Optimizing Go/No Go

Wayne Rivers, President
Performance Construction Advisors

Cell: 919-961-0396
wrivers@performanceconstruction.com

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.

PCA's mission is to build better contractors

PERFORMANCE
Construction Advisors

OPTIMIZING GO/NO GO (GNG)

"If an organization does not feel the pain of its risk management requirements, then its program is not stringent enough."

- Mike Flentje, PCA

BIGGEST RISK FACTORS – INDIVIDUAL JOBS

1. Familiarity/Unfamiliarity 35%

    - Owner, A/E Team (for trades, the general contracting company and team)
        - If your firm does not have a desire client profile, you need one NOW
    - Geographical:
        - Local authorities for permitting, inspection, traffic, zoning
        - Sites, soils, and other unknowns
        - Subcontractor and supplier community

BIGGEST RISK FACTORS – INDIVIDUAL JOBS

1. Familiarity/Unfamiliarity 35%

   - continued -

   - Building type and systems
   - Delivery method
   - Your job team, time with company, familiarity, and experience working with each other
   - Is the project aligned with our mission, and will it advance use towards our vision?

BIGGEST RISK FACTORS – INDIVIDUAL JOBS

2. Team 30%

  - Successful experience (Pre-con/estimating, PX, PM, Super, support team) with building type and systems
  - Longevity with company, likelihood of being there through the entire job(s)
  - Capacity – Does the team have sufficient time to focus on this job?
  - Support/oversight/mitigation – ability of the company to recognize issues early and support, enhance, or replace the team if things go south

BIGGEST RISK FACTORS – INDIVIDUAL JOBS

3. Contract/Financing 20%

- Schedule adequacy and pressures on finish date
- Contract:
  - Amount of differentiation from AIA (more is worse)
  - Terms, type/delivery method, design risk, site conditions, force majeure, damages, dispute resolution, notice, change orders, cancellation
  - Reasonableness of contractor/owner
- Full project financing in place to cover foreseen and unforeseen costs of construction (changes), ability to maintain cash flow

BIGGEST RISK FACTORS – INDIVIDUAL JOBS

4. Size/Margin 15%

- Normal project size relative to volume
- Working capital, credit, and equity relative to your liquidity positions
- Gross profit compared to normal (margin for error)
- Margin – Does the agreed upon margin allow room for error or mistakes, or will you quickly go into the red?

OVERALL COMPANY RISKS

1. Cash flow
   - Days cash vs. total expenses – what is healthy?
   - Days cash with credit line added
2. Culture of openness – are problems rising to the top in timely manner?
3. Financial system capabilities and rigor
   - Timely monthly financial statements
   - Accuracy and consistency of information

OVERALL COMPANY RISKS

4. Profit margin sensitivity – ability of company to offset a loss via other jobs

5. Project review rigor
   - Frequency of review
   - Rigor of review

6. Organizational readiness and steadiness
   - % of new employees
   - Turnover rate
   - Revenue per project manager vs. historical

INDUSTRY RISK FACTORS

1. The competition – How likely are you to WIN the new work?
2. Cost of replacement contractors
3. Industry capacity/overcapacity
4. Availability of necessary skills and abilities in sub/supplier chain
   - Project manpower
   - Timeliness of supplier fulfillment

INDUSTRY RISK FACTORS

5. Cost trends
6. Input and final price escalation trends
7. Schedule trends
8. Regional impacts and scarcities

BACKLOG PORTFOLIO RISK

1. Apply risk score to individual jobs using job risk criteria.
   For example, jobs below company average size might get zero risk

2. Average risk of individual jobs

3. Job size risk of portfolio (number of jobs over double the company average size)

4. Growth risk of portfolio – multiply risk score by the percentage of growth over 10% growth of projected annual revenue

GNG JOB SELECTION

1. Maintain rigor and DISCIPLINE in your GNG process
2. Have crystal clear GNG criteria in writing
   - Non-negotiables
   - Negotiables
3. Be skeptical
4. Use a cross-functional team to make GNG decisions
5. Develop and utilize a GNG scoring system

GNG JOB SELECTION

6. Avoid rationalizing risks away
7. Ensure jobs fit your strategic direction
8. Don’t take chances on low margin, low reward work
9. Track your historical ratios of Go v. No Go
10. Keep a knowledge base of go decisions that turned ugly by:
    - Client
    - Project type