



FEATURE

Schedules and payments dominate subcontractor challenges

By **Kim Slowey** • Jan. 16, 2018

Very few construction projects happen without subcontractors. Some general contractors self-perform all or a portion of the construction work, but, most often, major and minor trades contribute the lion's share of labor and materials.

And that makes perfect sense. Why not hand over installation of a concrete foundation to specialists who do it every day? The same goes for electrical, plumbing, metal framing, tile and roofing, just to name a few.

But general contractors don't just delegate the responsibility of getting the work done when they engage subcontractors. They also pass on the burden of scheduling, securing the lines of credit necessary to supply materials and equipment, staffing the project and paying wages until they receive their first progress payment. For the biggest subcontractors, this could mean fronting millions of dollars in payroll and other expenses each month.

There really is no typical project at The Gallegos Corporation, a company that performs stone, masonry, stucco, plaster, concrete, marble, granite, tile and art rock work primarily in Midwest, Northwest and Mountain states, including Colorado and Montana. The projects, said Dave Little, chief business development officer at Gallegos, range from \$500 for a specialty

job up to \$12 million for larger undertakings — but the company usually ends up coming out of pocket to the tune of about \$4 million a month. Customers, he said, typically take about 60 days to pay, which leaves the company bankrolling a significant part of its jobs before it ever sees a dime.

“Fortunately, we have a line of credit,” Little said, “even though we’ve never had to use it.”

Big problem — cash flow

“Cash flow is a huge topic for a subcontractor,” said Michael Weber, principal at Gaston Electrical in Boston-area Norwood, MA. For this reason, he said, Gaston trains its project managers to keep an open dialogue with customers about invoices, their approval turnaround times and any other expectations around payment.

“When you’re upfront and clear in communicating with [customers,] they don’t have a problem with it,” Weber said. “You’re not the only sub thinking about it. It’s OK to ask for your money.”

And subcontractors that have a hard time floating expenses before they get paid also shouldn’t be shy about having the money talk with their customers. After all, subs drive progress, and most general contractors realize that.

“We have an appreciation for how much cash they put up,” said Chuck Taylor, director of operations at Chicago-area Englewood Construction. So even though Englewood has a firm pay-when-paid policy — the company doesn’t pay its subcontractors until they get paid for the subs’ work from the owner — it is willing to help out when it can.

For example, Taylor said if a subcontractor doesn’t have adequate credit at a supply house, Englewood will sometimes issue joint checks — paying the material supplier directly — which will induce some vendors to sell to a sub whose financials

might be shaky, or relieve some of the pressure for the sub so that it can focus on payroll obligations.

In addition, Taylor said Englewood goes to great lengths each month to make sure subs have turned in invoices for all the money they have coming to them. “We’ll walk them through that process because we know they need that money,” Taylor said.

Other than those circumstances, however, Englewood subs are expected to meet their financial obligations until they receive payment, a reality which has caused some subs to back out of a project before signing a subcontract.

Even bigger problem — communication

But the most daunting challenge isn’t always on the money side. The biggest problem is communication with the general contractor and getting all parties to face the realities of a project, Little said. Right now, that’s affecting scheduling at Gallegos. The company is short on skilled labor, and has had to hire a greater-than-average number of workers who don’t have the typical range of experience of its more seasoned staffers. Some long-term customers, however, are using historical data to establish their project timelines and not factoring in that it’s going to take a little longer these days to complete some phases of the work.

That presents a problem, Taylor said, when the project is for a repeat customer who now has an expectation of how long it will take to deliver one of its restaurants, retail stores or some other structure it believes should take about the same time every time. “A lot of times the client will send us a schedule and make it part of the bid documents,” he said.

Otherwise, if the project is a prototype or a challenging one that hasn’t been built before, Taylor said Englewood will sit down with the subcontractors and hammer out a realistic schedule.

Another problem — labor shortage

But, of course, the short supply of labor is forcing subcontractors to keep a keen eye on the number of workers they can expect to put on a job. Gaston is a union contractor, Weber said, so the company typically has access to a more reliable stream of workers than its nonunion competitors, but, still, the market is tight. "If we wanted to add 30 men next week, it would be difficult to do that," Weber said.

In fact, Little said that Gallegos recently turned down a job the company had been pursuing for six months because it would not have been able to adequately staff it.

For this reason, Little said it's invaluable to be given an accurate picture of how the project as a whole is coming along. Subcontractors, he said, need a true representation of progress so that they can schedule their assets as well. "Don't keep telling me we're two weeks out," he said.

Factories are also busier than ever, Weber noted, and owners are realizing there's really no amount of cash they can throw at the project to reduce manufacturers' lead times.

But in this day of increased collaboration via design-build, integrated project delivery contracts and the like, aren't general contractors widening the scope of subcontractor involvement? Like most other things in the construction industry, it depends on the job.

If the specs are cut and dry, Taylor said, there's really no room to negotiate. On other projects, however, feedback from the sub can be beneficial in value engineering and in reducing the number of future change orders. "We want input," he said. "We're open to listening, and the majority of our clients are opening to listening."

This is especially true, Taylor said, if there is an issue with the municipality in which the project is located or a material with a long lead time. "We're not afraid to adjust the schedule," he added.

"Our best customers are bringing us in – getting opinions – early," Weber said. More subcontractors, he said, are adopting the Lean approach to projects and using pull planning to fine-tune the schedule.

"When subs are held accountable to each other and to themselves ... the process works well, and schedules can accelerate," Weber said. "There's more collaboration than before from the best contractors. They're dealing with the same schedule we are."