

Hello, everybody, Dennis Engelbrecht with The Family Business Institute, Digging Deeper.

Today is the last in a series of four discussions about how to deal with the extreme pricing and supply chain disruption aspects of today's construction economy. We kind of are calling that *The New Abnormal*. This could go on for 6 to 12 months, possibly even longer, that we're trying to deal with this craziness in the construction market.

So, the last aspect that I want to talk about from this craziness is really managing your pipeline and your resource schedules. And construction, even over the last 5 to 10 years, there's been a definitive trend toward not knowing when projects are going to start. And that, of course, has caused disruption right on through the chain of construction companies. Because if you don't know when a project's going to start, it's very hard to plan your resources. And especially if you go downstream and you're at the trade level and you've got a couple of hundred people working for your company and you don't know when your projects are going to start and end, you don't know how to load those resources and whether to take on additional projects or not because you're very uncertain about what the schedule is going to be for your people, the people you have to commit.

And even as you go to the general contractor level, you've got your superintendents and your project managers. And if a project doesn't start and gets delayed for several months, well you have two problems there. One is, of course, idle people for when things push. And then the second problem is for when all of a sudden everyone says, "Okay, time to go again," and now you don't have a superintendent available or you've got too much piled on a project manager or you're having to pull a superintendent from a prior job before it's over or start a project with an assistant superintendent, all of that craziness that's going on.

Well, this has been going on for a while now, for several years. In fact, it takes more backlog now, as a percentage, to produce your annual revenue than it used to. If that used to be at 80%, it's probably now at 90 or 100%. If it used to be on 100% of your expected revenue, it's probably now at 110 or 120% and that's because, continually, we're seeing projects spend longer in pre-construction and more projects delayed and pushing out. And of course, COVID accentuated that, and now we've got the whole pricing and supply thing, which is creating more disruption.

So, what do you do about that? How do you plan in what could almost be described as chaos in terms of when you can get projects launched, started, committed to, and when they actually occur? Well, first of all, again, there is no magic bullet for solving this because it really is you're trying to deal with an unknown and a continued set of unknowns.

So, number one recommendation is: overfill your capacity. First of all, if you're stuck in that old paradigm, remember it takes more backlog now to produce revenue because it just doesn't start on time and continues to push. So you have to take some chance in overfill or else you find yourself with various soft patches during the course of the year and you ended up with your bottom line impacted by those soft patches and difficulty maintaining your manpower and your flow of work for your superintendents.

The next thing is, it really needs, again, hyper management and super flexibility. You can't look at your manpower schedule, looking out 6, 12, or 18 months, and assume it's going to stay the same. It seems like today it's changing weekly and almost daily as projects push and new thing comes on board and all of a sudden somebody says, "Go," and you're off to the races. So, you've got to stay flexible.

The hard-bid market is a place where a lot of people are filling these holes as they develop unexpectedly to try to keep their manpower working. So, look for those holes. I also, by the way, say if you're at the general contractor side, your subcontractors' schedules are being delayed and pushed as well. And again, it's like we're in a system where it's nobody's fault. But that actually creates some opportunities. So if you get projects that all of a sudden want to start, you may be able to go out in the market and go out a little broader and find people who now have holes as well who can fill into those holes that all of a sudden have been created by your schedule changing.

So, it really takes super flexibility on the project acquisition side, takes super flexibility on the manpower planning side. At times you may have to run some projects lower on manpower in order to have an extra project running alongside of it. All of this is really taking a lot of flexibility to be able to accomplish all this without missing your schedules, missing your deadlines for the projects you're committed to.

So couple of things, one is overfill your pipeline because it is going to push, it is going to move, number two, maintain flexibility, and number three, stay on task on sort of a daily and weekly basis so you can make adjustments and sort of go with the flow as things change on that daily or weekly basis.

Again, Dennis Engelbrecht, trying to solve the new abnormal, thanks for tuning in.