Hello, everybody, Dennis Engelbrecht, Digging Deeper.

Today and really this entire spring, many of you are facing a lot of questions about what to do with your organization. What is the economy going to look like going forward? What is our workflow going to look like? There are a lot of tough decisions you may be facing out there. As we do so, it struck me that whether you're thinking of possible payroll cuts or making savings in your overhead and things like that, that one thing still rings true in construction. You have to run your work profitably. As you make these decisions and you look forward and you strive to be right-sized for today and for the future, try to remember that you do have to run your work profitably. A job going badly or not run well can cost you much more money than you can ever save in any kind of overhead cuts or anything like that. As you make these decisions, I really want to encourage you to consider that aspect of it very strongly.

Recently, we had our large company leadership retreat, and we always get a presentation on the top 10 losses from the prior year from Travelers Surety, and these top 10 losses, again, really bring out some very important things for all contractors to remember.

First of all, out of the 10 top failures over the last couple of years, 70 to 80% of these failures come from a single job going bad. In construction, that's always important to remember because, really, what defines your business in the long run is really the lack of those jobs going bad. You've got to remember to do everything you can to prevent the bad job.

The other critical aspect of those bad jobs, when you look at the extent of the losses, the losses are, oftentimes, as big as the job itself. I mean, it's almost inconceivable to think that a $10 million job could lose $8 million, but not only is it possible it, it actually happens, that probably if you looked at the workflow of these top 10 failures over the last several years, the loss from these single jobs, oftentimes, is as much as the entire work program of the company over the course of a year. A company doing $20 million can lose that $20 million of revenue on one single jobs loss. Again, I don't want to overemphasize that, but, really, my point is, as we approach these difficult times ahead, it's probably more important to make sure you're able to do the basics well. If you're cutting back on project management or job supervision or how you staff the job or even on your oversight level in your company, don't do so to the extent that it keeps you from doing the basics well, from running your work well and running your work profitably.

Those basics, if you think back, probably the three most important things you can do in your company is have a great plan for their job, including a great job turnover or job launch. Number two, you really want to have frequent and rich job reviews. On a monthly basis, make sure that your leadership is looking over that job, making sure you're staying on task, making sure your change orders are being approved, making sure that you're staying on your timelines and meeting those things as you go along. Finally, make sure at the end of the job, you're having a good lessons learned process so that you do continue to improve as a company, and you make sure that you're finishing strong in these jobs, as well.

Now, think about this, as well. When I talk about the job oversight piece and how management plays into that, make sure you have a good/bad job mitigation plan and possibly, even more important than that, a bad job avoidance plan.

One of the things that may happen if we hit a recessionary environment, as it looks like we will do, is work is going to become harder to come by, and, sometimes, in that lust to keep our work at a certain level or keep our people employed, we take on work that we perhaps shouldn't. I want you to have your radar up more so than even normal during this upcoming period to make sure that you don't take on jobs that you're either unfamiliar with or have too many of the

typical job loss aspects involved in it. Keep your antenna up, make sure you make good choices in terms of the work that you go after and take on.

Finally, one of the lessons of the last recession is that your estimate today may be different from your estimate tomorrow. First of all, estimators like to win. In doing so, as we get into more competitive times, they may take the fluff out of the estimate. You may own equipment. You say, "Well, I don't have to put the equipment costs in there because we own it." They take that out of it, or they say, "Well, we're going to have to have good production on this job," so they increase their production rates or take out fluff in the production rates or take out some aspect of the rate because we know that we got to get lean in order to get this job.

Well, all of that may be well and good for earning the work, but what you have to remember is that's a different estimate than the estimate that you did yesterday that had the contingencies in it, that had the fluff in it, that had the higher rates in it, things like that. When it comes to executing that job, you may have the 6% margin in it, supposedly, but if you've taken out all of your fluff and all of your contingencies, don't expect for that 6% margin to go up to 8% as you execute it like it might have last year. Instead, if you've boned that job or leaned that job down in estimating, it's more likely to have job fade or profit loss on the job than it is to gain or have profit gain on the job.

Just think about that, that your estimate from yesterday is not necessarily your estimate for tomorrow. As you strategize with your estimating, make sure you're aware of those differences so that you don't fool yourself in thinking, well, this is a 5% job, but really, in the end, it's more likely to end up at 3%, whereas yesterday's 5% job might have been more likely to end up at 7%. Again, the focus needs to be to make sure you run your work profitably today. Any loss of profits on the jobs that you have can overwhelm any cost savings you think you can achieve. If you're going to try to run leaner, you still have to be able to run well.

Again, Dennis Engelbrecht, Digging Deeper. Thank you.