LURKING RISKS TO CONSTRUCTION-RELATED BUSINESSES IN 2024

The well-known and obvious risks to construction-related businesses like cashflow, labour shortages, etc. do not need to be further highlighted.

There are some risks to businesses which are not very well articulated and are not discussed until in many cases, they're too late to mitigate.

These are the top 8 risks to consider:

1. Worker well-being

Construction workers are twice as likely to commit suicide than the national average, meaning mental health and wellbeing impacts job sites, businesses, clients and trades significantly having far reaching and extensive repercussions on the well being of those suffering as well as those on the receiving end of those not coping.

The long hours, tight timeframes, skills shortages and budgetary constraints all place heavy burdens at all levels of the industry.

2. Regulatory updates and greater scrutiny

Government authorities have been tightening workplace health and safety laws, codes of practice and penalties for directors. This changes further expose employers to fines and penalties as well as the greater pressure of closer scrutiny.

3. Cybercrime repercussions

From collecting and storing client data to the use of third-party software, business reliance on technology continues to rise. This dependency also exposes businesses to a myriad of cyber risks, including ransomware, malware and scams which aim to impersonate, intercept and / or alter personal or confidential information.

A common scam impacting builders to be aware of, is when hackers impersonate the builder on email, asking the client to pay invoices to a different account instead of the builder's account. It all seems legitimate as the email comes from the builder's email account and is written in the same tone as the builder usually writes their emails.

4. Marketing mismanagement

Many businesses post a few happy snaps on their socials and call that 'marketing.' They often brag that they don't need to do marketing or advertising as they have always gotten by through word-of-mouth referrals. Builders especially, don't realise that the randomness of the type of clients they get as well as the timing of the enquiries as massive repercussions to the profitability of their business. The impact of 'buying' jobs or having very low margins in jobs sets their business up for massive and ongoing stress, impacting all stakeholders from the very beginning right until handover and beyond.

5. Cost escalations

Even though the craziness of the past few years with the spiralling costs materials, labour, insurance, etc. has settled down and is not as dramatic, cost escalations are still a factor to be faced. Many business owners in construction tend to ignore the actual cost base of running their businesses as well as rising costs throughout their projects. This has the impact of degrading their profitability and ability to continue operating. This factor does tie into having sufficient cash flow and funding for projects as well as the operation of the business but the aim is to factor in cost escalation as well as contingency plans well before they are required.

6. Solvency of their stakeholders

Builders are focussed on their own solvency but they really need to focus on the viability of their sub-contractors and suppliers. Having a contractor go broke during a project leaves the builder scrambling to find a replacement which often comes at a higher cost with a lower quality.

Considering the solvency of their clients is also very important. At the very least, seeing a formal approval finance letter from the client's bank before taking on a full job costing or quote should be a minimum. Seeing a client's credit record should also be part of the sales process to ensure that their client does not have a history of non-payment as this trait has been terminal to many construction-related businesses.

7. Strategic thinking and planning

A builder who has focussed on a certain market segment which is disproportionately suffering from the 13-interest rate rises or market / industry challenges may need to consider changing their focus.

Business planning at least once or twice a year during these times is critical to their ongoing success. Changing the focus from the lower end renovations market to the more boutique 'higher end' could mean a higher cashflow requirement, a different trade base as well as a different marketing approach to secure quality clients.

8. Performance management

With timeframes, budgets and quality standards being so demanding in the context of construction-related companies, a big factor causing failure is the lack of focus on targets and key performance indicators for companies, trades, subcontractors, suppliers, etc.

As a result of not measuring performance 'along the way,' failure is usually realised at the end of a project or the business going bankrupt; often with the owners being unaware of their susceptibility to the tax office's demands or other risks to their business until it's too late.

Don't wait until it's too late to reach out and get assistance. If your business is feeling growing pains or other pressures, reach out to Chocolate Money or to Harry Pontikis on 1300 137 539 to discuss options, solutions and recommendations.