them what kind of experience they had. This will help you understand how good their quote is likely to be and your risk of cost overruns and disasters. Be suspicious of a builder who can't or won't give you references of current and recent jobs.
3. Understand their pricing process and their pricing structure.
4. While you are still deciding between builders, compare their pricing structures and decide whether either of them is fair.
5. Choose one and commit yourself and then ask him to prepare his detailed quote, using the agreed structure.
6. Get him to explain it to you, going through every element and understanding the need for it.



NOW YOU HAVE A BUILDER

You're ready to start the project with your team!

You'll have a builder you trust (you established that early) and you'll have a quote you understand instead of two or three quotes you don't understand and still no idea which builder you want.

I know it sounds counter-intuitive but it's a better way to select a builder than trying to get them to compete on price (cost).

Jon likes helping business owners and especially owners of trades businesses.

He lives in Byron Bay because he likes it and he doesn't surf because he says it's too hard but he likes beer and food very much indeed.

If you're a tradie and you're successful then you probably feel like your life is not your own. You probably work too many hours each week and take your work home with you and you probably don't make as much money as you should. Jon reckons this stuff is fixable. He's been helping people do it for a long time.

For more information visit
smallfish.com.au/tools-down



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