



HOW TO AVOID SUBCONTRACTOR DEFAULT

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How to Avoid Subcontractor Default

As a contractor, one of the most important things that you can do for your business is to do business with the right subcontractors. Because these people will actually be doing work that you manage, they will reflect directly on you. Your customer will not know the difference between your company and the company that you hire; therefore, any negative repercussions that your subcontractors bring onto the project will reflect on your company because you are the face of the renovation.

Many contractors are actually afraid to hire subcontractors because of the liability that the contracting firm will incur. Others are actually requiring special contracts between the subcontracting firm and the contractor to make sure that the customer knows who is at fault for what shortcomings within a project. None of this matters if you have the right subcontractors on your side. Below are some of the best tips that you can use to avoid subcontractor default and leave your customers satisfied with your management skills as well as your construction skills.

First, you should only do business with subcontractors that you have worked with before. This may be a circular statement, but if it can be followed, then do it. If there is a situation in which you cannot do business with someone whom you trust, then you have other issues to consider. However, it is best to fall back on old relationships for the following reasons.

- Subcontractors who have worked with you before will have more incentive to do a great job. They know that you will give them work in the future if they do a great contracting job in the present. This alone is sometimes enough to ensure a great job by a subcontractor.

- Subcontractors that you know have obviously created a personal bond with you. People are much less likely to do a mediocre job for people who they see on a continual basis. They are also much more likely to let you know ahead of time if there is a problem because they know that you will allow them the time to fix it.
- Subcontractors that you have worked with before understand your standards. Sometimes it is simply a miscommunication of standard which brings about disagreements over work that has been done. If you have made your standards known through many different projects with a single subcontractor, then they are much more likely to understand exactly what you expect on the current project.
- Some projects take many subcontractors. Because construction is an art as much as a science, if you get together the same team of subcontractors, they will be much more familiar with each other's standards. They will be able to flow off of the workload of their colleagues and come together with a much more solid final product.
- The lines of communication will be much farther open with subcontractors that you've worked with before. They will have all of the relevant contact numbers for you. You will have all of their relevant contact numbers. Greasing the wheels of communication can sometimes be one aspect of a project that allows problems to be found and stopped before they become problems for the client.

The Finances of Subcontracting

Subcontractor default usually has much more to do with the financial situation of a subcontractor than it does with their actual ability to do the work. In most cases, you will find that subcontractors always have the manpower and the means to get the work done; most subcontractor defaults are because of financial mismanagement rather than a lack of training.

Because of this, you should qualify any subcontractor that you are looking to use on a higher level when it comes to finance. Make sure that you have the contractual ability to audit your subcontractors at any time. Check over their financial statements twice as often as you normally would if it is a new business that you are working with. Let it be known that you will have a constant presence over the entire project.

When you on a subcontractor, you will be asking a lot of questions to the people that company does business with. If you can access their employees, this is usually the best place to determine if your subcontractor is on the level when it comes to the accounting books. Make sure that your subcontractor pay people on time. If your subcontractor is late with paychecks, this means that the employees that they have hired in doubt reflecting as badly on you as if they were your own employees. Your subcontractor not paying people is the same as you not think people.

Aside from employees of your subcontractor, make sure that you collect information from the vendors that your subcontractor uses. You should endeavor to do business with a subcontractor that has good credit and pays vendors on time. Many subcontractors will also have subcontractors of their own. Make sure that those companies are paid on time by anyone that you are looking to do business with.

If you must do business with a subcontractor that has sub tiers below it, make sure that you have the ability to audit each and every company that is working on the project. This must be done directly and not through a proxy. As a contracting manager, your main focus should be on the finances of the project and how resources are being allocated. This is your value added to the project if you are not doing any of the work directly.

Levels of Subcontracting

In order to avoid subcontractor default, make sure that the companies that you hire do not have many sub tiers below them. Not only does this cause a lack of centralized management, but it also defers responsibility so far down the chain that you have no hope of actually being responsible for the people who are actually doing the work on the project. If you are subcontracting to a company to accomplish a specific task on a project, then they should be doing that work directly.

The more levels of subcontracting there are, the more questions you should be asking at the outset of the project. You should also put into place a mechanism that will stop there from being too many levels of subcontracting. There can only be so much diffusion of responsibility in a project. The levels of subcontracting should coincide directly with the budget that you have available to you and your ability to control the overall process.

Diversify the Process

This is especially important for large projects – you must diversify the subcontracting that you do on a project. Although the advice above may seem to create the impression that you as a contractor should limit your associations. It is important that you do not limit yourself so much that the project that you are working on is hurt. You should not expose the entire project to the same risk of default. You can avoid this by diversifying your contracting to companies that specialize in different aspects of any particular project.

Watch for Distress Signals

You should as a contractor, you are the final say for all aspects of the project. You should look for problems that may not be reported by your subcontractors. There are many indications that your subcontractors may not be able to complete the process. Most of them will have to do with financial and accounting measures that you should be able to audit. Below are just a few of the ways in which you will be able to tell that your subcontractors might move into default.

First of all, if your subcontractors are not immediately returning your phone calls or emails, this is a huge indication that they may be moving into default. Many subcontractors are not professional, nor do they trust you to give them a second chance if they report problems. They may believe that by trying to take care of the problem themselves, they will come out ahead. Most of the time, this is not the case, and even if they are able to fix the problem on their own, you should not take that chance as the face of the project.

You may be able to give a little more leeway in communication to subcontractors that you have worked with before. If you have never worked with a company before, you should note in their contract that they have to return correspondence within a certain period of time. Even the slightest issue should not be overlooked in this manner – if a company is willing to leave you out of the loop when it comes to a small issue, they will leave you out of the loop when it comes to larger issues as well. Also, small issues can become big issues over time. Defaults are usually a gradual process, not an overwhelming feeling that hits a subcontractor suddenly.

Make sure that your subcontractors show up to the meetings that you hold at the beginning of the process. Your subcontractors not showing up to your meetings is the same thing as not returning your phone calls. If they feel as if they do not have to communicate with you, then they will be much more likely to default on you.

Work with project managers who you know will report problems quickly. You will be able to find out the history of a particular subcontractor through their past affiliations and through word-of-mouth. Do not forgo this information as you decide on the subcontractors that you will use on a particular project.

Using Social Media

When it comes to researching subcontractors, social media is one of the most important tools that you can utilize in order to determine the best fit for your project. You will be able to view first-hand the work that a particular company does. You will also be able to view comments from past customers and look up any complaints that people have had against certain companies.

Subcontractors that have been listed with the Better Business Bureau are always your best bet. Not only does the Better Business Bureau oversee quality complaints that people have against subcontractors, but they also know whether those complaints have been addressed in a thorough manner. In order to prevent defaults, doing business with companies that are listed on the BBB is always a great way to go.

React Promptly

It is actually quite possible that some subcontractor defaults are the fault of the contractor. If the subcontractor is reporting problems as they come up and is not over extending the budget that it has been given, the fault may lie with the contractor. You must make sure that you respond quickly to complaints and requests for budget changes if you are going to prevent subcontractor default.

A subcontractor actually has the right to default if unforeseen events require different things to happen within the budget. If a subcontractor calls you and you do not respond in a prompt way when it comes to budgeting a certain part of the project, there is very little that a subcontractor can do other than default. Keep in mind that your subcontractors are also busy operations with multiple projects going on at one time. If you are doing business with a reputable subcontractor, you must give them the benefit of the doubt when it comes to changes in the budget.

However, you must always be on the lookout for subcontractors who are only looking to extend their own budgets without worrying about the project. Although many of these problems can be avoided by simply working with subcontractors with whom you have a rapport, you must detail what you are willing to spend money on at the beginning of the project. This way, subcontractors will know exactly where they have leeway to extend their need for finances. They will also understand where the limits are, and if they wish to stay on the job and create rapport with you, they will work within the budget that has been set.

Take note of any subcontractors who are asking for extra money before they even know what the budget is. These are subcontractors that you likely want to avoid for your project. They will be the subcontractors most likely to default as they are simply in it for upfront payments and fees for doing no work.

There is no reason that you should have to throw good money after bad when it comes to contracting a project. If you find that a subcontractor is constantly overreaching the budget, then you should perhaps allow them to default or simply hire someone else for the job. Reacting promptly does not always mean that you react in a way that your subcontractor will agree with. Because you will have laid out all of your requirements at the beginning of the process, your subcontractor should understand why you have to let them go if you must replace them on the project. This should be communicated to the proprietor of the project as soon as possible – do not make the mistake of thinking that you can immediately place someone else in the position of a subcontractor and not have your proprietor notice the difference in the timeline or in the style of work. If you expect your subcontractors to communicate with you promptly, then you must do the same when it comes to the people that you have to answer to.

Subcontractor Default Insurance

If you are unsure about your ability to hire subcontractors with a good reputation in a certain area for a project, then you can take out a special type of insurance that will cover you in the case of default. This insurance is called some contractor default insurance, and it means exactly what it says. If a subcontractor defaults, your budget will not be affected. Any money that you have sunk into providing that company with resources will be returned to you so that you can hire another subcontractor that will actually complete the job.

There are many facets of business that you must consider when taking out subcontractor default insurance. First of all, you must consider your own reputation as a contractor. Your credit score and your past records will determine the premium that you will have to pay in order to obtain a viable amount of insurance.

You may also have to take out more default insurance depending on the type of subcontractors that you employ in your project. This is something that you should take into account when you decide on the subcontractor to use. If the price is too high when it comes to ensuring a certain company, then you know that company is likely a high risk when it comes to default. You will be able to strike them off of the short list for all future jobs as well as your current project.

Take note of all of your findings even if you do not choose to purchase an insurance policy from the company that is administrating your vetting process. This is information that you will be able to use in the future when other projects present themselves to you.

Using a Surety Bond

A surety bond is perhaps a better and upgraded version of subcontractor insurance. Surety bonds are not used as much; however, they are seen as much safer for contractors by many people in the industry.

Surety bonds protect the contractor by first only providing bonds to subcontractors that are qualified to perform the work for which they are contracted. Because of this prequalification, surety bonds are often much less expensive than other types of insurance. The chance of default is automatically lower because the companies that are eligible for surety bond are less likely to default in the first place.

Surety bonds also help a contractor determine the intangibles of companies that it would do business with. As a contractor, it is not likely that you have time to spend worrying about the moral and ethical parameters of your subcontractors. However, people who are well-versed in distributing surety bonds are actually quite good at determining these types of things along with the ability of a subcontractor to physically complete the assignments that they are given.

Surety bond distributors and companies will go over the parts of a business that are not immediately quantifiable. They will then report back to you with their findings, giving you a great deal of leverage when it comes to deciding the subcontracting company that you want to do business with. Even if you have not been able to decide on a subcontractor, you will be able to take the report of a surety bond distributor as further information to decide upon.

These types of bonds are also greater protection for the subcontractor as well. If a subcontractor has companies that it distributes work too, a surety bond can help to protect the companies that are in the middle of that arrangement. Other types of insurance are not able to protect all levels of companies involved in a project in this manner.

No matter what method you decide to use in order to avoid subcontractor default, make sure that you have the time to fully implement the procedure. If you are not going to use an outside insurance company to help you make a decision, you must set aside time to determine the intangibles of a subcontractor. If you have not done business with a subcontractor, you must take the time to look up their previous work engagements.

If you do decide to go with a surety bond provider or another type of insurance company, make sure that insurance company does not have any associations with other businesses that you do not know about. Whether you choose to vet your subcontractors or vet the surety bond company, you will end up vetting someone. There is no way around this part of the process. It is simply a part of being a contractor, and it is this diligence that will help you to ensure that your subcontractors do not default on you.

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