

Qualified to Win

It should come as a surprise to absolutely no one even tangentially connected with the commercial construction industry that the years since 2008 have been a game-changer. In April of 2008, \$91.75 billion was spent on commercial construction projects in the U.S. By December of 2010, it was less than half that number, coming in at \$37.72 billion¹.

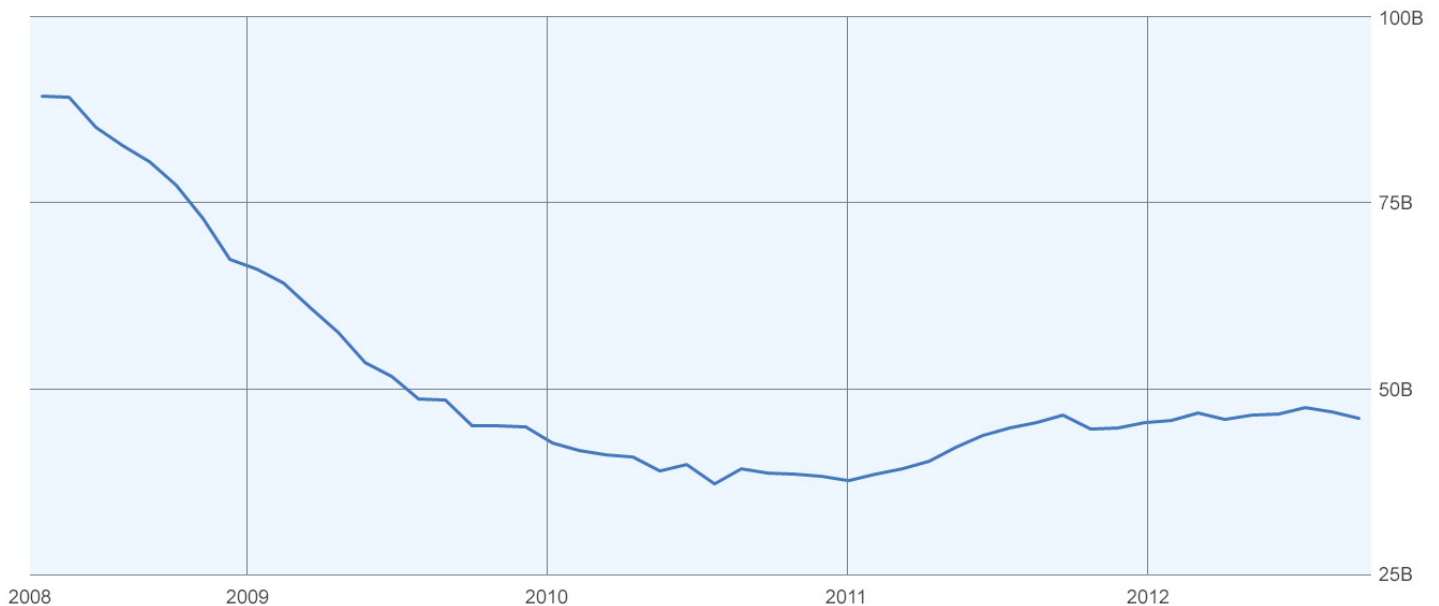


Chart: the rapid decline and slow upward trend seen in the construction industry. Credit: ycharts.com, “U.S. Total Commercial Construction Spending.”

Even though we’ve seen some signs of growth since then—May of 2012 showed 47.68 billion in spending—construction jobs have been hard to come by. There have been a number of unfortunate and predictable side-effects of what many believe is the “new normal.” One is that many companies have been forced to shut their doors; another is that many construction workers have left the industry altogether, draining the talent pool from which the industry drew for so many years.

To say that there is a new cautiousness in the air would be an understatement. Everyone is looking for ways to mitigate risk and reduce the chances of getting hit by the debris as companies fall.

It’s probably no coincidence that prequalification has become a hot topic, and the subject of some consternation.

WHAT IS PREQUALIFICATION, EXACTLY?

Understanding a company’s ability to meet certain requirements is a key component in a project’s success, and that is where prequalification comes in.

¹Ycharts.com: “U.S. Total Commercial Construction Spending”

Prequalification, often referred to as simply “prequal,” is a process of evaluating and determining the capability of companies to perform construction services that meet the owner’s expectations. Understanding a company’s ability to meet these criteria is important in evaluating project risk, an inherent element of all construction projects. “Risk includes, but is not limited to, projects being completed on time, on budget and with the quality and functionality that meets the owner’s expectations,” says Jared Broghamer, Senior Estimator for Mortenson Construction, the 19th largest U.S. general contractor². “The purpose of prequalification is to mitigate as many of these risks as possible.”

Broghamer says GCs look at companies’ past experiences, resources, quality, and safety when prequalifying companies, and explains them like this.

Experience:

The company’s previous experience to complete projects of similar scope of work and/or with similar customers should be considered.

Resources:

The quantity of resources the project will require compared to the total quantity of resources the company has available should be evaluated on each project. Resources include project staffing, management personnel, financial, equipment, bonding and insurance capacity, technology, and the capacity to complete the work.

Quality:

Understanding a company’s approach to quality management, training, and verification of their work is important when prequalifying companies.

Safety:

On the safety side of the equation, GCs look for companies with a good history of working safely and the use of safety training and incentive programs, because poor safety performance of a subcontractor on a project affects the GC as well.

Summing up, Broghamer says prequalification is “A way of finding and understanding the skeletons in the closet. We obviously want to do everything possible to ensure that we’re partnering with those companies that have the same values we do. One or two issues may not be a deal-killer, but we have to know about it in order to make that decision.”

TRUST BUT VERIFY

Broghamer says Mortenson Construction uses prequalification as an efficient way to “align the right companies with the right project opportunities.” The company selection process is completed in two steps: prequalification of a short list of bidders to propose on the project, and proposal evaluation/selection. During the process, it’s important to verify with the

²ENR Top 400 Contractors, 2012, McGraw-Hill Construction.

companies their current available resources. Broghamer says Mortenson Construction requests letters from a company’s surety during the evaluation process to verify the company has sufficient bonding capacity to perform the work.

Deborah Burton, Assistant Vice President, Surety, for Wells Fargo Insurance Services, says that although the demand for bonding letters has increased significantly, the stance of surety companies has had to adapt to the new economic realities.

“Wells Fargo goes to great lengths to make sure every company we bond is carefully vetted,” says Burton, “but things have never been more volatile. One of the ways the sureties have dealt with that is to add a caveat that states that we assume no liability in the event that a company fails or fails to complete a job.” Referencing several recent examples of seemingly healthy companies that have had no choice but to walk away from millions in debt and financial responsibilities, Burton says, “All the information in the world can’t completely protect you from risk. There is always risk. But my job is to help minimize it.”

If you’re getting the sense that there is a new level of cautiousness in commercial construction today, it’s with good cause. Frankly, a lot of people in the industry aren’t fully aware of the laws surrounding bankruptcy. What happens if a vendor that was awarded a project fails?

An article in the July 2012 edition of Construction Executive called “What to do When a Team Member Pulls Out of a Project”³ says, “...According to the bankruptcy code, the general contractor may not hire another subcontractor to complete the [project] without court approval.” While often problematic, this code is there to ensure that the GC can’t interfere with the property of the debtor’s estate.

The bottom line is that failure of a single vendor can cause irreparable damage to a project in multiple ways, including schedule delays, cost overruns, and even legal fees. This is exactly what the prequalification process was established to solve.

GROWING PAINS

Understanding the new realities in the marketplace, more and more GCs have followed the lead of Mortenson, by adding a prequalification system, but often with less desirable results. Since there is no standard-issue, agreed-upon prequalification form, each GC is free to create its own, customized form.

There are two problems with this approach. The first, as you might expect, is that the quality and legal strength of these systems can vary widely. The second problem is that while a GC may believe that a home-grown prequalification form may perfectly suit its needs, having so many one-off forms can be a real problem for the end-users, the subcontractors.

“In the past few years, I’ve seen a big increase in the number of GCs requiring prequalification information,” says Jeffrey

³Construction Executive July 2012, “What to do When a Team Member Pulls Out of a Project,” by Patrick Warfield and Matt Devries.

Coonse, PE, Preconstruction and Safety Manager for Subsurface Construction Company. “I understand it, GCs need to protect themselves, but the prequalification process is time-consuming for everyone involved.”

The role of the GC in the construction process is that of director. If there is a problem, it falls to them to solve it, and quickly. If a subcontractor fails to finish a job, or files for bankruptcy protection, it's the GC who pays, then works to recover funds later.

“But the problem for subcontractors,” Coonse points out, “is that each GC has its own prequalification process, and having to not only fill out but maintain all that data takes time. All of the GCs request nearly the same information, just on different forms. This creates a lot of repetition, but the process could be streamlined if a standard could be set.”

Coonse's comments echo those of subcontractors across the country, many of whom spend countless hours filling out paper forms and faxing them to GCs, where the information will be manually keyed. But is there a solution? A coalition called ConsensusDocs believes there is.

THE SOLUTION

Jeffrey Coonse was on to something when he said that the process could be streamlined if it could be standardized. The prequalification process is less complex than it is repetitive and labor-intensive.

The solution may come in two parts:

1. Create a standard prequalification form
2. Provide access through an online application

First, the standardization, courtesy of a group called ConsensusDocs.

ConsensusDocs is an organization made up of a “diverse coalition of 37 leading associations,” and now offers a comprehensive catalog of over 100 contract documents. The résumé is important because the forms they provide have been carefully developed and vetted by people who know what works. And prequalification is no exception.

The ConsensusDocs 721 Subcontractor Prequalification Statement is designed to meet the needs of nearly any general contractor, regardless of size. That's great news for any GC looking for a trustworthy, standardized (yet customizable) prequalification process that can protect its business.

Now about that online access ...

Having a good prequalification form is a great start, but it still relies on paper, faxing, and manual data-entry. Offering the ConsensusDocs prequalification form online solves several problems, and provides several efficiencies.

For one thing, online access means information can be entered directly, by the subcontractor, and also maintained far more easily. From there it's a very short leap to being able to share information in common fields across multiple forms, requiring the subcontractor to fill out information not 10 or 20 times, but just once.

These are not pie-in-the-sky predictions; inside an application, like iSqFt, they are close at hand.

Brian Perlberg, Executive Director and Counsel of ConsensusDocs sees perfect alignment in his goals and iSqFt's. “ConsensusDocs' mission is to improve the design and construction industry by identifying and utilizing best practices. The iSqFt 10 application will bring efficiency to the prequalification process. We're more than happy to provide access to the content of ConsensusDocs prequalification statements for this positive industry development.”

THE iSqFt CONNECTION

In truth, this is a pattern for iSqFt, which has a history of making tasks less costly and more efficient by employing technology.

iSqFt got its start back in 1993, but the thing that helped build it into the industry leader it is today was a commitment to get plans and specs online. “Our big idea, our goal,” says Dave Conway, President and CEO of iSqFt, “wasn't just to provide a place to put projects and project documents, but to actively go out and get them and make them easily available to anyone, anytime. That has turned out to be pretty revolutionary, and it's changed the way the [construction] industry works.”

Some problems have been around so long we seem to have forgotten to look for a solution. Prequalification is one of those.

Putting documents online so they can be quickly and easily updated by vendors, and shared among GCs with the proper permissions (see sidebar), follows that same pattern--it's using available technology to solve a problem that's keeping the commercial construction industry from working efficiently.

What happens from here, of course, will depend at least in part on how the new process is embraced. iSqFt is making access to the new prequalification system free for GCs, for the time being, and believes it will become the part of a new standard for how prequalification gets done.

Understandably, vendors may have concerns about making it so easy to share sensitive data, and general contractors may wonder if a standardized document will be flexible enough to meet their needs. Here's why they needn't worry.

Security

The information gathered in the prequalification process is, obviously, extremely sensitive. That's why iSqFt has made sure that vendors have complete control over which companies can see it, helping to keep your data safe.

But even beyond that, iSqFt has set up “partitions” between sections within the prequalification form so access inside the general contracting company can be set by role. Several people may need access to names and contact information, for instance, but only a select few may need access to financial information.

Flexibility

For general contractors, iSqFt has made sure that although there is a core document for contact, financial, and safety information, there is the option to customize the form to meet their exact needs.

They'll also have the ability to sort by nearly any criterion, and designate people who should have rights to edit information, approve by section, or both.

ABOUT iSqFt

iSqFt is a leading software-as-a-service company, serving the commercial construction industry by offering its subscribers access to a network that connects tens of thousands of general contractors, subcontractors, suppliers, and manufacturers. iSqFt helps its customers thrive by offering the information and tools they need to work more efficiently and profitably.

Founded in 1993 as Construction Software Technologies, Inc., Cincinnati-based iSqFt serves as strategic partner for the Associated General Contractors of America (AGC) and local AGC chapters. iSqFt is also a proud member of the U.S. Green Building Council, and is committed to the practices of sustainable design and construction.

iSqFt has twice been included in Inc. magazine's list of fastest growing private companies, and has been named one of the Business Courier's "Best Places to Work" four consecutive years.

For more information about iSqFt and its applications, visit www.isqft.com or follow us on [Twitter](#).