

Good morning everybody. Dennis Engelbrecht, Digging Deeper.

Today I want to talk about risk and in particular, your risk management program at your company. My encouragement for the day is to up your game. Up your game, because really the landscape out there is just full of landmines today. Let's face it with the supply chain woes we're having, the significant price rises in materials, up at 26% year-over-year for all inputs to construction, the risks that you have today, both for completing a job on time or completing a job on budget are as high, if not higher than they've ever been in your experience in construction.

What does that mean to you? Well, what that means to you is your job of managing risk is elevated. We can't forget that in construction, generally speaking across the trades in the best of times we're making four or five, six or 7% to the net, and in the worst of times, it's zero to two or 3%, and we're in a cyclical business so we go through those good times and bad times. Well, with that kind of margin and a 26% rise in costs, obviously there's a tremendous squeeze and a tremendous risk there.

What are you doing to up your game in terms of risk management? Keep in mind, ultimately the contractor is responsible for price and schedule. Now what you've got to do starting at the beginning is probably your go and no-go procedures - who you work with, what kind of work you take on, what kind of risk you take on is very much encompassed in that go/no-go analysis. And making good rational decisions and making sure you follow a rational process will help you make better decisions as you go through that process.

Probably never more important is your contract review and your contract negotiation. Again, when the documents are all signed, you're going to take responsibility for price and schedule. So, you better be really in tune to what that contract says about price and schedule. What encompasses a change order, what encompasses an owner responsibility for a price change out there. So, having a very ardent review of your contracts and making strong negotiation is very important.

Buyout: Timely buyout has probably never been more important. Again, with prices rising every day, if you don't buyout your contracts and get it done in the first 30 days so much can change. Your supplier might withdraw their price, might change their price, might refuse to go to contract. All of these things are happening now out there in the marketplace. They're not happening rampantly yet, but the risk of it happening is out there. So one of your best weapons is really in your buyout process, making sure you very quickly get to contract, make sure that your subcontractors or your suppliers are locked in on that pricing so that something won't happen to them down the line which forces them to do something to you.

Change orders: Again, change orders are increasing in importance with the changing pricing, first of all, but most importantly, your responsibility for schedule. As things change, make sure you're getting your scheduled days into your contracts as well as your price changes. Even if there's nothing but a schedule delay and not a price change, make sure you're getting zero sum change orders to get those extra days there. You're probably already at increased risk just taking a fixed contract length, so you don't want to increase that risk by taking on any additional risk during the course of the project. So, you got to be very careful about that.

I've mentioned schedule several times, but what are you agreeing to in this schedule? Have you really accounted for all the potential supply chain woes and disruptions that you're going to face? Do you really think you can complete this project today the same as you could the same project two years ago? I'm going to guess you can't. There are just too many items in that supply chain that you cannot control, that you need extra contingency to cover those things, and you need for that risk to not be solely born with you unless you have those contingencies. So, make sure you have sufficient time upfront in your schedule to allow for things to go wrong.

Other risk management things: The basics; your job turnover, launch, and all of that planning. This is where you may first be identifying the things that can go wrong, the supply chain pieces that are going to be the most challenging and creating

your plans and contingencies around those things so that they don't bite you. So, make sure you're having an effective informal job turnover, launch, planning session, and make sure the right people are in there to get the best plan for your job.

Your job reviews: Hopefully they're monthly. Your monthly job reviews have to be very much on task to be looking for again, those items that are rising up that are going to create problems, those supplier issues, subcontractor issues that may be caused again by the whole pandemic problem.

Customer communication: Interestingly, I'm hearing from a lot of people that cooperation between owners, architects, engineers, and contractors is probably as good and as high as it's ever been. That's fantastic because it's necessary with all the things going on in this supply chain and with price changes, but make sure on your side that you're being a great communicator with your customer, with your architect, with your engineer, with your end customer so that everybody is cooperating and you are getting that kind of coordination among the parties.

You may not have thought of this, but personnel reviews, staying close to your people. In this trying time one of the worst things that can happen to you is losing somebody mid project. As we talked about in some other blogs, the competitiveness for people out there right now is at fever pitch. There's a chance somebody's waving some ridiculous offer in front of your people and that you're potentially at risk. So, stay close to your people. Make sure you're doing your personnel reviews.

And then finally in upping your game in risk management, no one thing is more important than your willingness to walk away from an opportunity. We're always concerned with our backlog, keeping our people employed, growing our company, getting enough revenue to cover our overhead, all of those things, but look at the risk involved in the job. If there's too much risk, walk away. Getting smaller is a much better solution than taking a five or \$10 million loss on a job. So be very careful in your go/no-go reviews. If in your contract negotiation, you're getting the willies, walk away. This is the best time as a contractor to think about risk management, upping your game, and walking away may be a key part of that.

Again, thanks for tuning in. Dennis Engelbrecht, Digging Deeper.