Before You Go: 6 Tips for E&C Firms Working in a New Region

By Jon Tate

Accepting a project on unfamiliar turf can bring an array of unforeseen challenges. Here are some suggestions to help ensure a successful journey.

However successful general contractors (GCs) are on their own home turf, the odds change—and not necessarily in their favor—when they embark on a project in a new region. After all, even the most successful sports teams have better records at home than away.

But remaining on familiar turf isn't always an option if projects aren't plentiful, especially when you consider 10 states represent 60% of all tracked U.S. construction projects valued at $3.7 trillion, according to GlobalData.[1] Developers or owners may be expanding operations in different parts of the country and want to take you with them.

Here are some preliminary considerations to help give Engineering and Construction (E&C) professionals a competitive advantage.

1. **Make sure you have an adequate supply of skilled labor.** Finding workers may be the biggest hurdle. The labor shortage continues to plague the industry, and it's only getting worse, according to Ken Simonson, chief economist for the Associated General Contractors of America (AGC).

   "The unemployment rate in construction from the Bureau of Labor Statistics shows September 2019 was the lowest in the 20-year history of that series of months," Simonson says. "It's the same with other months this year. If you look at, say, August or April, we have consistently been at one of the lowest, if not the lowest, unemployment rate for that month for the past two decades."

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[1] "Project Insight: Construction in Key U.S. States." GlobalData. June 2019.

The [2019 AGC/FMI Risk Management Survey] shows that 80% of GC participants consider a shortage of skilled craftworkers as their top risk, marking the third consecutive year this concern has ranked first in the annual report. The second most critical risk cited was the limited supply of field supervisors, as mentioned by 44% of respondents and reflecting the baby boomers' mass exit from the E&C industry.[2]

Labor shortages can contribute to higher costs and project delays, problems that may be exacerbated when GCs move farther afield without established relationships with the local workforce. As the new kid in town, you'll face more challenges competing for those resources, especially if labor is not abundant in the area.

Tools such as the Construction Labor Market Analyzer (CLMA), developed collaboratively with the Construction Users Roundtable (CURT) and Construction Industry Institute (CII), can help by examining planned projects for a given area and the construction labor supply that's available. Its forecast of labor supply and demand, projected for up to five years, can yield a variety of useful data for companies contemplating new projects.

"Instantaneously and dynamically you're able to see the supply/demand within a particular region," said Daniel Groves, CEO of CLMA and director at CURT. "That region could encompass a 25-mile radius, or it could be all the way up to a region of multiple states."

"The sooner you use this information to begin planning, the better off you are," Groves said. "You have more influence earlier than later. We highly recommend that this planning process happens during R&D."

A local workforce is optimal, but if you suspect a lack of skilled labor could compromise your project, you may need to find workers who will travel with you. It's going to cost more, because you'll be paying per diem. Or you might decide to sub out certain packages that you had initially planned to self-perform.

Simonson, seeing little improvement in the labor outlook for the foreseeable future, also recommends a long-term solution—cultivating your own labor pool.

The timing may be ideal: A recent article from Construction Dive[3] noted that Generation Z, born between 1995 and 2010, represents the new crop of high school graduates. The article cites a survey published in 2018 from Barna, which focused on teens (ages 13 to 18) and reported that 42% of Gen Zers consider financial independence as the primary mark of adulthood, compared to 25% of the millennials who preceded them.[4] E&C can deliver strong wages and progressive career paths to help this success-oriented generation attain that goal.

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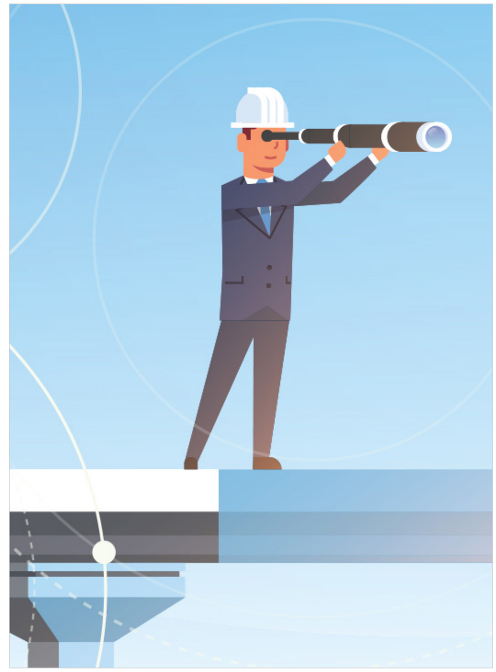
2 "The 2019 AGC/FMI Risk Management Survey: Executive Summary." FMI. 21 March 2019.

3 Slowey, K., Cowin, L., & Beeton, J. "7 Trends That Will Shape Commercial Construction in 2019." Construction Dive. 7 January 2019.

4 "Is Gen Z the Most Success-Oriented Generation?" Barna. 6 June 2018.

“At a time when the overall unemployment rate is now at a 50-year low, most industries are competing for workers,” Simonson said. “It’s important for construction firms to reach out to students and parents and guidance counselors. It’s something that companies really have to do on their own: They have to sell themselves.”



2. **Know the regulatory requirements.** State, city and county regulations can vary from one location to the next. Licenses, permits and lien rights are major parts of doing business and admittedly can be costly, but the consequences of failing to comply with governmental requirements can result in project delays and/or fines. It’s important to know what you’re getting into when you’re setting up shop in a new locale.

   If you’re used to working in, say, Mississippi, and now you’re working in California, you may find some environmental restrictions you wouldn’t have faced before. Or perhaps the new area requires GCs to have a complete set of drawings—with any request for information, changes, etc., incorporated—prior to beginning work in that project area, something that is not necessary in your home locale. We’ve seen GCs get tripped up on both the regulatory requirements and the local building ordinances for different types of projects (e.g., health care facility versus a commercial office building versus a casino).

   Also keep in mind that projects can span years and that changes in government administration or administrators mid-project could impact existing regulations. It’s important to keep up with any changes, understand their potential effects and document all agreements.

   In addition to doing your own research, contact peers who are either based in the area or have worked there frequently enough to be familiar with the various requirements and help you navigate the regulatory footprint. Insurance brokers and carriers with large networks also can be excellent resources, as can local chapters of an industry group such as the AGC.

3. **Anticipate supply chain disruptions.** We typically think of weather or a manufacturing setback affecting the supply chain and its impact on any given area. But a local transit strike could exact a similar toll—for example, impeding your ability to get ready-mix concrete to a project site. Although a GC can’t prevent a labor strike any more than a lightning strike, this is more about maintaining awareness of everything that could affect your work schedule and having contingency plans in place.

   Do advance research on what’s going on with the local labor climate. Anticipating worst-case scenarios can help you brainstorm a plan B and C for each possibility and help avoid potential supply chain problems. A quick phone call to a local news outlet or visiting its website for recent news might also be helpful.

This is where a risk register can prove valuable, especially for companies starting in a new region. If you use it effectively, a risk register can help you anticipate problems and devise ways to address them.

4. **Recognize that competing projects don't always come from your peers.** The first (and sometimes only) thing GCs consider when working away from home are the other construction projects that might disrupt their schedule. It's important to recognize that power plants, manufacturing and even shrimp season (more on that later) can adversely affect the availability of labor, materials and other resources.

   A power plant that has a shutdown or turnaround planned might hire 100 welders over three shifts for as long as two months—and pay them overtime too. If you need welders at the same time, your project may not be able to compete for that labor.

   Many years ago, when I worked on a building project in South Carolina, we discovered that we were competing with shrimp season for many of the same workers. We had no idea. We ended up paying a premium for certain types of labor and offering wage incentives for those who stayed with us through the end of the job.

   Scope out the area to see which local projects might affect your ability to hire workers or, at the very least, recognize the financial impact that labor competition might have on your budget. This is another issue to discuss with local peers and/or local chapters of industry associations.

5. **Familiarize yourself with geographic differences.** Companies going into a completely new area may be less familiar with what they're facing in terms of environment. For example, a GC working in certain parts of Florida could take a soil test in one spot and find that it's perfectly suited for H-piling. Move over just three feet, and the H-pile might disappear on the third blow.

   Similarly, weather is always a wild card, but, again, there are ways to reduce your risk, outlined in a recent FMI article on building resilience for extreme weather events.

   If your insurance broker or provider has an extensive network of risk engineers, it will be an excellent resource for sharing the geographic and climate differences that could affect your project in many ways. If it's your first time in a new area, a joint venture with a local firm might also be a good option.

6. **Find the right insurance solutions.** When GCs move into new geographies, they may encounter unfamiliar natural perils beyond flooding, hurricanes and earthquakes. Some regions are vulnerable to severe pop-up storms, high winds and hail, which can also present serious challenges. Work with insurance brokers and carriers to identify the threats that might exist at a given project site to determine the probable maximum loss associated with those particular perils. Ensure you have appropriate insurance coverage with appropriate limits, which would be specific to builders' risk.

Your casualty coverages might also be impacted by weather trends in unfamiliar regions. For example, if you're bringing crews to work in southern Texas in the summer, they are likely not used to the heat and heat stress that may accompany the season. Safety professionals affiliated with your broker or insurance provider can help you find the right solutions.

Venturing into new territories can be challenging, but if you do your homework, plan appropriately and seek advice from colleagues, there are real benefits to reap. And next time around, it will be that much easier.

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Prior to joining Zurich over 20 years ago, Tate worked for two large, heavy industrial general contractors in project controls management, project engineering, and estimating. His particular areas of specialization include assembling and leading large teams to success, pre-project planning, scheduling, cost estimation and control, subcontract administration, and labor productivity, impact and acceleration. He is experienced in construction claims analysis, negotiation and mediation.

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