

# The ultimate guide to construction purchasing

**How to overcome cost increases, budget overruns and quality issues**



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# Soaring material costs, unpredictable supply chains and skilled labor shortages – oh my!

**With a seemingly endless list of challenges faced by home builders in today's construction industry, you need all the help you can get. So, if you're not leveraging the benefits of group purchasing, these challenges are only magnified, leaving you scrambling to find cost-effective solutions while maintaining high standards of craftsmanship.**

Justin Einstein, director of operations at [Aubuchon Homes](#), found himself in this exact situation. The cost for basic building materials like lumber and drywall was at a premium, and he knew something had to change.

"[CBUSA](#) came into our market and set up **committed buy** programs with local supply houses as well as national suppliers," Justin said. "This has allowed us to stabilize our pricing and continue moving forward with reasonable cycle times where other builders in our market couldn't."

The framework for committed buys and established relationships offered by CBUSA's group purchasing organization contribute to the leverage Justin and the other builders in his chapter have on material pricing and availability.

"When CBUSA, who has national relationships with 84 Lumber, gets involved, suppliers listen differently," Justin said. "We get better prices and better commitments on deliveries, and we wouldn't be able to do that without CBUSA."

## The key components of committed buys include:



### Volume commitment

Members agree to purchase a certain amount of product, which helps in negotiating better terms with suppliers due to the bulk order.



### Guaranteed sales for suppliers

Suppliers benefit from a guaranteed volume of sales, reducing their risk and often allowing them to offer more competitive pricing.



### Cost savings for builders

By leveraging the collective purchasing power, members can secure lower prices and more favorable terms than they would individually.



### Enhanced negotiating power

The collective agreement strengthens the negotiating position of the group, allowing them to obtain quality products, longer payment terms and lower cost.

# Understanding the difference between procurement and purchasing

The terms purchasing and procurement are oftentimes used interchangeably. However, each term stands alone and has its own meaning.

## So, what does each term actually mean?

In construction, **procurement** is a comprehensive, multi-step process that involves selecting, approving and managing every project component from selection to installation. While **purchasing** specifically refers to the financial transaction of exchanging money for materials.

When looking at the big picture, purchasing is actually just a step within the procurement process. The wholistic procurement process plays a crucial role in the overall logistics, approval processes and strategic planning for every project.

Having a strategic procurement plan in place offers you numerous advantages:

- + **Cost savings:** Negotiate better prices, take advantage of bulk purchasing discounts and avoid last-minute, costly purchases.
- + **Budget control:** Maintain strict budget controls, preventing cost overruns and ensuring that financial resources are used efficiently.
- + **Timeliness:** Simplify your purchasing processes, reduce delays and keep projects on schedule.
- + **Quality assurance:** Ensure you receive high-quality materials and services, leading to better project outcomes.

As an independent home builder looking to better your business and ensure long-term growth, it's better to focus on the entire procurement process vs. just material purchasing on its own.





# Consider these potential procurement challenges

Procurement in construction comes with complexities and challenges that can impact project outcomes. By understanding the potential challenges, you can address issues effectively through strategic procurement planning that incorporates best practices and proactive measures.

## Increased material costs

Unexpected cost increases for materials, labor or subcontractor services can lead to budget overruns. Cost overruns may result from price volatility, poor estimation or unforeseen circumstances.

### Strategic solutions:

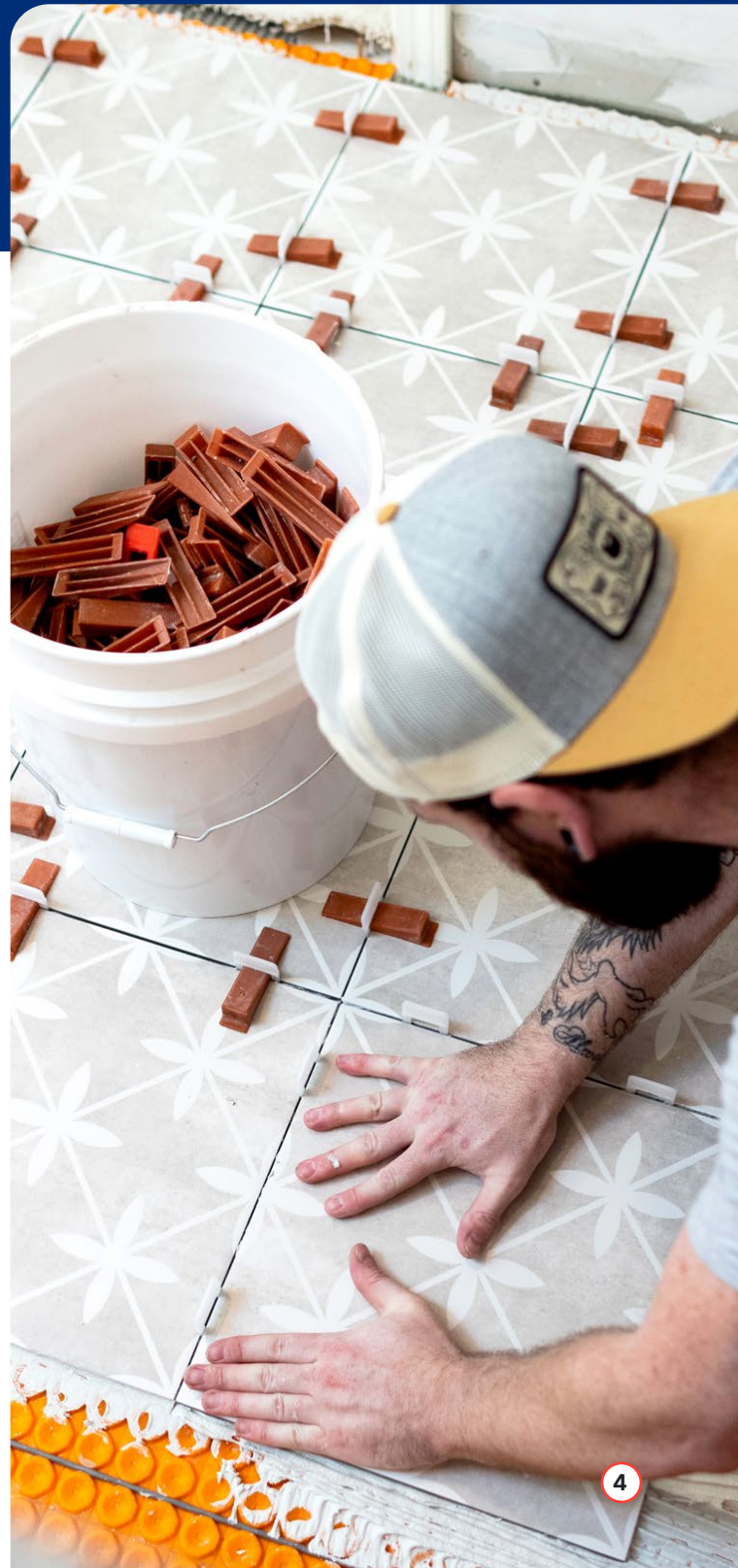
- Develop detailed cost estimates using [historical data](#) and current market rates. Incorporate **contingency allowances** to account for potential price increases.
- Establish fixed-price agreements with suppliers and subcontractors where possible to lock in costs and avoid unexpected increases. **GPO** members have an advantage with this because [supplier negotiations](#) are handled for them.

## Supply chain disruptions

Disruptions in the supply chain – such as natural disasters, political instability or logistical issues – can impact procurement and project timelines.

### Strategic solutions:

- Identify and [establish relationships with alternative suppliers](#) to ensure continuity in case of disruptions. Joining a GPO can provide access to a broader network of reliable suppliers.
- Implement supply chain management tools such as inventory control, material forecasting and data tracking software to increase visibility into the status of orders and shipments. This allows for proactive prevention of potential disruptions.





## Supplier reliability

Dependence on suppliers who may not deliver as promised can affect project timelines and quality. Supplier reliability issues can arise from financial instability, logistical problems or operational inefficiencies on the supplier's end.

### Strategic solutions:

- Perform thorough due diligence when selecting suppliers. Assess their financial stability, reputation and track record of timely delivery. If you join a GPO, this step is taken care of for you. All suppliers are expertly vetted before ever signing a contract.
- Establish clear **performance metrics** like revenue, profit margin and return on investment.

## Contract management

Drafting and managing contracts with suppliers can be challenging, particularly in defining scope, managing changes and resolving disputes.

### Strategic solutions:

- Develop clear and detailed contracts that specify scope, deliverables, deadlines and terms.
- Include **service level agreements** with suppliers and monitor their performance regularly and address any issues promptly.
- Establish a **formal dispute resolution** process to address conflicts efficiently. Consider alternative dispute resolution methods, such as **mediation** or **arbitration**, to avoid costly litigation. Both of these steps are oftentimes taken care of for GPO members.

## Communication

Ineffective communication between your team, suppliers and clients can lead to misunderstandings and procurement issues.

### Strategic solutions:

- Establish clear communication channels and protocols for all parties involved in the procurement process. Use project management tools like [Buildertrend](#) to facilitate communication.
- Provide regular updates on order status, changes and potential issues. Ensure that all stakeholders are informed and involved in decision-making.

## Market fluctuations

Ups and downs in material prices and labor costs can impact budgeting and procurement strategies.

### Strategic solutions:

- Conduct regular market analysis to understand price trends and adjust procurement strategies accordingly. What does regular market analysis look like for a builder? Here's what we suggest:
  - Track local housing market conditions and demographic trends
  - Monitor local and national economic changes such as interest rates
  - Keep an eye on competitors and their offerings
- Where feasible, negotiate bulk purchasing agreements to lock in prices and reduce the impact of market fluctuations. GPO experts monitor markets and help facilitate group purchasing through combined buying power of their members – which ultimately helps to reduce material costs.



# Use these best practices to prevent common risks

Having a comprehensive procurement plan in place will help you mitigate potential risks to ensure your construction projects are completed efficiently, within budget and to the required quality standards.

In fact, according to Procurement Tactics, in 2023, companies acknowledged that proper supply chain risk management planning can add up to [70% additional value](#) by reducing costs and unnecessary expenses.

To create an effective procurement plan, builders must consider several key elements and ensure that these elements align with the overall project goals. Here are some best practices to keep in mind when developing and executing your procurement strategy.

## 1. Outline a comprehensive plan

Start with a [detailed procurement plan](#), or internal plan to keep your team on track, that outlines the scope, objectives and timeline for each project. This plan should include a thorough assessment of material and service requirements, budget constraints and potential risks.

- Clearly define the specifications for all materials and services required. Include quality standards and performance criteria.
- Allocate budgets for each procurement category and establish financial controls to monitor expenditures.
- Develop a procurement timeline that aligns with the overall project schedule, ensuring timely availability of materials and services.



## 2. Maintain solid relationships

[Build strong relationships](#) with reliable suppliers and subcontractors. Establishing long-term partnerships can lead to better pricing, improved service levels and more consistent quality.

- Conduct thorough due diligence when selecting suppliers. Evaluate their financial stability, reputation and track record.
- Regularly review supplier performance and provide feedback. Address any issues promptly to maintain high standards.
- Foster open communication and collaboration with suppliers to ensure mutual understanding and alignment on project goals.

## 3. Negotiate contracts

Negotiate favorable terms and conditions with suppliers. Develop clear and detailed contracts that define scope, deliverables, payment terms and dispute resolution guidance.

- Use **competitive bidding processes** to ensure you get the best possible terms and pricing. Some steps you may take are:
  - Review project scope
  - Request multiple proposals
  - Review bids and award contract
- Ensure contracts are clear and comprehensive, outlining all expectations and responsibilities of both parties.
- Include provisions for managing changes to scope or requirements and establish a formal process for handling change orders.

## 4. Consider the risks

Identify potential risks in the procurement process and develop strategies to mitigate them. This includes risks related to cost fluctuations, supply chain disruptions and quality issues.

- Conduct a risk assessment to identify potential procurement risks and their impact on the project.
- Develop strategies to mitigate identified risks, such as diversifying suppliers, maintaining material reserves and using fixed-price contracts.
- Establish contingency plans to address unforeseen events and disruptions.

## 5. Never stop improving

Regularly review and improve procurement processes to enhance efficiency, reduce costs and improve outcomes.

- Establish key performance indicators to measure procurement performance and track progress.
- Create a feedback loop with suppliers and internal stakeholders to identify areas for improvement.
- Invest in training and development for procurement teams to keep them updated on best practices and industry trends.

A comprehensive procurement plan is crucial for alignment with overall project goals. Using these best practices will help you manage risks, control costs and achieve desired outcomes.





**25%**  
on appliances

**20%**  
on plumbing  
and fixtures

**20%**  
on roofing

**10%**  
on drywall

**8%**  
on lumber



## Ensure long-term success with group purchasing through CBUSA

If tackling your own procurement plan seems like too much to handle on your own, you should consider joining CBUSA – the leading group purchasing organization for independent home builders.

CBUSA offers powerful solutions for builders seeking to improve their procurement strategies – with minimal time and effort involved. As a CBUSA member, [you have a team](#) that centralizes the procurement process, so you can strengthen your bottom line and access benefits that include:

- **Competitive pricing:** Save on material costs through the power of group purchasing.
- **Supportive network:** Establish [relationships with like-minded builders](#) and achieve business growth.
- **Less negotiating:** Take back your time and let CBUSA negotiate deals and lower pricing for you.
- **Increased profits:** Add to your bottom line with [rebates](#) on leading local and national brands.

“If you’re the right builder, with the right mindset – you want to do right by your clients, you want to build a quality product and you want to deal with reputable vendors and manufacturers – then there’s no better way to do that than with CBUSA,” Justin said.

[Apply to become a member](#) of CBUSA today.



# Still unsure if CBUSA's group purchasing network is the right fit for your business?

Take this short quiz to help assess whether CBUSA's GPO aligns with your business goals. If you answer "Yes" to most of these questions, chances are becoming a member of CBUSA is likely to support your procurement strategy and overall business goals.

1. Are you looking for ways to reduce your material and service costs?  
☐ Yes  
☐ No
2. Do you find it challenging to negotiate favorable terms and conditions with suppliers on your own?  
☐ Yes  
☐ No
3. Do you need access to a network of vetted, high-quality suppliers?  
☐ Yes  
☐ No
4. Would you benefit from a simplified procurement process that saves time and reduces administrative burden?  
☐ Yes  
☐ No
5. Are you concerned about mitigating risks such as price volatility and supply chain disruptions?  
☐ Yes  
☐ No
6. Do you believe that increased purchasing power through a group purchasing organization could benefit your business?  
☐ Yes  
☐ No
7. Is being able to offer more competitive pricing to your clients a priority for your business?  
☐ Yes  
☐ No
8. Would access to procurement support and resources, such as market insights and best practices, be valuable to you?  
☐ Yes  
☐ No
9. Are you looking for ways to scale your business and improve overall efficiency?  
☐ Yes  
☐ No
10. Do you want to ensure your procurement practices align with sustainability goals and regulatory compliance?  
☐ Yes  
☐ No

## How many times did you answer "Yes"?

### 8-10 "yes" answers:

Joining CBUSA's GPO is likely a great fit for your business. You could significantly benefit from cost savings, improved supplier relationships, risk mitigation and streamlined processes.

### 5-7 "yes" answers:

Joining CBUSA's GPO could offer valuable benefits to your business. Consider how the specific advantages align with your current needs and long-term goals.

### 0-4 "yes" answers:

Joining CBUSA's GPO may not be a top priority for your business at this time. Re-evaluate your procurement strategy and identify areas where group purchasing could address existing challenges.

[Apply to become a member of CBUSA today.](#)

# Glossary

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**Arbitration:** Arbitration is a method of resolving disputes outside the traditional court system. It involves submitting the disagreement to one or more neutral third parties, known as arbitrators, who render a binding decision after considering the evidence and arguments presented by both sides.

**Committed buy:** A committed buy refers to an agreement made by members of a purchasing group to buy goods or services together. This commitment ensures that suppliers receive a guaranteed volume of orders, which can lead to significant cost savings and better pricing for the buyers.

**Competitive bidding process:** A competitive bidding process for a builder involves soliciting and evaluating bids from multiple contractors or subcontractors to secure the best terms for construction projects. The goal is to obtain the most favorable combination of cost, quality and timeline.

**Contingency allowance:** A contingency allowance is a budgetary provision set aside in a project's financial plan to cover unexpected expenses or potential cost overruns. It is used to manage risks and uncertainties that may arise during the execution of the project, such as unforeseen site conditions, changes in project scope or unexpected delays.

**Formal dispute resolution process:** A formal dispute resolution process is a structured approach for resolving conflicts and disagreements between parties, typically outlined in a contract or agreement. This process is designed to ensure fair, timely and efficient resolution of disputes.

**Group purchasing:** Group purchasing is when multiple home builders join forces to buy materials, products and services collectively. By pooling their purchasing power, these groups can negotiate better prices, secure favorable terms and ensure consistent supply – which is difficult for individual companies to achieve on their own.

**GPO:** A GPO, or group purchasing organization, in the construction industry helps independent home builders to achieve cost savings by combining purchasing power to negotiate better prices and terms with suppliers. GPOs are able secure discounts and favorable terms that individual builders aren't able to achieve on their own.

**Mediation:** Mediation is a voluntary and collaborative process in which a neutral third party, known as a mediator, helps disputing parties communicate and negotiate to reach a mutually acceptable resolution. Unlike arbitration, the mediator does not impose a decision but facilitates dialogue and helps the parties find common ground.

**Performance metrics:** Performance metrics are quantifiable measures used to evaluate the efficiency, effectiveness and success of your operations and strategies. You can include financial metrics, operational metrics, quality metrics, supply chain metrics and more.

**Procurement:** Procurement is a comprehensive, multi-step process that involves selecting, approving and managing every project component from selection to installation.

**Purchasing:** Purchasing refers to the financial transaction of exchanging money for materials.

**Service level agreements:** Service level agreements with suppliers are formal, contractual agreements that define the expected level of service. SLAs specify the performance standards and service quality metrics that the supplier must meet, as well as the remedies or penalties for failing to meet those standards.