

Avoiding Bad Jobs and Potential Disasters

By Monroe Porter

As human beings, we generally know what is good or bad for us but temptation may win out. I know that piece of holiday pie or that extra helping of bread is not good for me but what the heck. As the market slows and job opportunities shrink, contractors tend to chase risky jobs like a junk yard dog going after a bone. Jobs and situations they normally would not touch with a ten foot pole become ok to bid and pursue. The temptation is too great and with little or no work, justification is so easy. The entrepreneurial spirit overpowers what little common sense normally protects us.

Risk management utilizes logic and planning to lessen the uncertainty that naturally occurs regarding a future task. Risk might be defined as the potential negative impact of some future event. Contracting is and always will be a game of risk. Profit is your reward for such risk. Experience is a great balancing factor when it comes to risk. The more experienced we are in a certain situation, the more we can plan and avoid potential disaster. In the case of risk management, what we don't know can and will hurt us.

Risk can never be avoided but with planning and due diligence, it can be reduced. Strategic decision making should be based on objective facts rather than optimistic emotions. Generally such planning falls into two categories, risk assessment and risk management.

Risk Assessment: This part of risk management should be monitored and controlled in the estimating part of the process. A good estimate should foresee, identify and price calculate for risk. A sample of risk assessment questions might look like this:

Job Technical Specifications

- Does this job have any unique technical issues you have not done in the past?
- Do you have the field staff to produce this job?
- If the staff available to do this job is limited, can you ensure your qualified people will be available?
- If special subs are required, do you know that they will be available?
- Are job site conditions unique or challenging?
- Could other sub or trade inefficiencies impact your production?
- Does any special material have to be ordered or specified?

Non-Technical Details

- What are the insurance requirements?
- What are the payment terms and how will that impact cash flow?
- What are the scheduling requirements?
- What are the paperwork needs?
- Where and how can weather impact the job?

Customer Miscalculations

- Have you worked for this type of customer before?
- Do you know anything about this customer?
- How is the customer's credit and ability to fund the job?
- Does the customer have a history of contract disputes?
- Is the customer reasonable?

Estimate Computations

- What is your estimating check and balance procedure?
- Do you have ways of quickly spot checking for accuracy?
- Do you have limitations that require review of certain estimates?

Estimating is just that, an estimate. It is not an exact science but some properly asked questions can improve your odds and help keep you from making a mistake. Risk assessment should be an intricate part of your estimating process.

Risk management is undertaken during the operation side of the equation. It involves your ability to manage and control risk. A good job plan identifies pitfalls, stays in close contact with job milestones and in general identifies and corrects potential pitfalls in a timely manner. Risk management might be assessed as follows:

Performance Capabilities

- Do you have the right foreman or foreman to do this job?
- Do you have the craftspeople and skill abilities?
- Do you have the equipment required?
- Can you purchase and handle the material in a timely manner?
- Are you able to manage schedule and job site conditions?

External Complications

- What impact might weather have?
- Are there any areas where sub sequencing is critical?
- Can design and permit questions impact the job?

Customer Interaction:

- What is the change order process?
- What are the customer's quality expectations and how do you plan to monitor it?
- How is customer communication set up?

Once you have been awarded the job, keeping on top of things is critical. A good job can turn bad quickly. Preplanning, regular job meetings and monitoring job milestones can improve the odds of your success.

Here is a sample list of some of the jobs and circumstances that kill contractors. I am sure you can add some of your own.

- Working for out of town general contractors and developers that you have little information about (they seemed like nice people looking for someone special)
- Missing a visual specification by not measuring the actual height or other factor(it looked like a 40 foot ladder would reach)
- Taking on jobs that are much larger than your normal size of job
- Out of town jobs that are too far away to adequately supervise and control
- Failure to double check a bid and leave out a major item
- Bidding a government project with confusing specs (trying to negotiate with a government clerk holding up your money)
- Taking a job with poor plans and being overwhelmed with change orders and documentation
- Having a difficult customer who is impossible to please but you keep trying to do so rather than walk off the job
- Taking a job with a tight schedule in a questionable winter or weather window
- Trying to cheat with illegal subs or prevailing wage shortcuts
- Failure to read and understand a complicated contract
- Having too many critical jobs at one time and having an inadequately skilled foreman manage the job

Of course, this list is just a short summary of what to look out for. Experience can be a wonderful teacher but it is always costly. Don't let a slow market tempt you into jobs that are too

great of a risk. If you are going to go broke, do it while fishing or playing golf, not while struggling with some nightmare project you never should have undertaken.