

Building BLOCKS

The Seven Secrets of Successful Restaurant Construction

Secret #5: Negotiating Successful Contracts

by John Klakamp

It's hard to believe another year has passed, but once again the Mid-Atlantic Food, Beverage and Lodging Expo is right around the corner. We are making our final arrangements and I hope you can stop by our Booth 513 and say hello.

On another note, I was at a progress meeting recently where I was struck by the upbeat atmosphere and how happy the owner was with the project. This gave me a great article idea—instead of focusing on what can go wrong, let's take a close-up look at a

wonderful story of success.

About a year ago we were asked to head up a major renovation project that also included a new building facade. Early on we identified and assembled the project team: us as contractors, the owner, general manager, architect and engineers. We held meetings to collaborate on the owner's vision, needs and budget. We then met with key trade subcontractors and obtained input for bringing the best value to the project, and reviewed their recommendations with the architect and engineers to develop a design outline that would achieve the owner's predetermined goals.

Only after all this upfront work took place did the architect develop three test fit drawings for the interior and three renderings for the new facade. Simultaneously, we were working with the sub-contractors developing conceptual budgets for each scenario. The entire team presented the design options and conceptual budgets to the owner, ending up with a final design and clear direction. Finally, the design was completed, permits were obtained and at last, construction commenced.

What's the Deal?

Although we brought the architect into the project, the architect is always the agent of the owner and so contracts directly with the owner. Our arrangement with the owner was "cost plus"—we provide construction services at no cost if we build the project. The owner then pays for our costs plus subcontractor costs, allowing us eight percent contractor overhead and profit. In order for him to meet his fiduciary responsibility the project is "open book" and we are required to obtain five bids for each trade. During this process, we work together with the owner to qualify and level the sub-contractors' bids and jointly select the firms with whom to work.

The Key to Success: Plan Before You Start

Construction projects are inherently jigsaw puzzles, requiring the coordination of a large number of moving parts. Virtually every project comes with challenges. The difference is in when they are discovered and addressed—the earlier, the better in terms of minimizing costs and schedule delays.

In this case, not only were challenges addressed before construction commenced, they were resolved prior to the design. By assembling the entire team early, getting input from all team members and establishing a clear direction, the owner received an improved design that maximized the value of his project while allowing ample time for coordination and execution.



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Benefits of the "Cost Plus" Approach

The success of this project speaks for itself. Despite the project scope, there has been minimal disruption to operations. To date there have been no change orders, and none are anticipated. There have been no delays, and in fact, the project is tracking ahead of schedule.

For the owner, he can be confident that his vision, needs and budget are being achieved. Equally importantly, the team is cohesive and morale is high, which means an enjoyable building process instead of a stressful one.

Is This the Best Way to Structure a Project?

Almost always, an owner's concerns are the same for every project: vision, needs and cost. But the competitive bid process does not necessarily achieve any of those. Many people believe competitive bids yield the best price, but that's only for what's on the drawings. Budgets are blown by change orders needed to cover what's not on the drawings.

Worse, the lowest price doesn't address the qualifications of the general contractor or subcontractors. We disqualified several subcontractors on this project because of financial, size or quality concerns. One weak subcontractor can derail an entire project; for example, if a sub doesn't have the credit to order HVAC equipment with a twelve week lead time, the project could be a month behind before anyone finds out.

So is integrated project delivery the best way? My 30+ years of experience have led me to say yes; in fact, we are so confident in this approach that this is the process we use for building our own projects.



John Klakamp has over 30 years experience in restaurant construction and is owner of Annapolis, Md.-based Encore Construction (www.encoreconstruction.net), a firm that specializes in providing pre-construction, construction and project management services to the restaurant industry.



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