

Five Things that Could Go Wrong and How to Prevent Them



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Disclaimer

This material is for general informational purposes only and is not legal advice. It is not designed to be comprehensive and it may not apply to your particular facts and circumstances. Consult as needed with your own attorney or adviser.

Unless otherwise specified, the figures and statistics contained herein are produced by FBI using data compiled from FBI's Performance Roundtable Program.

Why Is This Important?

- 1. The pandemic shutdowns will lead to some sort of economic disruptions, and there are several risks for contractors**
- 2. The current (but hopefully short) recession will have some direct impacts on the industry:**
- 3. Internal leadership challenges will arise around compensation, productivity, and morale**
- 4. We want contractors to anticipate the following five challenges and be prepared with strategies to prevent or reduce negative impacts**

The Five Big Issues

- I. **Good customer turns bad**
- II. **Subcontractor/supply chain default or failure**
- III. **Riskier estimating leading to project profit fade**
- IV. **Morale challenges around pandemic work changes and “new normal”**
- V. **Productivity challenges around new normal**

I. Good Customer Turns Bad

A. Causes:

1. External economic impacts on customers
 - a. Changing consumer and business patterns
 - b. Tightening loan standards
 - c. Tightened budgets
2. Tip of the iceberg – don't know what is beneath the surface

I. Good Customer Turns Bad

B. Resulting Issues:

1. Cash impacts: payments/billing/changes/contingencies
2. Delays/stoppages/cancelations

I. Good Customer Turns Bad

C. Solutions:

1. Go/No-go process
2. Research
3. Proof of financing
4. Contract review/protections
5. Diligence in documentation
6. Don't trust - verify

II. Subcontractor/Supply Chain Default or Failure

A. Causes:

1. Declining work flow – desire to maintain size, capability, work force
2. Increased competitiveness, lower margins
3. Supply chain disruptions, productivity challenges from new normal
4. Job delays, shut downs, job stacking
5. Failure of business understanding, track, anticipate, understand problems, ability to change course

II. Subcontractor/Supply Chain Default or Failure

B. Resulting Issues:

1. Performance Issues
2. Defaults

II. Subcontractor/Supply Chain Default or Failure

C. Pre-award solutions:

1. Re-qualify all subcontractors/suppliers
 - a. Bank and bond info
 - b. Make the reference calls
 - c. Get financial statements annually and prior to award if new
 - d. Visit their offices to get feel for how they are doing. Ask tough questions
 - e. Visit a job site on which they are working. Ask about performance

II. Subcontractor/Supply Chain Default or Failure

C. Pre-award solutions:

2. Increase bonding review, reduce risk profile
 - a. Develop “safe” list and “at risk” lists of subcontractors
 - b. Weigh the risks; factor a contingency for sub bids that are too low
 - c. Make safer choices; it’s less expensive in long run

II. Subcontractor/Supply Chain Default or Failure

D. Post-award solutions:

1. Review risk plan with PMs and team at turnover and as part of each project review
2. Be sure schedule of values does not allow sub to get ahead of you on the job
3. Get all requirements prior to any payment: insurance, bond, contract, license

II. Subcontractor/Supply Chain Default or Failure

D. Post-award solutions:

4. Get list of expected suppliers and update this list with each payment cycle
 - a. Make calls to ensure timely payments are going to next tiers
 - b. Set joint check program where advisable
 - c. Get lien waivers and 2nd tier waivers in all cases
 - d. Be sure superintendent has list of suppliers. Look for deliveries from those not on list

II. Subcontractor/Supply Chain Default or Failure

D. Post-award solutions:

5. Don't allow overbilling by subs. Confirm quality and completeness of work
6. Intelligence system between field and office for warning signs of sub distress
7. Name a risk management officer responsible for implementing internal program

III. Riskier Estimating Leading to Project Profit Fade

A. Causes:

1. Change in competitive environment, pricing expectations
 - a. Desire to win, get within budget
 - b. Desire to maintain work flow/workers
 - c. Potential PPP effect
2. Resulting changes in methodology of pricing work
 - a. Eliminate fluff
 - b. Riskier subs/suppliers to get lower price
 - c. Bad assumptions around owned equipment, PM costs/hours, reduced general conditions, schedule
3. Lower productivity and higher unit costs

III. Riskier Estimating Leading to Project Profit Fade

B. Solutions:

1. Up front communication between management and estimating teams
 - a. Use fee as the variable
 - b. Keep all risks known versus unknown – document any changes from the “norm”
2. Manage inherent risks
 - a. Communicate all “aggressive assumptions” at project turnover
 - b. Hyper-management of suppliers/subs
3. Focus on production, rates, and schedule

IV. Morale Challenges

A. Causes:

1. Issues and jealousies around variable success with remote work
2. Issues around those who remained gainfully employed versus those who took advantage of layoffs, leaves, and use of PPP
3. Differing viewpoints on health care concerns (masks, etc.) upon return to work/office/jobsites

IV. Morale Challenges

A. Causes:

4. Recession related decisions and actions – how those are viewed
 - a. Cutbacks, layoffs
 - b. Failure to properly maintain or refresh vehicles, tools, and equipment
 - c. Choosing cheap solutions to problems vs. right solution

IV. Morale Challenges

B. Solutions:

1. Encourage empathy for individual situations
 - a. Each individual faces unique challenges
 - b. No one's fault that government paid them more to stay at home!
2. Continued extensive, positive communication
 - a. Visit every job
 - b. Touch the "four corners" every day
3. Explain the why of each decision – don't have to be right!
4. Make big decisions with the long term in mind
5. Lead from the front – take the first hit

V. Productivity Challenges

A. Causes:

1. COVID-19 requirements: 6 ft., ingress/egress, cleaning, meetings
2. Illness pockets – manpower effect
3. Supply chain disruptions
4. Accumulated vacation time
5. Cutbacks – effectiveness in changing roles, crew mix

V. Productivity Challenges

B. Solutions:

1. COVID-19 requirements
 - a. Superior job planning
 - b. Tracking, passing along added costs
 - c. Estimating changes
2. Take nothing for granted in supply chain, subcontractor manpower, delivery – you're going to have to micromanage!
3. Get vacations on calendar, allow carry over, pay it off
4. Think through unintended consequences of all cutbacks

Conclusion

**The Family Business Institute's mission is to
build better contractors!**

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