



TRENDS IN CONSTRUCTION

Contractors Building Success During Challenging Times

Strategic Insights to Forge Ahead

It's a tough time for contractors. While inflation weighs heavily on many sectors, the impact on construction seems particularly pronounced. Meanwhile, ongoing supply chain challenges and workforce issues are further increasing both a contractor's cost of risk and likelihood of defaults and delays. Here we delve into the key challenges in this sector and strategies contractors can deploy to optimize their business and mitigate risk.



Key Challenges

1 Inflation

Inflation has raised the cost of materials such as steel, lumber and concrete, as well as the cost of labor. While the nation's infrastructure bill has opened the door to more opportunities for large public projects, inflation has made these projects more expensive than in the past, adding financial strains and making budgeting and cost control more difficult.



2 Supply Chain Stresses

Despite some recovery from Covid-related strains, supply chains remain stressed by geopolitical issues, tariffs, trade wars and other issues. Large electrical equipment, such as transformers, large switchgear and generators, are among the most impacted. Supply chain snarls can postpone project starts; delays in replacement can lead to costly postponements and potential defaults.



65%
of construction firms report projects delays due to supply challenges*

* According to an AGC/ Autodesk survey

3 Labor Shortages

Labor shortages remain severe, exacerbating project postponements as subcontractors become unavailable and firms may need to settle for a less experienced workforce. According to the same AGC/Autodesk survey, a full 85%² of construction firms reported that they have open positions. In addition, 88% report having trouble filling at least some of these positions, particularly when looking for workers who perform the bulk of onsite construction work.

61%

of construction firms (over half) responding to a recent AGC/Autodesk survey say projects they work on have been delayed because of labor shortages

4 Theft and Security Issues

According to the National Equipment Register (NER), construction site theft results in an estimated annual industry loss of over \$1 billion in equipment and tools. Not only does theft increase costs, it can also cause delays while stolen goods are replaced.

Strategies for Success:

Six Takeaways for Contractors

Against this backdrop, sharpening focus on some long-standing fundamentals of business and risk management can go a long way. These include:

1. Managing with discipline.

Contractors must take an honest look at their situation and ensure that they have ample resources and subcontractor relationships to follow through on work they take on. While it's difficult, contractors may need to walk away from a job or take on smaller portions of a project to keep the business healthy.

2. Actively manage contractual risks holistically.

Seeing the forest and the trees is critical. This means considering contractual risks individually and in aggregate. New models are also coming into play to help manage these risks, notably collaborative contract models.

3. Planning early, with robust contingency planning.

All contractors and subcontractors should be thoroughly vetted upfront and alternative sources of labor, supplies and

materials accounted for to minimize the impact of any future delays. Identifying local sources where possible may help to bypass potential supply chain delays. Supply chain management and tracking software, which continues to get more sophisticated, can help.

4. Investing in recruiting and retaining talent.

Overcoming workforce challenges requires a concentrated effort and investment. It begins with offering competitive wages and benefits – a message that appears to be resonating. According to the AGC/Autodesk survey, 81% of responding firms had raised pay rates for workers over the past year. Many have also added online strategies, such as social media and digital advertising, to reach younger applicants. (AGC). In-house upskilling and talent development is also pivotal to retain qualified workers and create a culture of loyalty and career stability.

5. Ensuring accurate valuations.

Inflation makes it especially important to maintain accurate and up-to-date valuations on insurance coverage. In recent years, contractors have found they are 'caught short' on builder's risk coverage when increased costs were not reflected in policy values. Regular reviews are critical to ensure that values consistently reflect the true costs to replace or repair materials in the event of a loss.

6. Maintaining a site security plan and security best practices.

A contractor's on-site plan – and actions – should include such things as cameras and off-hours security, perimeter fencing, lighting and signage, demobilizing mobile equipment, and fortifying storage containers, trailers and temporary buildings.

Thriving in the Face of Adversity

Today's construction challenges require robust, long-term strategies, including disciplined business practices, focused risk management, talent investment, ample insurance, and stringent security measures. These fundamentals can help contractors not only survive but thrive, whatever challenges lie ahead. At Chubb, we're here to support your journey towards resilience and success.

For more information and resources, click [here](#).

1. Source: Hiscox: Cost Trends: What's Changing Insurance Costs.
2. Source: The Construction Association 2023 Annual Workforce Survey

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