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Subcontractor focus: Positioning your company for success

Subcontractors face distinct challenges in managing their finances and growing their businesses. This is particularly true in the current construction environment of high costs and tight margins. The good news is that by shoring up your company's strengths and confronting some of its weaknesses, you *can* position yourself for success today and tomorrow.

Current landscape

A variety of macro- and microeconomic conditions have led many subcontractors into rough financial terrain. Tariffs, for example, have increased the cost of some materials and disrupted supply chains. And the skilled labor shortage persists, with multiple factors further draining the hiring pool.

Meanwhile, many general contractors are intensifying their vetting of subcontractors. A 2025 study by insurance broker and risk advisor Marsh found that 42% of general contractors surveyed are conducting more thorough prequalification and risk assessments.

And for good reason: According to a 2024 survey of general contractors' risk managers by the Associated General Contractors of America, 70% of respondents saw an increase in subcontractor distress or defaults compared with the previous year.

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3 ways to shine

So, how can you improve the odds that you'll make general contractors' prequalified lists, get a fair shake during bidding and enjoy some leverage during postbid contract negotiations? Here are three ways to put your construction business in a positive light:

1. Increase cash flow. During prequalification, general contractors will look at your financial statements, which include your statement of cash flows. Many subcontractors are in precarious cash positions because they've been underbidding on jobs to maintain their backlogs and stay competitive.

One way to strengthen cash flow is through factoring (also called early invoice financing). It can allow you to receive faster payments — often within 24 to 48 hours — for a fee typically ranging from 1% to 5% of the invoice amount.

Tips for general contractors

Are you a general contractor? If so, adopting a standardized approach for managing your subcontractors can reduce the risk of defaults, conflicts and misunderstandings. Here are some tips to consider:

Refine your prequalification process. Screening subcontractors has become essential in today's construction industry. But it's critical to continuously improve your process. Don't settle for a list of a few recent jobs and a brief financial report. Ask for a full set of financial statements, safety records, verified licenses and insurance certificates.

Set clear expectations. Your contracts should explicitly and unambiguously address issues such as scope, deliverables, milestones and completion deadlines, quality control, and payment terms. But don't stop there. Meet subcontractors on the jobsite before their work begins to have a friendly conversation about where the project stands and what you expect from them. Explore various software platforms to improve communication.

Conduct postmortems. It also pays to establish a process for evaluating subcontractors *after* completion so you can put poor performers on notice or even remove them from your prequalified list. Take the time to review each subcontractor's performance comprehensively, from safety incidents and on-time completion to specific contract compliance.

Under these arrangements, the factor (finance company) receives a copy of the invoice you submit to the general contractor. It then advances you a significant percentage of the amount due, and you receive the remainder when you're paid by the general contractor. However, there are risks to factoring, so be sure to discuss it with your financial advisor before proceeding.

Whether or not you try factoring, be sure your business has formalized, strictly enforced billing policies and procedures. In some cases, you can improve cash flow simply by ensuring your company submits invoices to general contractors on time, and those invoices include complete, accurate and easy-to-read information.

2. Get strategic about materials costs. In a volatile pricing environment, relying on outdated cost data can quickly erode job margins. Regularly update your estimates using current quotes and, where possible, lock in pricing with suppliers for key materials.

You might also explore bulk purchasing, cooperative buying arrangements and early procurement strategies for items prone to price swings or long lead times. If you have long-standing supplier relationships, use them to your advantage by discussing discounts, extended payment terms or price protections.

3. Don't settle for boilerplate. Closely scrutinize subcontracts with general contractors before signing on to a project. More specifically, identify any potential risks to managing your cash flow and maintaining reasonable odds that you'll turn a profit. These may include unfavorable payment terms, burdensome change order requirements, restrictive dispute resolution procedures and onerous lien waivers.

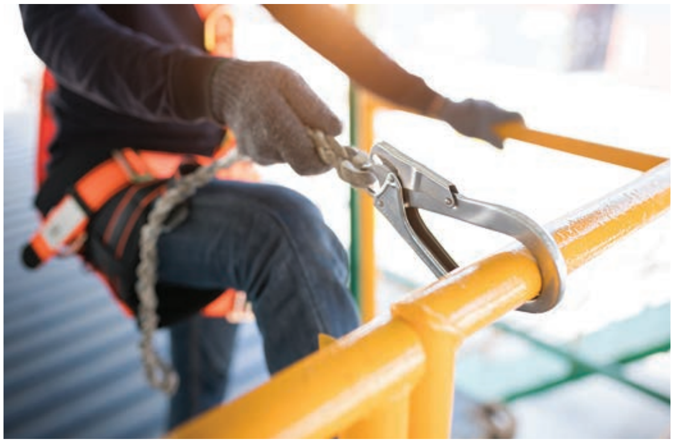
And remember, you don't necessarily have to accept disadvantageous provisions if you come to the table armed with alternatives that provide better financial protection. Consider consulting a qualified attorney to develop some bargaining strategies.

Going strong

For today's subcontractors, doing quality work and delivering it on time are just starting points. To enjoy sustained success and grow the business, you've got to develop your skills — and those of your staff — in areas such as cash flow management, materials pricing and contract negotiations. It's a tall order, but help is available. Work closely with your financial advisor to develop strategic objectives and actions that will keep your company going strong. ■

How to address high workers’ compensation costs

Workers’ compensation insurance costs may be on the rise for many of today’s small and midsize construction businesses. And the fallout can be harsh — cash flow, profitability and even bidding flexibility often suffer when premiums increase. But don’t lose hope: You and your leadership team might have more control over the problem than you may think.



Track your X-Mod

A good place to start is by determining why your costs are as high as they are. Insurers use an experience modification factor (commonly referred to as an “X-Mod”) to adjust workers’ compensation premiums for construction companies based on their actual and expected injury costs. If you’re unsure of your company’s X-Mod, ask your workers’ compensation agent or broker for your current experience rating worksheet, or request it directly from your state’s rating bureau.

Don’t assume your X-Mod is completely accurate. It’s calculated using data from several sources, including your insurer, your business and, in some cases, a third-party payroll provider. So, it’s worth reviewing the numbers submitted by all the parties involved — including what you’re generating internally.

For example, check with your insurance agent or broker to confirm that the loss amounts reported on employee claims — including amounts paid and, where applicable, reserves on open claims — match what the insurer reports to the rating bureau. Sometimes a long-closed case is mistakenly shown as still open. Or claim information may not have been updated regarding treatment progress or an employee’s return to work. Errors like these can inflate your X-Mod and your premiums.

It’s also wise to review claims regularly with your leadership team and agent or broker. You may find that certain jobs, crews or injury types are driving costs more than others.

Gather incident and risk data

To gather useful data, create a consistent process for documenting injuries, near-misses, unsafe conditions and employee concerns across all jobsites. This may mean implementing or improving your:

- Standardized forms,
- Field supervisor checklists,
- Project hazard analyses, and
- Post-incident reviews.

Consider technology upgrades, too. For example, a construction safety management platform can help you log incidents and near-misses in real time and analyze trends across jobsites. Once data is collected, use it to identify your biggest exposures. If the same types of incidents keep occurring, those issues should shape your safety priorities and training efforts.

And along with gathering raw data, open channels of communication to encourage discussion and generate ideas. React quickly to reported safety issues and share details about your response. Employees are more likely to speak up when they see that ownership takes their concerns seriously.

You can also strengthen buy-in by forming a safety committee and appointing employee representatives to serve on it. Include them in reviews of accidents, near-misses and jobsite procedures. Workers often spot risks that managers and even field supervisors miss.

Address prevalent threats with training

Given the industry's difficult hiring environment, many construction companies are using less-experienced workers, which can increase the risk of accidents and injuries. It also raises workers' compensation premiums.

To develop effective training, focus on the hazards most relevant to your business rather than relying only on general instruction. Consider your company's typical jobs, equipment, worksites and recent incident history. Then tailor training to the risks employees are most likely to face, such as falls, equipment misuse, lifting injuries or electrical hazards. The most effective programs are practical, easy to understand, and reinforced by ownership and management.

Don't limit training to new hires. Hold "toolbox talks" on jobsites regularly to keep safety top of mind and encourage openness about incidents, concerns and prevention strategies. Also, review and update training regularly to reflect changing risks. For instance, you may need to revise procedures when regulations change or new jobsite hazards emerge.

Take a proactive approach

For many construction businesses, high workers' compensation costs point to larger issues involving claims oversight, risk management and safety practices. Taking a proactive approach to continuously improve both the insurance component and project safety can make a meaningful difference. ■

Are you stuck in a bidding rut?

Contractors can fall into a rut with their bidding practices. What worked before may not always work again. By continuously refining your approach into a more strategic, data-driven process, you can improve your chances of winning projects that support the bottom line.

Think quality over quantity

Chasing every opportunity may spread your team too thin and reduce the quality of each bid. Focus on projects that align with your construction company's distinctive strengths. Consider factors such as job type, size, location, timeline and the project owner's reliability.

Over time, narrowing your sights on projects that fall in your "sweet spot" allows you to zero in on jobs with high win probabilities. It also helps curb the temptation to underbid on a bunch of projects just to stay busy, which can create long-term financial strain.

Ask the tough questions

Don't get so caught up in process that you overlook *strategy*. For each potential job, first evaluate whether you should pursue it. Ask tough questions such as:

- Does it fit our risk tolerance profile?
- Will we be able to work productively with the project owner?
- Does the job support our profit or growth goals?

When strategy guides bidding decisions, your estimating, pricing and proposal efforts become more focused and purposeful.

Maintain and use clean data

If your bids are based on outdated assumptions or, worse yet, inaccurate or incomplete information, even a seemingly well-chosen project can wind up unprofitable. That's why you've got to thoroughly gather, safely store and effectively analyze clean data. For each job, compare estimated costs to actual results. Look for patterns in labor performance, materials use and subcontractor pricing.

Identifying where estimates consistently miss the mark allows you to make adjustments that improve future bids. And over time, this creates a cycle of continuous improvement, so each completed project strengthens your ability to accurately price the next.

Offer value, not just price

It's easy to fall into the "lowest number wins" mindset. But many project owners are willing to pay a little more for the assurance that they'll get high-quality results delivered on time with minimal fuss.

Submit bids that reflect more than just a competitive price. Highlight your experience and success with similar jobs, adherence to specifications and standards, and strong safety record. A thoughtful, well-organized proposal can set your construction business apart — even if your price isn't the lowest.

Learn from every bid

Every bid, whether accepted or not, holds valuable lessons. Solicit feedback from project owners with whom you have a good relationship. Although owners don't usually share specifics, they may offer insights into pricing, capacity and experience. (Bidding info for public jobs *is* generally available and worth tracking if you work on such projects.)

Internally, discuss with your bidding team what went well and what didn't. Creating a consistent review process can provide a forum for productive discussions about strategy and process.

Make the connection

Ultimately, you want to align bidding with your construction company's broader financial objectives. After all, the jobs you pursue — and how you price them — play directly into cash flow, direct and indirect cost management, and profitability. Your financial advisor can help you connect your bidding practices with your financial data to uncover valuable insights. ■

Automate warranty tracking to better manage equipment

Many construction companies rely on heavy equipment to get the job done. But behind every backhoe or wheel loader likely lies a warranty, which can easily be lost or overlooked.

Getting optimal use out of your equipment warranties is critical. You don't want to pay out of pocket for maintenance or repairs if you don't have to. Nor do you want to fall out of compliance and risk losing coverage. The answer may lie in automation.

Keeping it simple

Perhaps the easiest way to track warranties is to send repairs directly to the dealer network and let the dealer handle warranty claims. Some vehicle and equipment dealers even offer customers an online portal to file and manage claims for both the base warranty and extended warranties from other suppliers. If this is an option for your construction business, be sure you and your relevant team members are well-versed in the claims processes of your dealers.

Another basic strategy is to log warranty information into a database using a spreadsheet program. That'll enable your staff to sort and search warranty information by manufacturer, purchase date, model number, registration number, expiration date and so forth to build reports using pivot tables.

Be careful, though: Most basic spreadsheets can't send notifications when a warranty is expiring or when coverage is available for a specific repair or maintenance task.

Taking it to the next level

For more advanced in-house warranty tracking, consider using industry-specific business management solutions. These may include asset management, construction maintenance and fleet management software.

Such solutions typically include a warranty-tracking component that enables you to input each piece of equipment into a central system that alerts technicians to pending warranty expiration dates. Plus, when a repair request or work order is created in the system, the software can automatically search warranty data per the equipment, components or parts and create a notification if there's coverage.

More sophisticated solutions also make it easy to track warranties for aftermarket parts — such as batteries, bulbs, starters, alternators, and steering and suspension products. Tracking and recovering warranty dollars related to aftermarket parts can add up to substantial savings over time.

Accomplishing the goal

No matter which approach your construction business takes, the goal should be the same: to avoid missing warranty coverage that could save money and minimize downtime. However, like any technology investment, acquiring an automated warranty-tracking solution should involve careful product research, a reasonable budget, and confidence that you and your staff will put it to good use. ■

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- We develop **relationships with lenders and bonding agents** and understand how to present your financial picture in their preferred format.
- We assist you in **keeping a close eye on debt, cash flow, profit margins** and other measures of financial health.
- We prepare **contracts in progress** schedules that management can understand which clearly illustrate gross profit, job costing and over/under billings per job.
- We have highly trained staff with **expertise in construction accounting** who are detail oriented, but who do not lose sight of the larger goal which is to provide our clients with quality services to meet their many financial needs.

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