

ARTICLES

COMMUNICATING INFORMING CHALLENGING

ARTICLE 2

INCOME MANAGEMENT

RISK MAKING FRIENDS AND MONEY

You can do both with an Income Management Strategy linked to your risk management.

A construction Owner known to us is fond of saying:

"...Put three different Contractors onto three identical projects and, although I know their costs will be about the same, I will end up with three very different prices for the work..."

Of course, he could never prove it! This is one of those hypothetical situations that never really happens in practice – after all, no two projects are ever identical. However, it does illustrate this Owner’s frustration that it was almost impossible to predict exactly what it would cost him to have a project built.

Every construction project involves a major future financial investment; and the future always holds some uncertainty. But the Owner above was articulating more than that – he knew very well what it cost to employ labour and equipment; and so did his Contractors.

The real differences between forecast and final project price arose not so much from unforeseen circumstances, or even from cost management, but from the different approaches each Contractor had towards Income management.

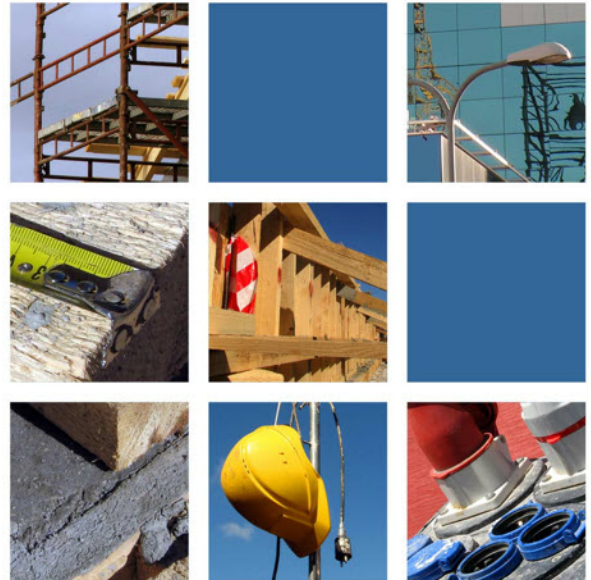
Cost Management

As engineers and quantity surveyors, our instinct is always to look for practical solutions to problems. We are constantly asking ourselves questions such as: *"How can I get over this difficulty?"*; *"What resources will I need?"*; and *"How much will that cost?"* Sadly, many of us stop at this point.

It has become Dal-Sterling’s practice to consider these issues in a more formal manner; by making risk assessments and deploying risk management techniques during the development of our projects.

And this all makes for safer construction.

The real differences between forecast and final project price arise from the different approaches to Income management



However, risk management can be used for more than this. It can be used as the starting-point for Income management too.

Income Management

Income management is the flip-side of cost management; and by this we mean consciously taking a different viewpoint on the same problem.

If this problem happens and we do these things to overcome it, should we be paid for doing them?

Rather than just concluding what we will do to overcome an unforeseen eventuality, we need to turn the problem upside down and ask ourselves: *"If a problem happens and we follow a particular course of action to overcome it, should we be paid for the changes?"*

The answer will usually be found in the Contract. If it is "Yes," then we need to ask: *"What do we need to do to recover payment?"*

It is quite usual for Owners to pay Contractors for overcoming certain types of unforeseen circumstance. However, you can never freely ask for whatever seems appropriate at whatever stage is convenient. There are always limitations – in scope, in timing, in notifications, in the level of detail and justification that must be provided.

When looked at from the viewpoint of the Owner's wallet, such restrictions are only natural. However, the Contractor is often surprised by the limitations since they are commonly overlooked.

If we expand our risk management practices to include Income management questions, we will discover these issues at an early stage. In fact, we will soon find ourselves facing a new concept - the need for an Income Recovery Strategy.

Such a strategy would include:

- Early-warning processes (to be able to put in notifications on time);
- Data collection processes (that separate the extra work associated with the unforeseen event from the original work scope); and
- Owner relationship management processes (that prevent the Owner from becoming upset by the Contractor asking for more money).

This last point is, without doubt, the most important of them all. An Owner needs to understand what the Contractor is doing and recognise that he is not demanding unjust enrichment.

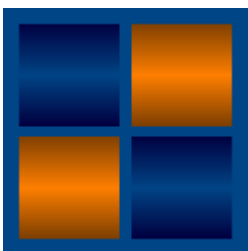
Owners often misunderstand a Contractor's intentions and Contractual entitlements, thus resulting in difficulty recovering extra payment.

In essence, good Income management for a Contractor comes down to good Owner management. That is, being:

Hard on the problem, but soft on the people

The Contractor therefore keeps the psychological balance of power. It is all about shaking hands, not shaking fists.

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