

EXECUTIVE SUMMARY: THE CHANGING RISK ENVIRONMENT

Every sheet metal contractor – and really, every contractor – is aware that construction is an inherently risky business. Failing to address the risks native to the construction industry has long been understood to have a downward pressure on industry profitability, as well as potentially more serious ramifications for the individual contractor. This paper seeks to address some of the core risks that have been facing sheet metal contractors for decades.

During the 2010's, three converging trends began changing the nature of the game for sheet metal contractors. Faster, more aggressive schedules for construction combined with a shortened and less complete design process and a desire for earlier cost certainty to create a core business challenge for contractors to navigate. Into this unpleasant stew of uncertainty, the COVID-19 pandemic dumped toxic new ingredients of supply chain disruptions, labor productivity and availability challenges, and a more challenging operating environment where the value of long-term relationships has been minimized in favor of onerous and one-sided contractual language.

Our study of the key risks facing the industry led us to conclude that our original assumptions – that the three core risks of earlier cost certainty, accelerated schedules, and delegated design were the major challenges to today's sheet metal contractor - were merely the tip of the iceberg. Additional sources of risk abound, and so our view of the risk environment shifted to five key themes.

1. **Fast, Cheap, and Poorly Designed** – the convergence of too-early cost certainty, too-shortened construction schedules, and design that is at best incomplete and at worst incompetent
2. **The Forty Years' War – For Talent** – the ongoing challenge of attracting, developing, and retaining a sufficient skilled workforce of craft labor to meet the growing demand
3. **A Post-Pandemic World (Re)Introduces Scarcity** – the supply chain disruptions that began with COVID and have now become a part of doing business in the 2020s
4. **Calamitous Contracts** – how upstream and downstream contracts have become more burdensome, and counterparties less willing to budge
5. **Unknown Unknown Risks** – those emerging risks that the industry has not had to face before the last decade which will disrupt the business in the future

Beyond these key themes, this white paper provides guidance for sheet metal contractors looking to improve their approach towards risk management with both strategic insight and some tactics that can be implemented immediately to tackle the industry's most persistent and significant challenges.

IT IS UP TO THE CONTRACTOR TO FIGURE OUT THEIR APPETITE FOR THE RISK AND THEIR ABILITY TO MONETIZE IT. THE CHALLENGE IS TO SEE THE RISK; IF YOU SEE IT, AND CAN QUANTIFY IT, IT ENABLES YOU TO MAKE A BUSINESS DECISION.

– CHARLES F. BOLAND, GREYHAWK