RISK MANAGEMENT IN CONSTRUCTION ESTIMATING

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What to avoid!

"Sign here to indicate you have no idea what you’ve signed for."
What Type of Estimating?

- Estimate Type Means Risk Analysis Will Evolve
  - **Conceptual**
    - Articulate Scope and Assumptions
    - Clarity of Contingencies
  - **Extrapolation From Partial Drawings**
  - **Design/Build**
    - Definition of Owner Expectations
    - Use and Control of Contingencies
  - **Plan and Spec Bid**
    - Pre-Bid Clarification
    - Risk Matrix
    - Detailing Assumptions for Internal Transition
Preliminary Risk Analysis

- **Perform PRA First**
  - Prevents Wasting of Resources
  - Useful Factor in Selecting Projects for Bid
  - The Simple Six Questions

- **Know Your Organization’s Hot Buttons**
  - What Risks Do You Excel at Managing
  - What Risks Are Pain Points for Leadership
  - Can You Manage the Risk Effectively
Managing Risk v. Avoiding Risk

- **Distinguishing Risks: Those Worth Taking**
  - Identifiable
  - Quantifiable
  - Manageable
  - Subject to Sufficient Monitoring

- **Or Beyond Your Company’s Tolerance?**
  - Vague
  - Difficult to Manage
  - Difficult to Quantify
Some Areas of Risk To Consider

- Schedule
- Pricing of Core Work
- Backlog Planning
- Contract / General Conditions Issues
- Insurance
- “Smaller” Risks
  - Often Difference Between Profit and Loss
Schedule Risk

- **Time Frame for Contract Award**
- **Performance Timeline**
- **Dependence on Preceding Trades**
  - Completion Timeline
  - Impact of Preceding Work Performance
- **Seasonal Issues**
- **Electronic Schedule Submission**
  - Who Bears Responsibility for Updating
Pricing Risk

- **Scope / Quantity Confirmation**
- **Unusual Details**
- **Installation Methods**
- **Performance Expectations**
- **Supplier Price Commitments**
- **Non Standard Payment Terms**
  - Flow Down From Higher Tiers
  - Subcontractors
  - Suppliers
Backlog Risk

- **Workforce Availability and Quality**
  - Review with Field Management
  - Clarity of Productivity Expectations
- **Management Capacity**
  - What Time Commitment Needed
  - Who Will Run Project if Awarded
- **Cash Flow Needs and Impact**
  - Forward Projection of Staffing and Material
- **Bonding Capacity**
Contract/General Conditions Risk

- Standard and Non Standard Terms
- Risk Shift
  - DP/Owner to GC
  - GC to Subs
- Changes To “Form” Contract
- Cost Shifting Measures
- Ability to Modify Agreement
- Extension/Evergreen Warranties
Insurance Risk

- **Compare Requirements with Program**
  - Know What Your Company Carries
  - Engage Broker to Participate in Review
  - Quantify Additional Cost Items
  - Clarify What You Will Provide on Bid

- **CIP versus Standard Program**
  - Identify Unusual Deductibles
  - Duplication of Limits
  - Cost to Wrap Insufficient Length of Coverage
  - Lack of Understanding/Control

- **Indemnities Outside Program**
Smaller/Sneaky Risk

- Unusual Cost Shifts
  - Project Onboarding Process
  - Reporting Requirements
  - Provision of Basic Services
  - Fees

- Protection of Work After Completion

- Serial “Punch-lists”

- Other Use of Contractor Site Staff

- Heightened Attic Stock Requirements
I’m an estimator—why do I care?

- **The Health of Your Company Matters**
  - Important to Set Projects Up for Execution from the Outset
  - Estimators Critical to L/T Project Management Success
  - Poor Risk Planning Impacts Profit Margins

- **Career Growth**
  - Good Estimators Do More Than Merely Produce a Number
  - Leadership Potential in Understanding Risk
  - Ability to Cross Into Other Estimating Types
If I only focus on a few key issues?

- **Leveraging Your Team**
  - Internal Resources
  - External Advisors (experts)

- **Identifying Risk Related Issues First**
  - Don’t Waste Limited Resources (Time, Cost)
  - Allows Leadership to Make Timely Decisions

- **Understand Your Organization’s Risk Tolerance**
  - What Risks Does Your Company Manage Well
  - Where Are the Principals Limits