

How to Become a Competent Contractor?

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Editor's Note: This write-up was adapted from ALIRAN monthly magazine with permission.

Why is it that construction projects could not be completed within the original schedule? Do we know which project was completed on time and how to complete a project on schedule?

Why there are so few listed successful contractors?

Why there are relatively more bankruptcies in the contracting industry than in any other industry?

Why most engineers prefer not to work for contractors?

Here are some of the reasons for the above peculiar phenomenon:-

1. OPEN TENDER SYSTEM:

Although this system is the best way to ensure completion of any project/contract at the lowest price, it is the most difficult obstacle any contractor has to face in the real competitive world. He/she must know his/her business very well and be efficient to face the open competition all the time. Like a good athlete, he/she has to keep fit and constantly aware of the market conditions and his/her competitors. There is a classical saying 'cheap thing is not good and good thing is not cheap' But contractors always have to produce good work at the cheapest price. The first astronaut was asked just before take off, what was his/her biggest worry. He/she said that all these hundreds of tons of steel works supporting me were undertaken by the cheapest contractors.

In order to submit the cheapest tender, the contractor must be very optimistic in all his/her assumptions to get the cheapest rates. He/she must assume that he/she will not encounter any cash flow difficulties and that he/she will always get his/her progress payments on time to pay his/her

creditors. He/she must also assume that he will not encounter any difficulty in getting all the required materials on time to avoid any delay and also that there are ample workers lined up for him to pick and choose. Furthermore, he/she must also assume that the heavens will be kind to him/her and he/she will not meet any inclement weather during construction. Invariably, many of these assumptions will be misplaced and thus the completion will be delayed and will cost more to complete the contract.

In order to be able to submit the lowest tender to win a contract award, one has to have experience to acquire the necessary prudence to foresee the future market condition during the contract period.

2. MATERIAL PRICE ESCALATION CLAUSE IN CONTRACT:

"There was no material price escalation clause in the conditions of contract before I became the Secretary General of the Master Builders Association. During the unprecedented oil crisis, building material prices shot through the roof. As the result, many contractors could not complete their contracts for schools and other projects. After several appeals the P.W.D., now known as J.K.R. eventually allowed only cement and steel [leaving out hundreds of other materials] for price variation reimbursement. Without price fluctuation clause for the other items, contractors are exposed to risk. Bearing in mind that making excessive allowances would automatically price themselves out, contractors normally under price to achieve the lowest tender. Invariably most materials would increase in price due to inflation and other reasons."

A contractor requires many years of experience to be able to foresee the future and make adequate provisions yet without overpricing his/her tender.

3. ALWAYS MAKING PROTOTYPES:

No two high rise buildings in K.L. are the same. Construction of a building, a bridge or a stadium is always akin to making a prototype. The process is much more difficult than manufacturing any product where there is repetition. For example in making cars, the first prototype and the initial few cars may be more difficult to make but once everyone gets used to the routine, the manufacturing process will normally proceed smoothly. However, in the construction of buildings or any civil engineering works, there is very little repetitive work. Every construction site is different and most of the people involved have never worked together before. On top of this, there may also be inexperienced supervisory staff that can create a lot of difficulties for the contractors. Invariably, by the time all parties get used to the routine, the scheduled time is over.

In order to overcome this problem, the contractor has to treat all his/her staff well so that they will remain working for him/her. With these experienced workers any project can be completed efficiently with a reasonable profit.

4. FINANCIAL DIFFICULTY:

Most contractors do not have sufficient capital to finance their undertakings. Contractors generally do not have fixed assets like most manufacturers. They usually do not have land and buildings but instead, they have construction equipment. Unfortunately, banks do not accept these moving assets as collateral for a loan. Without bank financing, contractors will obviously find it more difficult to undertake their business.

In order to overcome this problem the contractor must know how to

improve his/her cash flow by putting higher rates for those items that will be done during the early stage and put lower rates for those items that will be done at the later stage of the project. Of course, in rearranging these rates the contractor has to be careful not to overprice his/her tender and at the same time he/she has to be aware of contract variations. If there are additional works where he/she has lower rates he/she will lose but on the other hand he/she will gain if there more works where he has higher rates.

Not all variation orders you can vary the tender rates.

5. HOW TO MAKE USE OF MATERIAL SUPPLIERS AND MANUFACTURERS TO WIN CONTRACTS ?

In preparing the tender you can collaborate with the material suppliers. They must give you their best prices on condition that when your tender is successful you will be obliged to buy materials from them with longer payment terms. In some large projects where there are fairly large requirement of cement, paint or tiles you can make arrangement with the manufacturers to give you special rates and longer payment terms. With these advantages your tender will most likely be the cheapest.

6. MORE TRADE SCHOOLS TO PRODUCE MORE SKILLED WORKERS:

There are lots of qualified engineers and many universities are producing more engineers every year. With due respect, all the engineers in the world will not be able to complete a project without adequate skilled workers. The Government should build more trade schools and offer more scholarships in order to produce more skilled workers.

In fact most of the Chinese contractors started as apprentices and rose from the bottom to become successful contractors e.g. Tan Sri Yeoh Tiong Lay and Tan Sri Lim Goh Tong do not have tertiary education. They all started as humble ordinary contractors. More people should be encouraged to attend trade schools or work as apprentices in construction sites.

Our Country will soon follow Australia, UK or other developed countries where tradesmen are earning more money on average than university gradmates.

Many of the tradesmen will eventually become good contractors.

7. IT TAKES TIME TO BECOME AN EFFICIENT CONTRACTOR :

As in any profession, you need a long time to gain experience to be good in your work. You learn from your own mistakes but unlike other profession, mistakes in contracting can be very costly. That is why there are more bankruptcies in contracting than in any other business.

8. HOW TO COMPLETE PROJECTS ON TIME ? WHAT SHOULD THE RESIDENT ENGINEER AND THE PROJECT MANAGER DO TO ENSURE THAT THE PROGRESS IS ON SCHEDULE ?

These questions could have been answered if the previous recommendation were adopted. The author will answer further questions forwarded for discussion on this subject. ■