



Subcontractor Information and Risk Management

Best practice approaches for reducing
construction risk and increasing profitability

A White Paper
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Executive Summary

With the launch of PRM 2 – the improved, second-generation version of BuildPoint’s subcontractor information and risk management application – BuildPoint has leveraged its unparalleled domain, industry, and technology expertise to create the most functionally rich subcontractor management application available. ENR 400 leaders select BuildPoint because the company’s software delivers proven results and return on investment. Building on this track record of success, PRM 2 extends the functionality and usability of BuildPoint’s application to provide even greater value...*faster.*

“The BuildPoint solution will pay for itself five times over when we identify and avoid selecting the wrong subcontractor! A performance management tool such as SubTrack and an overall enterprise solution such as BuildPoint’s PRM 2 were long overdue in the construction industry.”

*Jackie Buck
Executive Vice President
Finance and Administration
R.D. Olson Construction*

PRM 2 is a comprehensive provider relationship management application – including solutions for centralizing subcontractor data, managing the pre-qualification and performance assessment processes, and bidding projects. By providing general contractors with the ability to track, analyze, share, and archive subcontractor data, PRM 2 enables general contractors to strengthen relationships between departments and with their subcontractors. PRM 2 enables general contractors to maximize the value of their subcontractor relationships and minimize the risks associated with working with them – a necessity for competing in today’s tougher economic environment.

Though general contractors increasingly recognize the need to manage subcontractor-related risk, most are not well equipped to do so. Very few have optimized their business processes that touch subcontractors. PRM 2 enables general contractors to overcome the four major obstacles that typically stand in the way of cost-effectively managing subcontractor-related risk, namely:

- 1) *Information silos.* Subcontractor data is scattered throughout the organization in information silos based on business function or department. This gives general contractors a highly fragmented and incomplete view of their subcontractors.
- 2) *Business processes do not reflect best practices.* Processes have not been designed with risk management in mind. For example, subcontractor performance data is not effectively communicated from the job site to a general contractor’s in-house estimating staff and management. As a result, poor performing subcontractors remain on bid lists.
- 3) *Lack of business intelligence.* General contractors lack the means to provide employees with real-time and historical subcontractor data. Estimators and risk managers do not have adequate information to select subcontractors effectively, and construction personnel do not have the tools to optimize subcontractor performance. Mistakes are

repeated and opportunities lost as general contractors do not maintain a “corporate memory” of past interactions with subcontractors.

- 4) *Inadequate means of communicating with subcontractors.* For example, general contractors are largely reliant on archaic paper-based methods or single-user software tools that distribute bid documents to subcontractors but do not track responses.

“With the current insurance environment, a trend we’re seeing is that good builders are working hard to improve their in-house risk management capabilities, especially pre-qualification and subcontractor management. Why? Because they recognize that subcontractors are extensions of their companies.”

*Jim Berriatua
Senior Vice President
Gallagher Construction Services*

Strategic-minded general contractors are implementing best practices and automated systems to mitigate subcontractor-related risk in an effort to improve quality and control rising insurance costs. For example, Swinerton Builders uses PRM 2 to promote safety and improve its competitiveness by tearing down information silos. PRM 2 enables general contractors to cut cost, reduce risk, and win more profitable contracts by centralizing subcontractor data and standardizing the pre-qualification and performance assessment processes.

This white paper outlines the subcontractor-related risk management issues confronting the general contractor community through a series of case studies. In addition, it examines the changing shape of the insurance/risk management industry and describes best practice approaches for subcontractor information and risk management.

Tearing Down Information Silos to Promote Safety and Improve Competitiveness

In addition to its high-profile commercial work on California landmarks including the de Young Museum and the world headquarters for retail giant The Gap, both in San Francisco, Swinerton Builders manages a large number of government projects for such entities as the California State University and University of California systems, the East Bay Municipal Utilities District, the City of Oakland, and the San Francisco Redevelopment Agency.

Historically, Swinerton’s accounting department maintained the company’s master database of subcontractors. The database was not integrated with the company’s bid solicitation tool, which was used to store subcontractor data such as the status of a contractor as a minority or women-owned business (MWBE). As the bid solicitation tool could not distribute information between branch offices, there was no way to share bid history or qualification data company-wide. The lack of a centralized repository for subcontractor data resulted in information silos.

In light of Swinerton’s participation in hard-bid government contracts, maintaining subcontractor information in information

silos presented several issues. Foremost among them was jobsite safety. Swinerton's motto, "Make Safety a Habit – Your Family Needs You" is emblazoned on every hard hat. Safety is the single most important value to the firm; every management meeting starts with a safety report to ensure that every effort has been made to reduce accidents. In addition to the high personal and societal cost of an accident, a single injury accident can result in insurance claims running into millions of dollars. Therefore, a general contractor needs comprehensive information on subcontractor work histories and safety records. At a company the size of Swinerton, which has more than 1,200 full-time employees in its 17 offices and works with thousands of subcontractors, maintaining that kind of data was a challenge.

"One of the things I communicate to our staff is that you have to keep in mind what construction management is all about: managing risk. And the best way to reduce risk is to work with good subs."

*Paul King
Director, Procurement Services
Sordani Skanska*

The solution lay in establishing good working relationships and gaining the confidence that the subcontractors would be able to fulfill their piece of the work without incurring extra costs or using unsafe work practices. The company is increasingly reliant on subcontractor experience modifier ratings (EMR) and their internally collected subcontractor performance data to gauge risk. Calculated by insurers, a subcontractor's experience modifier, or ex-mod as it is known in the industry, shows how that company's rate of claims compares to other companies in its trade. Swinerton Senior Vice President Charlie Kuffner explains the company's heightened interest in ex-mods: "We hadn't drilled down extensively into the area of subcontractor EMRs in the past, but now we have to because, since the September 11th attacks, insurance rates have become astronomical for some subcontractors – especially the ones with higher EMRs. Ideally, it would be great to have a performance database that would make this kind of safety data available across the company. More information is better than none."

Kuffner stresses that Swinerton is not interested in rating subcontractors or secretly blackballing anyone. "The door is open for anybody to propose working with us. Ratings go against what we're trying to promote with the vendor community. To us, whether you're in the pool or not is all based on a proven ability to do the work. Do you have a track record, the human resources, and the financial resources in place? Regardless of how good or bad a sub's ex-mod may be, I'm comfortable going up in front of them and saying, 'We need better jobsite safety.' Doing quality work and maintaining profitability depend on openness. To get there, I need data about safety records, data about insurance, data about banking."

The company's approach to subcontracting extends to its policy on minority contracting; more than 20 percent of Swinerton's outsourced work goes to minority- and women-owned enterprises (M/WBE). "We want to make sure that there's a level playing field

for minority and women-owned subs and that they have opportunities with us everyday – it’s a part of our core values to be a good citizen in the markets we operate in, and we emphasize MWBE outreach regardless of whether it’s mandated or not,” stated Kuffner. Again, however, since the company was unable to share information on MWBE status between its offices, it could not be sure that it was taking advantage of all opportunities to promote minority subcontracting.

Since implementing BuildPoint’s subcontractor pre-qualification software in August 2001, Swinerton has begun centralizing its subcontractor information on a company-wide basis. This has helped the company address many of the challenges it faced as a result of its information silos. The BuildPoint solution was particularly effective in making pre-qualification information available to the Swinerton pre-construction team and integrating the data with its bid solicitation tool. Swinerton is now in the process of implementing PRM 2, BuildPoint’s enterprise-class application for managing subcontractor information and risk. With the ability to bring together all data on subcontractor performance, qualifications, work record, and finances in a single system, the company expects to see even greater business benefits.

“Our vendor approach has been a shotgun kind of thing. We want it to be a rifle shot,” said Kuffner. He believes that PRM 2 will be especially effective in eliminating errors and reducing risk. “For example, many jobs will have multiple addenda and, for some reason, the sub didn’t get addenda 7 through 12. This kind of mistake can easily result in potential cost exposure in the hundreds of thousands of dollars. With BuildPoint, there’s no excuse for anybody. The subcontractor bidders will all have 100 percent accurate information for creating the bid, and we’ll have better risk management and better profitability.”

Improving Quality with Stronger Subcontractor Relationships

John Wilson, the Chief Estimator in the Core and Shell Division at Webcor Builders, cites similar motivation for choosing BuildPoint. Yet Wilson’s department works with a relatively small group of vendors – 150 firms primarily, with another 150 shops that it works with on an occasional basis.

“Since we do repeat business over and over and work in a circumscribed area, it’s important for us to optimize the way we work with subcontractors,” said Wilson. “Not to say that we’re not concerned with risk, but work quality and the relationships we have with our subs were the main drivers in opting for BuildPoint.”

Webcor’s stance with its subcontractors is that maintaining high work quality makes the firm a more attractive business partner, which in turn brings in more work and raises the firm’s stature in

the subcontractor community. Wilson is upfront about Webcor's need to establish rating criteria that will enable it to objectively compare subcontractors. He emphasizes the importance of an open dialogue and believes BuildPoint can help build better relationships. "Rather than having a hidden ranking form that subs can't see, we want to share our view with them, along with the data that underlies their ranking. I hear all the time from our subs that they like to work with us, and I want to keep that going."

Another of the company's objectives is increasing the use of best practices. Many business processes employed in the construction industry are optimized to carry out specific tasks rather than to support broader business goals. One example is bid solicitation tools that automate the sending of personalized faxes but do not track subcontractors' responses. By employing narrowly focused tools, general contractors lose much of their valuable business intelligence or "corporate memory" of past subcontractor interactions. Best practice, in such a case, would suggest using a bid solicitation solution that not only automates and streamlines the distribution of documents to subcontractors, but also captures relevant transactional information and stores it in an accessible enterprise-wide database. The BuildPoint application is enabling Webcor to achieve its objectives.

Jackie Buck of R.D. Olson sees the company's implementation of the BuildPoint application as a smart business move. "The value of centralizing information to better manage subcontracting relationships is obvious. Having the knowledge to make good decisions about who to work with is invaluable."

Managing Risk Remotely with Best Practices

R.D. Olson Construction is an Irvine, California-based general contractor and construction management firm that specializes in hospitality, restaurant/entertainment, office, and retail work for national and local clients. Like Swinerton and Webcor, R.D. Olson is encountering issues involving subcontractor management and risk mitigation. Worker safety, growing insurance burdens, and fragmented information systems are all significant concerns. Yet for R.D. Olson, which posted \$140 million in sales in 2001, the bigger challenge comes in managing a subcontractor base that stretches across the country.

The company manages jobs all over the United States; in 2001, 43 percent of its projects were outside California. Locating and pre-qualifying subcontractors in unfamiliar cities hundreds or thousands of miles away often presents challenges for the firm's finance staff. "We have to approach risk management differently when we are working out of state," said Jackie Buck, R.D. Olson's Executive Vice President of Finance and Administration.

The main issue for the company when it works with new subcontractors is that it has to go through the complicated process of gathering references and all the financial information required for qualification from a distance. If Buck and her staff encounter any difficulty getting these materials, and they often do, then the onsite project manager has to get involved. The problem is that the

project managers are usually too busy to devote adequate attention to the issue, and they are not trained in the complexities of pre-qualification processing. For example, R.D. Olson has a series of criteria for determining whether a subcontractor has an adequate record of stability and the financial wherewithal to qualify to bid. "I have to look closely at subcontractors' debt-to-equity ratios, cash flow, what other projects they are working on, and so forth," said Buck. "Not having the raw data to perform the financial analyses can slow down the whole process and lead to costly delays."

Adding to the problem is that lenders and insurers have added more paperwork and placed more constraints on general contractors like R.D. Olson. "Times have changed since the terrorist attacks of September 11th and the Enron scandal," said Buck. "Not every sub we work with can get a bond, and if it's not in the budget, we have to self insure. The added burden of a non-competitive insurance market makes our job that much more difficult and risky, which is why best practices are so important."

Buck and her staff at R.D. Olson have been using BuildPoint's PRM 2 application to increase their visibility into the selection process and to provide better overall vendor management. The company's goal is to build the quality and breadth of its subcontractor database, both through internal efforts and by educating its subcontractors. Buck says a primary goal is to increase the level of sophistication among the firms the company works with, both in terms of their technological capability and their understanding of what it means to work in the new financial atmosphere.

Responding to The New Financial Reality with Innovative Approaches to Insurance

General contractors interviewed for this white paper repeatedly cited the rising cost of insurance and surety bonds as an immediate concern. The tragic events of September 11th marked a significant shift in the market for insurance and other risk management instruments. But, as a recent analysis by Willis Group Holdings shows, prices were on the rise well before the terrorist attacks: "Industry data on more than 200 construction clients confirms that the pricing for many programs was already up 25 to 100 percent overall through the third quarter (2001), with several lines of coverage up significantly more than that."

Perhaps more importantly, the Willis report, entitled *Marketplace Realities and Risk Management Solutions*, paints a picture of fundamental changes in the market for traditional construction industry risk management instruments:

"By 2000 it became apparent that construction results for insurers were not acceptable, and a re-assessment of the class began at

many carriers. By 2001, carriers were de-emphasizing contracting as a desirable class of business. In addition, carriers focused underwriting on the upper end of the marketplace (premiums from \$250,000 to \$500,000), creating a situation in which few carriers were willing to quote on smaller risks. In the aftermath of September 11th, reinsurers are looking closely at their books of business and segmenting which classes of business they will support and for what limits of liability.”

Willis Vice Chairman of Construction Mike Szot echoed many of these findings and put the situation into concrete terms for working contractors. “In some cases, premiums have gone up 100 to 200 percent over the last year. With significant coverage restrictions, many subcontractors are having a difficult time securing the coverage they need to meet bid requirements.” To better understand the risk management issues confronting the construction industry, let’s take a closer look at the current insurance/risk management landscape.

General Contractors Assuming Responsibility for Insurance

On average, general contractors spend between 2 and 3.5 percent of their total revenue on insurance. There are six general categories of coverage that a general contractor should carry for a typical project:

- 1) Workers’ compensation
- 2) Subcontractor default and performance insurance
- 3) General liability
- 4) Professional liability
- 5) Property liability
- 6) Environmental liability

Of these six categories, subcontractor default and, to a lesser extent, workers’ compensation, are the most directly linked to subcontractors. For this reason, the recently higher rate of subcontractor defaults has led to significant price increases for these two coverage categories. Mike Szot explains, “Claims resulting from subcontractor default can be in excess of the total contract amount, up to 150 percent.”

Changing Landscape of Subcontractor Default Risk Management

The traditional mode of mitigating subcontractor default risk has been for general contractors to require their subcontractors to procure performance bonds. In California, performance bonds typically range from 0.8 to 2.0 percent of a subcontractor’s contract value. The riskier the subcontractor’s profile, the more expensive the bond becomes. Under the bond model, a surety company assumes all of the risk associated with the inability of the subcontractor to complete the job.

“With the significant increases in surety bond costs this past year, project owners and general contractors are looking to alternative forms of risk transfer,” notes Gallagher’s Berriatua. Particularly popular are owner- or contractor-controlled insurance programs (OCIPs and CCIPs) in which sponsors take on the responsibility of buying insurance (including workers’ compensation, property, general liability, and, most recently, contractor default) for subcontractors participating on the job. Szot confirms that his company has also seen increased activity in this area, and provides two reasons:

- 1) More and more subcontractors are encountering difficulty in securing necessary surety bonds. Also, there are fewer sureties in the marketplace after September 11th and the K-Mart and Enron bankruptcies – all of which created unprecedented losses for sureties and either drove them to bankruptcy or out of the surety business.
- 2) General contractors are realizing that they have more leverage in the marketplace to secure better terms or coverage than their smaller subcontractor partners.

With many subcontractors unable to secure adequate surety coverage, a new type of coverage is gaining in popularity. Known by the generic terms *default insurance* or *subcontractor default insurance*, Zurich’s SubGuard being the most well known, this type of umbrella rollup insurance product offers certain advantages over surety bonds. The first is that contractors maintain greater project control during the claims resolution process. Greater control stems from the contractor’s ability to resolve potential default claims in a streamlined and timely fashion instead of relying on the subcontractor’s surety company to take action and bring closure. Second, the total cost to the general contractor for default insurance is less than the aggregate cost of all subcontractors’ bonds if bought from individual sureties on a one-off basis.

The administrative efficiencies created by rollup default insurance products like SubGuard produce an additional financial savings over surety bonding. Instead of expending countless man-hours handling and tracking a separate surety bond for each subcontractor on a project, a contractor must only manage one transaction with its insurance broker, which is far more efficient. “The reduction in frictional cost and the increased efficiencies in the claim process have led to significant cost savings for those of our customers who have switched to the SubGuard product,” reinforces Seth Hausman, Southeast Regional Vice President of Zurich North America Construction.

Another area of potentially sizeable cost savings for contractors is in the reduction in the cost of claims. Again, this is largely due to the increased project control a contractor has over the surety option. Increased control comes in many forms. In contrast to surety bonding, for example, where each project and claim may be handled through a separate surety company, an insurance product like SubGuard covers all subcontractors' losses across a project with a single insurance policy. Furthermore, the surety companies' incentives are not always aligned with those of the general contractor or project owner. Sureties are often tied up in conflict resolution with the defaulting subcontractor instead of being focused on the most effective means of solving the problem at hand and bringing the project back on track quickly.

Another reason many project owners and contractors are switching to default insurance, Zurich's SubGuard in particular, is the added flexibility they gain in structuring their policies. The flexibility stems from their ability to transfer differing degrees of subcontractor default risk to the insurance carriers while underwriting a portion themselves. Typically, one third of the cost of insuring subcontractor default is the minimum 'fixed' risk transfer cost paid to the insurance carrier. The remaining two thirds of the insurance cost represents the 'variable' cost and can be structured in a variety of risk transfer models between the insurance carrier and the insurance policy holder.

The author has observed that, under those circumstances where the owner or contractor underwrote a portion of the default risk, a centralized subcontractor information and risk management solution like BuildPoint PRM 2 played a pivotal role in helping those companies manage and mitigate their subcontractor risk. Furthermore, those companies that were willing to assume the additional risk were able to significantly reduce their overall default risk mitigation costs by managing subcontractor risk effectively. For these companies, risk management meant rigorous subcontractor pre-qualification and project performance tracking through a centralized master vendor database. All subcontractor selections are determined by the analysis of customizable reports derived from the master vendor database.

Self-insurance is another mode of dealing with subcontractor default risk that is gaining popularity. In the course of researching this white paper, the author encountered several general contractors that self-insure to gain a 1 to 1.5 percent cost lead over their competition.

The rise in general contractor-sponsored default insurance policies and self-insurance is a significant trend in the construction industry because it shifts responsibility for risk management from sureties to general contractors. This shift is forcing general contractors to look

more closely at their vendors. Issues such as safety, work quality, and financial stability are all taking on greater importance, as is the need for open communication and good working relationships. As evidenced in the case studies above, the general contractor community is actively addressing this new reality through the automation of subcontractor management.

Kuffner emphasizes that while Swinerton Builders strives to work with the highest quality subcontractors on all its jobs, “in public works, you’ve got to be prepared to work with the subcontractor that submits the lowest bid.” Proactive risk management is the key.

Leveraging Technology to Mitigate Safety Risk

Another component of a general contractor’s cost base that is closely tied to subcontractor performance is workers’ compensation. Coverage rates generally range from \$10 to \$30 per \$100 of payroll expense, but vary year-to-year depending on a general contractor’s overall EMR, insurance credits, losses, total outstanding claims, and, most importantly, safety record, both for the general contractor and its subcontractor base. We have seen general contractors employ two strategies for managing their safety risk and associated workers’ compensation insurance rates:

- 1) Avoid doing business with subcontractors that don’t have a good safety record
- 2) In cases where there is no choice but to work with subcontractors with safety issues, mitigate safety risk through proactive means

As it does with performance surety, PRM 2 helps general contractors improve their safety risk management efforts because it allows them to more easily organize, access, and control all the information essential to the process. In the case of avoiding subcontractors with questionable safety histories, PRM 2 helps to:

- Track EMR and ex-mod ratings for subcontractors
- Record safety parameters and practices, even those that have not necessarily led to past claims
- Execute comparisons and analyses of subcontractors during the selection process

Leveraging Technology to Mitigate Subcontractor Risk

PRM 2 also delivers value in cases where a general contractor bids public works projects or bids private sector work competitively, because it is the only application available today for collecting and managing the full range of subcontractor safety information. Specifically, PRM 2 provides tools for tracking both subcontractor- and general contractor-provided data as well as EMR and ex-mod ratings. General contractors can also use PRM 2 to analyze subcontractor safety data and implement best practice workflows that collectively represent the industry-leading safety risk solution.

One general contractor interviewed for this white paper recalled an injury incident that illustrates the importance of pre-screening in

competitive bid situations. After a worker was gravely injured on a work site, a check of the subcontractor's safety record turned up several other incidents as well as an EMR that was significantly above the industry norm. "We ended up with a \$3 million claim, but if we'd had good information beforehand we could have spent just \$20,000 to put a safety engineer on the job."

PRM 2 also significantly reduces other general, property, and environmental construction risks and their associated liabilities. General liability covers a general contractor against job site-related bodily injury and property damage claims. PRM 2 tracks subcontractors' past litigation histories while also providing a comprehensive view of past performance with the general contractor. PRM 2 users can configure the application to track parameters that they find are indicative of the level of risk a subcontractor presents to personnel and property on a job site.

Subcontractor negligence can also cause a general contractor to be exposed to environmental liability. Certain behaviors among subcontractors, such as the improper storage of hazardous or toxic chemicals on a job site, tend to lead to claims on environmentally-sensitive projects. General contractors can use PRM 2 to track these types of behaviors. To address the risk, site managers are trained to notice potential problems and track offenses in the PRM 2 application. On the next environmentally-sensitive job site, for example, a site with untreated bay runoff access, the general contractor would search the PRM 2 database and invite only those subcontractors that consistently rate well with respect to their environmental procedures.

By providing direct insight into subcontractor capabilities and performance histories, PRM 2 helps general contractors mitigate a number of other risks that threaten profitability but can't be insured against. In particular, PRM 2 helps alert general contractors to the risks of working with subcontractors that have a history of:

Excessive Litigation

A time sink and huge distraction for a general contractor's management, litigation can cost enormous sums of money.

Excessive Change Orders

Disputed change orders don't directly affect general contractors in terms of cost, but they can tie up management resources during the dispute resolution process.

Poor Quality Work

A subcontractor's own insurance policy often covers the cost of repairing poor quality work, but the time involved in repairs and the effect it has on the building owner's satisfaction level is high. In addition, because subcontractors go out of business frequently,

defects in buildings are sometimes not detected until well into the service life of a building, meaning that costs related to ‘non-conforming work’ and even product defects come out of the general contractor’s pocket.

Poor Administrative Practices

Even when a subcontractor’s work quality is good, the added costs associated with poor administrative practices can be high. Poor administrative work that leads to unforeseen costs includes late RFIs, submittals, invoices, and change order processing times.

In all of the above-mentioned cases, PRM 2 delivers measurable benefits because it incorporates risk management directly into bidding processes. In addition, PRM 2’s analysis and workflow implementation tools enable general contractors to improve subcontractor performance on an ongoing basis. In short, PRM 2 arms general contractors with business intelligence that leads to more profitable contracts while also helping to cut costs and reduce risk.

PRM 2: Subcontractor Information and Risk Management Solution

PRM 2, developed in response to requests from general contractors, enables general contractors to more efficiently communicate with subcontractors, track their job performance, and distribute relevant information to all stakeholders in real-time by centralizing data and standardizing the pre-qualification and performance assessment processes. PRM 2 delivers nearly instantaneous return on investment by helping general contractors achieve higher quality standards and greater profits through more effective subcontractor risk management.

Based on an open and extensible product architecture, PRM 2 is easily integrated with other project management, estimating, and financial software products. It has significant advantages over single-user, point solutions, and it provides a host of measurable benefits, including:

Reduce Risk

- Avoid risky subcontractors
- Minimize project risk

Cut Costs

- Improve operational efficiency
- Leverage technology

Win More Profitable Contracts

- Improve construction performance quality
- Submit increasingly competitive bids

PRM 2's simple implementation enables customers to realize these benefits within 30 days of deployment.

The risk management processes outlined below are representative of the business processes PRM 2 is easily configured to support:

Collect comprehensive subcontractor data, including:

- Company profile data with an emphasis on trades and regions served
- Pre-qualification data with an emphasis on financials and safety
- Project performance measurement and evaluation data
- Subcontractor- and general contractor- contributed data

Monitor subcontractor data over time through:

- Data and time stamping of data entry
- Audit trails and reporting
- Automated reminder notices to subcontractors and staff on the construction site to keep data current

Screen data for accuracy and better decision making by:

- Validating pre-qualification data received from subcontractors
- Analyzing a subcontractor's ability to perform, typically by calculating and evaluating relevant financial and debt ratios
- Rating subcontractors with customized risk rating system, e.g., maximum dollar amount allowed per contract
- Approving or disapproving a subcontractor based on integrated analysis capabilities; approval workflows are triggered if established benchmark values are exceeded
- Tracking ongoing contract amounts

Enforce best practices by:

- Embedding corporate risk management procedures into business processes; subcontractors that are not approved for a project may not be considered during the bidding process

The PRM 2 application comprises the following functional modules:

Provider Data Management ("PRM 2 Corporate Directory")

By providing a centralized repository for subcontractor data captured from subcontractor interactions across all key pre-construction, finance/risk management, and construction activities, the Corporate Directory enables construction organizations to maintain a comprehensive and up-to-date reference point for each subcontractor. The result is that every individual in the organization can make more informed decisions.

Subcontractor Pre-qualification (“SubQual”)

SubQual is an automated system for the initial screening and ongoing monitoring of subcontractor risk profiles. It provides estimators and risk managers with instant access to qualification statements, which enable the user to compare and rate subcontractors according to customizable criteria. Qualification can be done centrally, with SubQual’s customizable rating system, or distributed throughout the organization.

Subcontractor Performance Management (“SubTrack”)

With SubTrack, subcontractor construction performance data can be easily communicated from the project site to the general contractor’s estimating team. Performance and qualification data are monitored over time, enhancing a general contractor’s ability to select the best subcontractors for any given project.

Bid Management (“Bid Manager”)

Bid Manager makes subcontractor contact and qualification information accessible to risk managers and estimators when they are selecting recipients for an invitation to bid or awarding a contract. All project, contact, and qualification data is centrally stored, eliminating the need to re-key information. In addition, the data can be mined for future analysis.

“What BuildPoint really offers is a cost-effective risk management solution that will make our company fiercely competitive and highly profitable.”

*Jackie Buck
Executive Vice President
Finance and Administration
R.D. Olson Construction*

Conclusion

Efficient subcontractor management has always been vital to the success of construction projects, but its importance has increased significantly. In particular, changes to the construction industry’s financial and risk management environment over the past few years have resulted in growing pressure on profit margins and given new urgency to screening subcontractor financial health, jobsite safety records, and performance attributes. Rising insurance costs and the growing prevalence of general contractor-controlled group policies have likewise increased incentives for general contractors to build long-term relationships with those subcontractors that can be trusted to consistently perform quality work.

BuildPoint’s PRM 2 application has proven to be an effective tool for meeting the challenges facing today’s construction industry. Construction executives, estimators, and risk managers attest that PRM 2 is positively impacting their business by helping them to:

- Organize and leverage subcontractor data on safety, insurance, and financial health
- Centralize subcontractor data in a secure repository
- Assist subcontractors in migrating to online systems
- Maintain open dialogues and build better relationships with subcontractors
- Boost work quality

- Increase job safety
- Promote industry best practices
- Reduce the risk of bidding process errors
- Make better decisions when selecting subcontractors for projects

In short, BuildPoint's PRM 2 application provides general contractors with a host of effective ways to reduce risk and improve subcontractor management. For detailed information about PRM 2, please refer to www.buildpoint.com.

About the Author

Dr. Florian Aalami is the Founder and Chief Technology Officer of BuildPoint, where he leads the company's product development and partnering strategy. Since 1993, when he first began his research work at Stanford's reputed Center for Integrated Facility Engineering, he has committed his career to the advancement of construction technology. He specializes in the development of best practices for the industry and leveraging technology to implement them effectively within complex A/E/C organizations. Dr. Aalami holds a bachelor's degree in civil engineering from U.C. Berkeley and master's and doctoral degrees in construction technology from Stanford University.

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