

Tools for Building Certainty in Uncertain Times

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acumen

insight

ideas

attention

reach

expertise

depth

agility

talent

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Multi-Sectors

Specific challenges to the Construction Industry

- Projects are being delayed/ suspended
- Material prices are erratic
- Skilled workforce is shrinking
- Contract owners are failing

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Specific challenges to the Construction Industry

- Payments on state highway projects have been arbitrarily reduced
- Cost of regulatory compliance continues to rise
- Employees who are suffering financial hardship
- Material theft / misappropriation

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Responding to Uncertain Times

From the CEO's perspective:

"It goes without saying that no businessperson wants disasters to occur, but they will"

--- Jack Welch

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Bridging the Gap

Why Contractors Fail

- Unrealistic pricing of jobs
- Inadequate capitalization for volume of work
- Slow collections
- Lack of cost controls
- Lack of business planning

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Why Contractors Fail

- Inadequate financial & job management information – financials that don't reflect true cost
- Insufficient quality control
- Poor human resources management
- Inability to monitor cash flow & working capital
- Regular loss of good employees to competitors

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Early Warning Signs

- Sales volume decreases
- Recurring negative surprises
- No plan for future & no measurement system to manage it
- No management accountability (from top down)
- No sharing financial information



Early Warning Signs

- No regular project management meetings
- Reluctance to face & solve problems early & forcibly
- No process to evaluate performance of people, projects, customer satisfaction
- No attention to employee morale & motivation



Failure to Recognize Problems Early

- Problems never go away
- Compounding problems will spiral any contractor down & out of business if not addressed
- Cash & working capital shortage is subcontractors' #1 reason for failure
- Stale thinking



Failure to Recognize Problems Early

- No idea where you stand every week
- Inability to get paid for changes *now*-- putting the problem off
- No attention to good people
 - ❖ Nepotism, career paths & participation inequity
 - ❖ No reason to stay when better opportunities presented



Failure to Recognize Problems Early

- Failure to look outside for advice
- No early warning system to identify problems
- **Problems** easy to identify
- **Solutions** are hard—takes company-wide effort to keep profitable, be successful & know when something is wrong in your company



Successful Contractors...

- Manage cash flow monthly, weekly & daily
- Get paid for all work
- Know cost to perform job before they bid & what they will make at every stage
- Budget & manage their overhead, sales & gross profits monthly
- Have adequate capital & liquidity to withstand downturn



Successful Contractors...

- Carefully manage job costs against estimates
- Prepare company-wide budgets
- Have systems in place to identify, bill & collect for job changes
- Measure job productivity & manage jobs according to production & productivity except reporting



Successful Contractors...

- Manage jobs according to indicated final outcome



How to Avoid Financial Trouble

- Make getting current, accurate financial & job cost information your #1 priority!
- Make sure top management knows how to read financial statements—critical to managing business



How to Avoid Financial Trouble

- Look where you're going, not just where you've been, using:
 - ❖ Budgets
 - ❖ Job income projections
 - ❖ Cash flow projections
 - ❖ Benchmarking



How to Avoid Financial Trouble

- Understand breakeven analysis & job margin contribution to overhead
- Understand impact of changes in volume up or down to maintain profitability



Benchmarking Analysis

- Usefulness of financial ratios increases as individual ratios compared to each other over time
- Primary benefit is in determining cause of changes in ratios over time



Financial Management & Cost Control Tips

- Know your company's breakeven point
- Bid jobs using breakeven analysis
- Know your financial well being & expected performance
 - ❖ Analyze balance sheet with ratios & trends
 - ❖ Analyze income statement
 - ❖ Manage overhead & indirect costs

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Look Forward Not Backward

- Delegate responsibilities, give authority & have system of accountability
- Systems, systems, systems – systems of monitoring accountability & rewards should support use of & *improvements* to cost systems

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When Uncertain Times Hit

- Gather input from:
 - ❖ Senior management team (no “Yes men”)
 - ❖ Outside advisors
 - ❖ Local industry sources
 - ❖ Those in your value stream
 - ❖ Those you depend upon

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CEO Response to Uncertain Times

- Filter everything you hear
- Make YOUR OWN judgments about what actions are required based upon the collective input from everyone else and your own insights
- When it is time to act, act decisively and quickly--but keep your senior management and advisory team informed/ involved



When business takes a downturn

- If personnel reductions are warranted, decide on the extent of cuts, and make all at once.
- Talk to your bank and surety. Include your CPA—it will boost your credibility.
- Understand how your bank and surety have handled others in similar situations—ask pointed questions and go up the flagpole if needed.



When business takes a downturn

- Re-recruit your best people. And, don't be afraid to spend a reasonable amount of money to keep them.
- Challenge overhead expenditures
 - ❖ Cell phone usage
 - ❖ Insurance renewals
 - ❖ Travel expenditures
 - ❖ Discretionary expenses
 - ❖ Etc.



When business takes a downturn

- Assess the strength of your balance sheet and take steps to shore it up if needed
 - ❖ Repay shareholder loans
 - ❖ Contribute additional capital, if needed
 - ❖ Renew lines of credit EARLY
 - ❖ Negotiate term debt for capital expenditures as they occur
 - ❖ Restructure payments on related party debt



When business takes a downturn

- BUT—No effort to control overhead can have nearly as significant an impact to bottom line as IMPROVED PROJECT CONTROL!!



Improved Project Control

- Planning
- Resource Control
- Scheduling and communication
- Job Closeout

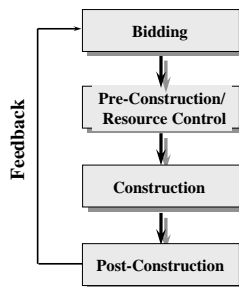


Project Life Cycle

- ✓ Plan the project
- ✓ Implement the project plan
- ✓ Manage and control the project
- ✓ Complete, deliver, and close out
- ✓ Measure the final level of success

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The Project Control System



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Pre-Construction Planning

- Carefully compare the contract to the bid before signing it
- **STRONGLY** consider having an attorney with expertise in construction law review the contract
- Evaluate the creditworthiness of the project owner
- Build the initial detailed schedule

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Pre-Construction Planning

- Buy-out of subs and vendors
- Determine if / how online project collaboration software will be used
- Transform the estimate into the budget
- Prepare schedule of values for payment
- Obtain all required permits
- Begin building the project team

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Pre-Construction Planning-Subs

- Obtain certification of insurance (no insurance = no work)
- Obtain performance bonds (or default insurance) as deemed appropriate
- If performance bond not required, consider obtaining:
 - ❖ Dun & Bradstreet credit info
 - ❖ Credit history from key suppliers

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Pre-Construction Planning-Subs

- If performance bond not required, consider obtaining:
 - ❖ Recent and year-end financial statements
 - ❖ Information on borrowing capacity on line-of-credit (trust, but verify)
- Negotiate final scope of work and pricing
- Obtain signed subcontracts

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Pre-Construction Planning-Vendors

- Obtain a verbal price quote
- Issue written p.o.'s specifying all critical aspects of material quality, conformity, and suitability; specify delivery dates
- Plan your approach for managing lien releases throughout project



Internal Pre-Job Meeting

- CEO or operations manager will lead the meeting
- The estimator, project manager, superintendent, and other office or field managers and company foremen should participate
- The estimator and/or project manager should present a summary of the project, discussing the owner, designers, potential subcontractors and known problems



Pre-Construction Meeting

- This is the first meeting of the "project team"
- The project owner, designers, contractors and critical subs should be represented by their primary project management personnel (their decision makers) –*can be done in phases*
- The primary management issues, including; quality, schedule, the payment process, dispute resolution and closeout procedures, must be reviewed and discussed



Resource Control

What are your resources?

- Labor
- Subcontractors
- Materials
- Equipment

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Three Dimensions of Resource Constraints

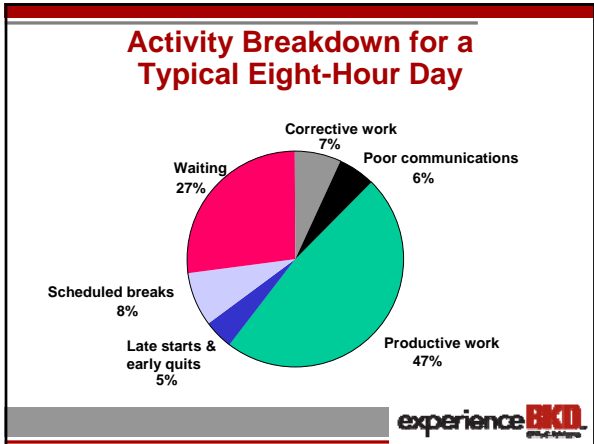
- Total budgeted cost of job for all resources
- Required contract completion date. (Liquidated damages, Future lost opportunities)
- Performance schedule across entire company

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Controlling Labor Resources

- Understand exactly what your labor cost/day is on the job
- Understand the difference between productive and non-productive labor
- Know why low productivity occurs
- Know what YOU can do to increase productivity

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- ### Improving Labor Productivity
- Develop a job-site layout
 - Short-interval scheduling
 - Limit # of times materials are moved
 - Know your labor budget for each phase of work
 - Communicate with all personnel their assignments for the next business day by end of current day
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Building Knowledge Development

- ### Improving labor productivity
- Most important tools? Clipboard, wristwatch, pencil, paper, calculator and forms (change order/request, daily field report, incident report)
 - Communicate clearly when assigning tasks (ask for a repeat)
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Building Knowledge Development

Managing Subcontractors

- It begins in bid phase
- Include in pre-construction meetings
- Clearly communicate expectations, in writing
- If it is part of the job, make sure they are using the collaboration software
- Create an electronic distribution list to communicate with subs



Managing Subcontractors

- Provide and communicate long-term (CPM) schedule
- Include subs on short-interval schedule and provide to them
- Job site layout must include evaluation of location of subs' trailers, equipment, vehicles and materials



Managing Subcontractors

- Use of on-site job meetings to evaluate/ manage current aspects of job
- Make every effort to follow up important discussions with a short written summary (e-mail usually most efficient; watch for tone and accuracy). Why?



Managing Subcontractors

- Communications should be specific
 - ❖ Date materials will be delivered
 - ❖ Location of materials on job site
 - ❖ Identify subs' superintendent
 - ❖ Individuals on crew/ # of people
 - ❖ Any work sub is subbing out?
 - ❖ Work day expectations



Managing Subcontractors

- Communications should be specific
 - ❖ Important or unusual elements of job (e.g. timing of other subs, a quarantined portion of site, presence of environmental contamination, anything else unique)
 - ❖ With intentional focus, you will refine this process even further and implement tools that will make managing subs even more efficient




Controlling Material Resources

- Know the cost of all of your materials.
- See materials as \$\$\$ on the jobsite
- Handle all materials as little as possible (importance of jobsite layout)
- Physically mark where materials should be stored upon delivery



Controlling Material Resources

- Consider a marking system to monitor excess movement
- Think safety when placing materials for storage and in installation phase
- Short-interval schedule should identify what is coming in and when it is needed at site




Controlling Material Resources

- Superintendent should be in communication with project manager or office to ensure that materials are ordered when they are needed
- Know the lead-time for all materials
- If some materials are on back-order, evaluate suitability of substitute materials immediately



Controlling Material Resources

- Communicate the critical information that vendor is asked to provide with materials
 - ❖ Identification (to avoid misuse)
 - ❖ Location to be installed (to avoid installation in wrong part of job)
 - ❖ Installation instructions where appropriate



Controlling Material Resources

- Understand the time involved in curing/drying of materials, as appropriate, both pre- and post-installation related to ordering, delivery and scheduling
- In terms of scheduling and site management, understand both pre- and post-installation exposure risk to materials (rain, wind, dust, soot, sawdust, paint, etc) and incorporate protection into job plan.

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Controlling Material Resources

- Protect Materials from:
 - ❖ Weather damage
 - ❖ Theft/Vandalism
 - ❖ Fire
 - ❖ Pillaging (employees, subs)
 - ❖ Damage by later trades

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Project Construction

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    graph TD
      A[Short-Interval Schedule] --> B[Job Meeting]
      B --> C[Field-to-Office Meeting]
      C --> D[Operations Meeting]
      D --> E[Feedback to Job]
      E --> A
  
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Short Interval Scheduling

- Increase the planning horizon of the job, at the job, from a few hours to 2-3 weeks in advance
- Management from the field and office of all contractors should have input, under the prime contractor's leadership
- The objectives of the short interval schedule and the project schedule must remain linked



Typical Job Meetings On Site

- Superintendents and foremen meeting (daily)
- Superintendent meeting with trades on-site (daily)
- Owner, designers, contractors meeting (weekly)
- Safety meeting (at least weekly)



Field-to-Office Meetings

- **Purpose** - To measure the progress of the project and take necessary actions
- Suggested frequency (weekly or bi-weekly)
- **Major Areas**
 - Customer service/billing
 - Actual costs to budget
 - Actual schedule to planned
 - Other project issues (changes, safety, resource needs, collections, etc.)



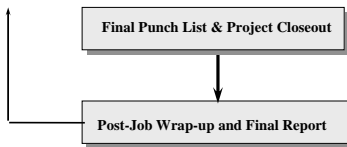
Operations Meeting – An Internal Meeting

- Evaluate the status of current projects
- Resources needed and available (company-wide resource scheduling)
- Information sharing
- Decision making
- Should be scheduled at regular intervals (weekly or bi-weekly)

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Project Closeout and Final Report

Information feedback for
Bidding future work



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Project Closeout

- On a **strategic level**
 - ❖ Closeout must measure the success of meeting project goals
- On an **operations level**
 - ❖ Plan closeout when you plan the project
 - ❖ Set closeout milestones to track throughout the project
 - ❖ Measure and manage closeout for the life of the project

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Key Takeaways

- With these uncertain times, it is more important than ever to:
 - ❖ Understand why contractors fails and what makes for a successful contractor
 - ❖ Respond decisively when action is needed
 - ❖ Manage projects throughout their entire lifecycle
 - ❖ Manage resources aggressively



Questions?

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- Contact Information
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