

Good morning everybody. Dennis Engelbrecht with Digging Deeper. Thanks for tuning in today.

This morning, I opened up a file and I was reminded of some of the top reasons for company failures in construction. Our parent company always does an annual review, Travelers, of company failures that happened in the industry. And they've been doing this for many years and essentially, they've come up with some very important findings for you. First of all, single job catastrophes are responsible for 58% of construction failures, they've found. If you think about that, a single job is the most important reason that companies fail. And that really highlights the dangers in construction of what can go wrong. The number two reason for failure was internal controls. They found 49% of failures had a lack of, or internal controls that were not operating very well at the time, at least. But usually they didn't exist well in the company.

And for the most part, those were job cost controls having job costs meetings. Having accurate information in... To know when something is going awry, to be able to get in and fix it in a timely basis. And the third part was overextended resources. So roughly more than a third of the companies that fail, were reaching out too far, either a much larger job than they had done before. More work overall than they had done before, they basically took on more than their internal resources were really geared to handle. And that was the reason for their failure. So, putting all of these things together as a company, really, the lessons are several.

The first lesson is, don't ever be too desperate to take on any particular job. Usually the warning signs were there. When companies look back at the really bad jobs they've had, the warning signs were there at the beginning, but for some reason they chose to go forward anyway. And as we go into a soft period for construction coming out of the pandemic, you want to be careful, again, not to be too desperate to get the next job. If that desperation leads you to ignore the warning signs for a job that won't be right for your company, or that is too dangerous for your company, that could be to your peril. So be very careful again with your go or no go thinking. And whether it's keeping people busy or employed, or whether you feel like, "Boy, I just need this \$500,000 in gross profit to keep us from going into the negative this year." There is no job so important that it's worth risking your company.

Number two, those internal controls, we've gone through an unprecedented period of good times in construction now. About a 10-year run of growth, and most companies are achieving record profitability this past year. And some even into this year. It's a time when one can easily get lazy or satisfied. A little bit better word than lazy, maybe, but really saying the same thing, get lazy with your process and procedure. And you don't want to do that. You want to stay keen to how jobs are performing all the way along the line. Make sure you have your monthly project reviews, make sure where there's smoke there's often fire. So, you follow through where you see things that look a little bit awry and get to the job site and see them for yourself to make sure things aren't going awry without you knowing it.

And finally, those overextended resources, here's one where a slow period in construction might actually help you. The industry has probably been over capacity now for several years. So we have a dearth of skilled people working on the job, leadership on the jobs, and you probably feel that inside your own company where you're having to put people on job sites where they might not be the right people for their job, things like that. So, watch those overextended resources. This may be a time where you think you have to reduce overhead or reduce body count in your company, but really think you may have been overextended already. And this may be a good time to actually right size. And if you do have some soft times, maybe a good time to train and upgrade your people.

But watch for those overextended resources also, and remember, one job can kill you at any time in construction. So, play the long game. Don't make bad decisions. Stay in business. Dennis Engelbrecht for Digging Deeper.