

The Value of Transparency: What Open Book Contracting Is and Why It Matters

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Open book contracting is an agreement between an owner and contractor that lays out a work or service plan with complete transparency on costs, prices, budgets, and materials. Open book contracts turn contractors into advocates, working alongside the owner to achieve common goals for the program, design, schedule, building performance, and most importantly, the cost. This is a change from the traditional dynamics of hard bid contracting, as it allows the design partners, construction manager, and owner to work together as a team, while still giving the owner full control and final decision-making authority.

Regardless of the project type or complexity, open book contracting provides complete transparency regarding project costs. Despite misconceived notions that open book contracting does not yield a competitive process, almost all of the work is competitively bid amongst trade contractors. This results not only in a high degree of competition, but also allows the construction manager to identify project risks, eliminate surprises, and deliver certainty.

How It Works

Typically associated with the [design-build and construction management-at-risk \(CMAR\) delivery methods](#), open book contracting relies on transparency and collaboration during the preconstruction phase. From the beginning, the construction manager should provide a complete outline of fees and resources required to manage the project, and this should be clearly outlined during negotiations. Construction estimates are based on the actual cost of work—meaning labor, materials, expenses, and equipment rates that are detailed within the subcontractor proposals and dictated by the construction manager. The construction manager:

- Evaluates the design, identifies scope gaps, and works with the design team to fill the voids
- Develops a budget with internal cost data and subcontractor input throughout design development
- Reviews options with the owner and discusses budget shortfalls on a line item basis
- Looks for constructability concerns and evaluates means and methods required to safely and efficiently manage and deliver the work
- Provides a detailed project schedule that is tied to the scope of work for each trade
- Ensures that the owner is satisfied with the target budget and project scope

- Outlines all the scopes to develop bid packages to ensure everything is captured and no scopes are redundant between trades
- Includes a list of prequalified subcontractors for each bid package that have the capacity and experience in delivering work that is similar

Once this has been completed, the construction manager administers the bid process with on-site pre-bid meetings, scope reviews, and coordination of questions from trade contractors to ensure a complete understanding. Once the bids are received, the construction manager:

- Reviews the bids received and ensures that all scopes provided are leveled for an “apples to apples” comparison
- Identifies discrepancies and uses internal takeoffs and costs data to verify and question scopes captured by each of the bidders
- Develops a Bid Tab document for each bid package that summarizes all the costs to be shared with the owner and design partners
- Ensures the overall target budget is achieved and provides value management and value engineering support to save additional dollars where desired and needed to achieve an acceptable budget.

At this point, the owner has a complete view of all trade packages and can review the comprehensive budget knowing that the work was competitively bid. The construction manager can still work with the owner and designer to find cost savings measures throughout the project. Additionally, the team can look to make additions or enhancements to the project. This process results in a transparent cost proposal and provides the owner with a comprehensive and final estimate.

Benefits to Open Book Contracting

The owner, construction manager, and design partners benefit from the collaboration that takes place with an open book contracting method. Some of the high-level benefits include:

No surprises, no change orders — Collaboration among the contractor, architect, and engineers encourages early risk mitigation. Whether soil conditions, unknowns from a renovation, or environmental concerns, risk factors can be reviewed and accounted for through allowances and informed budgeting efforts.

Increased accuracy — In open book contracting, scope development must be as inclusive as possible—leaving no expenses out. A more accurate budget at the start leads to greater trust among all parties involved.

Earlier project completion — Time is money, and with open book contracting, schedules are improved through better planning and opportunities to start projects earlier with phased buyout packages that may include demolition, site grading and utilities, foundations, and structure.

Reduced overall costs — A team that understands the full scope and is aligned on expectations for the project results in less gaps in the design, a vetted schedule, and clearly defined subcontractor packages. This allows for tighter competition between trades, driving down overall costs.

Shared savings — Most open book contracting methods take advantage of a guaranteed maximum price (GMP) contract form, allowing the owner to reap the rewards of efficiency in construction. If more cost-effective methods for delivering the project are determined, the owner receives the savings. Often, a 25-50% savings split is provided to the contractor to further encourage finding those efficiencies.

Bottom Line

Through open book contracting, costs are developed in a transparent process that results in an overall lower cost to the project through enhanced trade competition, detailed scope analysis, and risk identification. While a typical design-bid-build (closed book) contracting method may appear to provide a lower first cost, project risks, scope gaps, and the potential for change orders often result in a higher final cost to the owner. Transparency is key, and it is paramount to the success of the project to hire a construction partner with the right mindset and approach. The results provide for better delivery, less frustration, and higher satisfaction amongst all parties and the final product.



TODD BAGWELL, VICE PRESIDENT, PRECONSTRUCTION SERVICES

Todd brings more than 20 years of construction industry experience to Hourigan. His insight is invaluable in helping to develop preconstruction plans that mitigate risks, address unforeseen issues and provide cost, quality and schedule certainty for project owners and teams. Todd is well versed in all procurement types, developing the best direction for each project to guarantee success. He is also an active proponent of developing and maintaining strong subcontractor relationships.

Contact the author



MICHAEL HENLEY, VICE PRESIDENT, CLIENT SOLUTIONS

As Vice President of Client Solutions, Michael keenly understands that strong relationships and carefully selected teams must be built long before groundbreaking. Coupled with his deep experience in collaborative delivery methods like Design-Assist and Design-Build, this allows him to uncover efficiencies and assure project certainty.

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