



Business Playbook: Bidding on Construction Contracts in the Current Economic Landscape

Inflation, rising interest rates, and economic uncertainty are posing major challenges to the Canadian construction industry. Fluctuations in the pricing of the materials may make it difficult for your company to quote large projects accurately — risking turning a profitable bid into a loss.

Additionally, delays in the supply chain, scheduling issues with subcontractors, and volatile quotes from suppliers are all combining to make it more challenging to deliver your projects both on time and on budget to satisfy your clients.

If these issues sound familiar — you're not alone. While many of these current economic challenges may be here to stay, taking steps towards addressing them now will pay dividends in both the near and long term.



Current industry challenges and how you can get ahead of them

Your construction business is facing several economic headwinds that are eating into your productivity and profitability. The good news is that there are steps you can take to overcome these challenges and improve your competitiveness in the market.



Increased inflation

The cost of goods has skyrocketed across almost every domain and will likely have a severe impact on your profit margins. Material, labour, and overhead costs all rose significantly in the last year — creating complications around the bidding process as you struggle to determine the cost of future projects. While you may fear losing a bid if you don't price competitively, the other risk is that you'll be forced to shoulder these costs, losing profitability in the process.

While inflation is slowing, prices are forecast to increase at a higher-than-average rate for at least another year. You must take steps to address inflation now to improve bid accuracy and retain profitability. Here are five steps you can take to get started.

Budgeting with inflation in mind

Be realistic about the increased costs and the potential impacts of inflation on the final price of a project. Make the adjustments you need to remain profitable to your bidding process.

Assessing your bidding process

Bid on contracts that fit the strengths of your business and consider bids with an expiration date. An expiration date allows the opportunity to rebid after the date passes to account for any increases to the cost of materials.

Including inflation in your contract

Discuss the possibility of inflation with project owners and include any agreements to share the risk of

price increases in your contract conditions. You may also consider charging for the time and materials to complete a project or embedding the cost of financing services into your bid price.

Adding a price adjustment mechanism

Consider including a price adjustment mechanism in your contracts so if the cost of materials exceeds a certain amount, the cost of the contract can be increased accordingly.

Conditioning your bid

If you believe the price of materials might increase, conditioning your bid might award you the contract quickly. This allows you to order materials and supplies immediately to lock in the price before it rises.



Labour shortage

While the construction industry already faced challenges to attract talent before the COVID-19 pandemic, many workers exited the industry during this time frame and haven't been replaced by new talent at the same rate. Additionally, the cost to find and retain talent has compounded due to rising inflation, which can have a significant impact on the profitability of your projects. MNP has provided our insights on how to build an employee retention program to address the current labour shortage previously in our article [Building on a firm foundation: How effective retention strategies set the stage for success](#).

Lost productivity and the cost to recruit, onboard, and train new team members increase the high costs associated with employee turnover even further. However, if you don't have the workforce to complete your projects on time and on budget, you may not be able to complete your contracts. We recommend the following steps to address the labour shortage in the construction industry:

Understand salary

Review local labour costs and the salary bands for each position across the construction industry. While it is important to compensate your workers fairly, maintaining awareness of the standard salary ranges across the industry will help ensure you aren't losing money to attract new talent. Additionally, consider rewarding high-performing employees with raises and offering benefits and rewards programs to demonstrate your appreciation for your workforce.

Invest in training

Labour retention is a challenge for many in the construction industry. While training programs can't guarantee your workers won't leave your business, they will give you a competitive advantage by ensuring you have an experienced workforce. Invest in building the skills of your employees through training programs that meet their goals and actively work alongside them to ensure they achieve success.

Create a company culture

Company culture is another way to attract and retain workers in the construction industry. Employees are more productive when they are part of a team and are also less likely to consider exiting. Provide an environment that fosters team unity and invest in events and team building activities to promote positive relationships in your workplace and create a strong company culture.





Supply chain disruption

Delays in the delivery of your materials can result in a considerable loss of profits for your company. Volatile prices may lead to suppliers backing out of their quotes after you are awarded your bid, forcing you to order new materials — potentially at a higher cost.

The following steps can help you mitigate supply chain delays and disruptions to ensure you don't lose profitability on your project bids:

Time your purchases

Timing the purchases of materials, especially seasonal materials, can help reduce costs. Timing your purchases can also help prevent delivery delays if you order essential materials ahead of schedule.

Inventory management

Consider stockpiling the materials you need to complete your projects to protect against price increases. Weigh any potential benefits against the increased cost of storage before you proceed with this option.

Identify critical suppliers and vendors

Identify the suppliers or vendors who are critical to your business and approach them to negotiate pricing. Some may be willing to adjust the price of materials based on the length and value of your business relationship.

Investigate early payment discounts

If your suppliers and vendors offer discounts for early payment, purchase your materials early to take advantage of this option.

Consider new opportunities

Consider the past performance of your suppliers to determine if it's in your best interests to continue your business relationship or seek out a new supplier. Additionally, diversifying your supplier base for essential materials gives you the ability to substitute another supplier if one suddenly raises their prices.



Your checklist for success

Are you taking the right steps to factor inflation and other economic headwinds into your bidding process? Asking yourself the following questions will ensure your business remains healthy and profitable in any scenario:

Inflation

- Is my budget realistic and does it take inflation into account?
- Does this contract have an expiration date that will allow me to rebid to account for the cost of materials if the price increases?
- Is there a price adjustment mechanism in my contract to account for inflation?
- Have I embedded the cost of financing services into my bid?
- Would my client be agreeable to including charges for time and materials in the contract?
- Will conditioning my bid award my company the contract quickly, and will this allow me to order materials before the price goes up?

Labour

- Do I have the workforce I need to complete projects on time and on budget?
- Are my wages increasing to keep pace with the industry?
- Is my knowledge of industry salary bands up to date?
- What training programs will help me remain competitive?
- How can I create a company culture to inspire worker retention?

Supply chain

- Do I have the means to stockpile essential materials in my inventory?
- Do I have any long-term relationships with suppliers or vendors who might consider adjusting the prices of their materials for my business?
- Do my suppliers offer early payment discounts?
- How can I manage my cash flow to take advantage of early payment discounts?
- Am I happy with the past performance of my suppliers or should I explore other options?
- Where can I diversify my supply chain to ensure I can purchase essential materials at a reasonable price?

Take the next steps to grow your business

While market volatility is difficult to plan for, your ability to manage the risks and challenges of bidding on construction projects can turn into a real competitive advantage in your industry.

If you need support to address the challenges facing the construction industry today, contact a member of MNP's [Real Estate and Construction](#) team. We can help provide the insight you need to help your business navigate through uncertainty towards success.



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