

Safety, Effective Risk Management Among Items That Can Boost Contractor Bottom Lines In Hard Times

BY ANDY COLE

Numbers from economists showing a declining industry employment rate indicate that the construction industry has started its climb back up the financial mountain. As contractors coast-to-coast are discovering, however, it's going to take a lot longer to climb up that mountain than it did to come down.

As profit margins have taken a dive, what's increased is a focus on risk management factors to help keep bottom lines relatively healthy.

Through a number of educational programs and communication pieces over the last two years, the Builders Association has kept members informed on the state of the market and what contractors should look out for as profit margins shrink.

As presenter Dr. Mark Federle of Marquette University pointed out at a Builders Association educational event this year, those factors could include subcontractor prequalification, bonding and a host of other issues. As the effects of the economic downturn continue to be felt, some firms have stretched themselves outside of what they would normally do.

"I see a lot of subs reaching beyond their historical boundaries, in a number of ways," stated Phil Diekemper, Vice President of North Operations for Ceco Concrete Construction. "They're working in geographic areas they may not have worked in before or changing the scope of their work. The troubling part of that is, when one does that, they may not be able to properly assess the risk they'll be facing.

"You see the same thing happening with general contractors. New geographic pursuits and new market sectors. We're all in survival mode and nobody wants to miss out on potential work, even if there is risk involved."

At another Association seminar last year, industry growth expert Dr. Thomas Schliefer warned of the dangers of thinning profit margins intentionally. Without the benefit of big backlogs that were available three years ago, mistakes have a tendency



Assurance Safety Consulting's John Schumacher presented the keynote speech at the Spring Meeting in 2009, one of a number of Builders Association efforts geared toward effective risk management.

to look even bigger on the bottom line now than they did then.

"The cost of having losses is magnified right now," John Schumacher of Assurance Agency said. "Whether they're medical costs or overruns or anything, those are being applied against a company have a much shorter payroll and less room for error financially than they might have had in the past."

Schumacher's presentation at the Spring Meeting in 2009 revolved around how safety related to the bottom line. Safety problems, he said, eroded profitability, and by maximizing the impact of a safety program construction firms could help their profit margins even in times where they weren't doing much work.

Contractors have received his message loud and clear in the Builders Association, where attendance at Contractor Safety Forums has gone up 30 percent in the last year and the Safety Partnership with OSHA is at a record high for participating companies (23).

"I think it's true that in tough financial times, companies renew their focus on strong performance," Schumacher said. "Safety is a good example. You'll find everyone's best crews working so there

are fewer mistakes, and there's more of an emphasis on compliance with those safety rules anyway because firms are just glad to have the work."

Another renewed focus for contractors, according to both Federle and W.B. Olson, Inc. Co-President Steve Olson, is a close look at which specialty contractors to work with. As firms reach into new areas for work, new names have popped up in bidding.

"In publicly bidding trades in the past, we've tried to keep the bid list smaller and more controlled," said Olson. "Now, there's an increase in who is bidding for those jobs and a lot of companies that seem to be coming out of the woodwork. Some of them are great and you end up finding some great new people to work with, but it's like anything else that unfamiliar in that you do have to be careful.

"We've had a couple of jobs recently where we haven't gone with the low bidder. The owner has agreed to go along with us in those situations. Regardless of what's happening in the market, it's important that you continue to do your work on pre-qualification of those subs and make sure that who you're working with can do the job."