

RUNNING HEAD: CONSTRUCTION CONTRACT

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Significance of Contracts

Building companies work on contracts. Building Contracts are not much difficult, but the conditions and their impacts are critical. People hire builder companies to get out of the trouble of delaying work or sub-standard quality of the building. Companies like MacTavish will need to have robust contracts with their customers, in which they clearly define the cost of the project, the time required for completion of the project, and the people employed on the project. However, it is just the outline of the contract. In the actual contract, the builder company divides the task into milestones and specifies the time in which milestones will be achieved. Similarly, the client also made a payment on completion of milestones or completion of the project, primarily depending on the conditions of the contract. In robust contract, it is stated clearly who will involve in this project and his remuneration, the contract price (which is the payment of full project), the method and mode of payment (payment on completion of each milestone or semi-annually or annual basis, or after the completion of project). Moreover, when the builder company starts on working the project, there arises many problems or gaps which need modification in the project, this modification is also required to be mentioned in the contract so that the customer is fully aware and legally agreed with this. There are properly defined duties of each party so that conflicts arising later can be avoided (building performance, 2017).

Contracts MacTavish needed to take

The price quoted in contract or demanded should be concerning the work done by the company and the raw material it has used. The residential building contract doesn't need to be costly. Its price should be set where costs are covered and value delivered to customers should be

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adjusted. In bespoke forms of contract, all the market positions with departures so that the demands and requirements of all parties of contracts are fulfilled(Concord Editorial, 2018).

Key Objectives in Construction contract

In all the construction contract, there are three main points which are considered critical for the whole construction project and they can change the performance of the project. These objectives are the time duration of the project, contract price, and quality. When an employer gave the project to a builder company, it first signed a contract with it. Contracts are important for every dealing because they are the proof of dealing and are valid, i.e., can be challenged in court, if the other party terminates or end up the agreement. When making a contract, the company should determine and consult with the client what time and price he can give and what quality he wants for the project. In construction contracts, these three objectives are highly important and the employer specifies his concerns and priorities. These priorities are realistic and applicable. For instance, there will be a fixed price or budget of the project and if the project is not completed on time, it can make the residents without accommodation(Graham, 2019).

So, MacTavish should specify the time, cost and quality of the project when making a contract and all the dealings, statements and conditions must be noted in the contract, otherwise, the work and time of the company will suffer. As it also makes residential buildings, the price determined for the project should be reasonable and justifiable, so that company cannot lose the employer and he cannot give a project to another company.

Form of contract

There is usually high competition in builder companies in Canada. Only those companies have a high number of contracts that truly know the legal value and position of contracts. The

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forms of contract are also important to know for getting the builder contract from the customers. the construction contracts are generally in two forms, design and build contract and construction only contract. In design and build contract, as the name specifies, the builder constructs and makes the designing of building according to the one contract, whereas in the construction only contract, the company is liable to construct the building and the designing can be made with a different consultant team. These two contracts although they look simpler, but are difficult and can create complications if the company has chosen the wrong contract (Rodriguez, 2019).

Construction only contract

When MacTavish has to make a do a project of lower cost, it can choose the construction only contract. Such contracts are beneficial because they can give MacTavish a competitive edge to provide a relatively higher revenue margin in the contract price. In the design and construct contract, builder company cannot quote high margin project price like construction only contract, because it has to meet two tasks under one contract. In such contracts, the employer hires another team to create the design for his project and all the construction company has to do is to give this design a real shape (building performance, 2017).

Design and Build contract

Making design and build contract is preferable for MacTavish than construction only contract because the company can start construction work even when the design is not completed. This makes the company able to complete the project before the end date, which gives it a competitive edge over other builders. The whole control of the project is in the hands of a Construction Company, so it can easily handle any dispute regarding any of the three above critical objectives (Keane & Caletka, 2015).

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Scope of Contract

The scope of the Contract includes the whole of the work included in the project. The tasks and things not included in the scope of work have no contribution to the price of the project. If the scope of work is more than the quoted budget, the price can be increased with negotiation. This price negotiation with respect to the scope of work is common in both the construction only contract and the design and build contract. The whole billing and invoicing should be made properly (QC, 2010).

When accepting the project, there can be local and international projects. The above types of projects “the construction only” and “design and build” contracts. The contract of the project is simply a promise in which the construction or builder company provides assurance that the work of the customer will be done against a specified sum of money in accordance with his requirements and prescriptions. MacTavish is recommended for procurement construction only projects. It will release it from the liability of making the design. The contract documentation will be the basis on which customers will approach the builder company. However, there is no such restriction regarding the procurement of contract, like, if a builder company has taken a construction contract, but later the customer asks the company if it has a good design, then they can discuss it on the table. So, in this way the company can convert a contract into another type, which can give the ultimate benefit to the company because the contract price will be increased and the customer will also check the design (Sinnaps, n.d.).

The problems MacTavish is facing

Our client, MacTavish wants is facing difficulties in financial relating aspects and it wants us to give suggestions and accurately address their problems. The problem they are facing

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are problems like, cost management out which can be due to high overheads, or the mismanagement of controllable costs, like labor costs or marketing budgets. These costs when managed effectively can increase the profitability and stability of the company. As MacTavish is new in construction, and want to get building contracts, it is first important for it to have enough resources which can make the company credible in front of customers(Cruz, 2005).

As its cash flow is out, it is recommended to adopt an automatic approach in the estimation process, so the estimation and forecasting will be close to actual casting. When estimation is made automatically, the forecasting is made on time, which also identifies possible problems so the company can take steps to stop the underspends or overspends, because over and under spending makes the waste of cash which can be used in other product operations. However, the company should also take account of contractual, valuation, programming and pricing factors that can result in variation in Cash flow(Bobotek, 2011).

The company also faces revenue issues and the projects are resulting in the loss. The causes behind them can be mismanagement, or improper allocation of resources. A construction contractor should be good in the allocation of resources because this is the reason customers use the services of professional builders so that they can complete the project on time and within the assigned budget and allocated resources.

Profit margin in Contracts Company should engage:

For determining the profit margin, the company should first check the current margin, is it enough to cover costs. If its cost is not covered then increase profit margin or decrease costs which are controllable. The average pre-tax profit can be 1.4% to 2.4% and the profit margin for sub-contractors can be 2.2% to 3.5%. The gross margins can be even high depending on the

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nature of construction. For building a new house, the company can set a 25% margin, for remodeling, it can be 42% and it can be 34% for specialty work. However, financing of the project is also necessary to decide. The costs of construction projects are of two categories, one is construction expense and the other is all types of legal charges and opportunity cost. The construction cost is 80% of the whole project price. If MacTavish needs financing, it can get a construction loan from a commercial bank. Similarly, there is commercial financing which includes all the retained earnings of the company and portions of profits kept aside(The Owners' Perspective, n.d.).

International competition

MacTavish has to be highly competitive and good in work because there is an international competition in construction, even the non-traditional firms are also starting bidding to large construction projects. to survive in this competitive market, MacTavish must have strong and professional management with the high level of productivity(Graham, 2019).

When the company has to take construction contracts, it will confront four types of constructions for which people want to give contracts. These are residential housing construction, commercial and industrial building construction, infrastructure and heavy construction and the specialized industrial construction. Every construction has its unique benefits, structure and limitation. In residential housing construction, there is free entry and exit of builders. Multiple construction projects can be started on one side, so this construction is highly beneficial. When the demand is increased minutely, the investment is massively increased. This is the most profitable and secure construction projects. In commercial and educational building construction, design and layout are different, moreover, it requires more

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sophistication than previous construction types, so its cost is also higher. The market situation is an oligopoly and new entrants feel difficult to enter because of the long term processes. In specialized industrial construction include oil refineries, chemical processing plants, nuclear power plants, etc. so, these projects require high technology, and MacTavish cannot perform these projects individually. The last type, heavy infrastructure construction includes bridges, sewage treatment plants and highways, so these projects are also not possible for MacTavish(Harris & McCaffer, 2013).

Outsource Vs. Insource

Outsourcing is becoming a trend in almost every industry because it allows getting new talent, hire diversified team and get their job done on time. Outsourcing saves the cost of the company, because, in outsourcing, people are paid for the work done by them, but in the in-house sourcing, the company has to pay them for the whole month they spend in the company, whether they do any work or not. MacTavish should go for the outsourcing option(Watton, 2018). Moreover, MacTavish can save the cost of training its employees when it outsources work to expert and skilled persons in the market. similarly, the machinery and equipment can be used by them easily. Hence, MacTavish should outsource work(The Pros & Cons Of Outsourced vs. In-House Maintenance, 2014).

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