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Running on empty?

Try these fuel-saving measures

Fuel prices are soaring to new heights and don't show signs of coming back to earth any time soon. The trend is making it more critical than ever for construction companies to maximize fuel economy in everything from bulldozers and backhoes to the trucks that haul construction equipment to job sites.

What are your alternatives?

Some contractors have begun using biodiesel fuel in their equipment. Usually made from soy or canola oil, biodiesel can be blended with petroleum-based diesel in any proportion and used in any diesel engine, including heavy equipment, without modifications to the engine.

Consumption of biodiesel increases in the United States every year. Thanks, in part, to federal emissions regulations set to go into effect in 2007, this alternative fuel is increasingly available. Studies have shown biodiesel reduces engine wear, primarily because it provides excellent lubricity, translating into more efficiency and improved fuel mileage.

What if you use traditional fuel?

If you prefer to use traditional petroleum-based fuel, you can still conserve resources by incorporating a few simple strategies such as the following:

Right vehicle/right job. Match the equipment to the load. Fuel efficiency declines dramatically if you use excess horsepower for a job. It also suffers if the equipment is too small and becomes overloaded.

Some heavy truck and engine manufacturers advise drivers to idle for only about five minutes for initial warm-up before starting out.

Maintenance. The better maintained your equipment, the better it will operate, maximizing fuel economy. An engine that isn't maintained doesn't perform as efficiently. For example, a clogged air filter reduces air intake and hampers combustion and, thus, decreases

fuel efficiency. Brakes that need adjusting create drag and dramatically increase how much fuel vehicles burn.

Idling. Unnecessary idling wastes fuel and can cause twice the wear on internal parts compared with driving at regular speeds. Some heavy truck and engine manufacturers advise drivers to idle for only about five minutes for initial warm-up before starting out. Drivers should also allow engines to cool down before shutting off their engines.

Behind the wheel. Vehicle speed has the largest effect on fuel economy — slower speeds are better. Hard acceleration consumes much more gas, so aggressive driving should be a no-no for all drivers. Fuel-efficient driving techniques can get more miles from each tank of fuel. These include starting out at the slowest engine speed that will move the load, using the minimum rpm and fewest shifts necessary when accelerating, using cruise control when possible, and using an engine brake.

Tire pressure. Inflate tires to proper pressure; under- and overinflated tires negatively affect fuel economy. So tire pressure should be checked regularly — at least once a week — and always with a properly calibrated tire gauge. Even well-maintained tires lose air pressure, on average, about one or two pounds a month.

Dual tires. Proper tire maintenance requires that tires in dual-wheel assemblies be accurately matched. Along with using the same tire size and air pressure, dual tires need to have similar tread patterns and designs.

Alignment. Check tire alignment regularly. Properly aligned tires help promote long tire life and better gas mileage. The front end, other axles, and steering and suspension-related components all need to be operating in the proper position as well.

Are these measures worth it?

Of course, the more fuel-saving approaches you implement, the less fuel you'll consume, and the more money you'll save at the pump. As an added benefit, you'll prolong the life of your construction equipment and add to the profitability of your construction business.

You're fired!

Now please don't sue me

No matter how diligent you are in hiring employees for your construction business, there will be times when it simply doesn't work out. Firing workers who fail to meet expectations should be handled carefully to minimize exposure to lawsuits.

Know the law on protected employees

Most construction workers don't have employment contracts, making them "at-will" employees who can be fired at any time, with or without cause, and with or without advance notice, so long as the termination isn't prohibited by law. Most companies know about federal and state laws that bar firings based on an employee's race, color, religion, gender or national origin.

But some may not realize that antidiscrimination laws also protect workers age 40 or older, as well as those with disabilities. What you may not realize is that you can get in trouble with the law by firing an employee for:

- Whistle-blowing,
- Refusing to participate in an illegal act, or
- Enforcing a legal right, such as filing a workers' compensation claim.

The real problem is that, if you can't prove you fired someone for a valid reason, it may appear that the termination was discriminatory.

Document process to avoid legal grief

To protect yourself, make sure your company has clear, written policies reviewed by an attorney about what kinds of employee conduct are subject to disciplinary action or termination. Be sure to include the policies in an employee handbook that is distributed to every

worker. It's also a good idea to require employees to sign a form acknowledging they have read and understood the policies.

Termination should never come as a surprise to an underperforming employee. Document his or her performance when it's unsatisfactory and conduct regular performance reviews, so the worker understands what's expected and how to improve. Write down incidents as they occur, recording the time, date and details. Doing so will help you improve your odds of winning in court if the fired employee pursues litigation.

If performance or conduct doesn't improve as required and firing becomes necessary, have a witness present when you meet with the employee. Should a former employee sue, a witness can corroborate the events of the meeting. Explain the reasons for the firing firmly and courteously and don't apologize for taking action. If possible, get the employee to sign a release of any claims against you.

Ask fired workers to gather their belongings and leave the premises as quickly as possible. Be cautious in discussing the discharge with others. Give details only

Do you need a professional employer organization?

If your daily routine doesn't leave room for handling simple HR matters, you may want to enlist the help of a professional employer organization (PEO). PEOs are akin to off-site HR departments, providing services such as payroll processing, benefits management and risk management. In some cases, they may also hire, fire and reassign employees.

If the idea appeals to you, be sure you consult an attorney to help prepare a written agreement that spells out the services to be provided, as well as liabilities and costs. Specify which party is responsible for compliance with local, state and federal laws governing the workplace. Also keep in mind that, regardless of the agreement, under law, both you and the PEO may be liable for unlawful conduct.

For more information about PEOs, visit the National Association of Professional Employer Organizations at www.napeo.org.

to those who need to know the facts. If you say too much, you risk a defamation lawsuit from terminated workers. It's important, however, to reassure remaining employees that their jobs are not in jeopardy, if that is, indeed, the case.

Be fair and even-handed

Above all, enforce your company policies and procedures uniformly and consistently. None of these suggestions guarantees you'll escape a wrongful termination lawsuit, but if you handle the event correctly you can minimize the likelihood that a fired employee will be able to sue you successfully.

In complex or sensitive firing situations, consult with an experienced employment attorney to help you avoid potential pitfalls and keep you in compliance with applicable federal and state laws.

Joint ventures are like a marriage — know your partner well

Contractors are naturally competitive, but there may be times when it makes sense to share the wealth with other construction companies. By combining resources through a joint venture, you and one or more other companies may be able to position yourselves to do even better than you could on your own.

And the two became one (at least for a while)

A joint venture is a business entity owned and operated by two or more organizations. Pooling resources may allow you to:

- Take on projects that are larger than you would normally bid on, with a view toward spreading the risk,
- Tap another company's unique skills,
- Enter new markets,
- Increase your ability to raise capital,
- Take advantage of local knowledge, and
- Increase bidding power and bonding capacity.

While most joint ventures are limited in scope to a single project, they can be left open indefinitely.

Will you marry me?

Just like with a marriage, take the time to find a partner that's a good match. Look for a company with a genuine interest in joint ventures and a similar corporate culture. The more partners know and understand each other, the more successfully they will be able to work together. National and local industry trade associations are a good place to begin your search. Other respected construction firms may also be able to recommend a suitable partner.

During the screening process, ask the potential partner's current and former clients to share their thoughts about the company. Also check whether the firm faces any legal actions. Finally, assess the company's resources, strengths and weaknesses, philosophy, manpower, bonding capacity, and workload. Before signing on the dotted line, make sure your and your prospective partner's organizations are capable of shouldering any problems that may occur on a project.

Drafting a prenup

A well-defined, written agreement is a must for any joint venture. The best agreements clearly establish the basic rights and obligations of the partners, along with business objectives, funding, equipment contributions, personnel, procedures, purchases, management authority and controls, profit recognition and distributions, assignment of rights, pricing, and records and accounting policies. Make sure your agreement also outlines an exit strategy for when the project is complete.

A professional financial or legal advisor can help you structure the joint venture and negotiate agreements to protect those involved. Avoid potentially costly misunderstandings later by communicating any concerns or questions early on.

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Working out the finances

A joint venture is generally considered a separate entity, maintaining its own accounting records and producing financial statements that are independent of the partners' financial records but also reflected in the partners' records. Your percentage of ownership and level of control in the joint venture dictate the accounting method used to report joint venture activity — cost, equity or full consolidation:

1. Cost. With this method, you record your initial investment and any subsequent financial contributions in the joint venture. You record earnings only when the joint venture receives or declares distributions in excess of the amount invested. If you own less than 21% of the joint venture and have no influence or control over it, you should typically use the cost method; if your share is 21% or larger, you generally can't use cost accounting.

2. Equity. When your interest in the joint venture is at least 21% and no more than 50%, and you have some degree of influence or control, you should probably use the equity method of accounting. With this method, you record your initial capital investment in the joint venture at book value and adjust it to recognize your proportional share of joint venture earnings, losses or distributions. As the venture makes or loses money, you record your share of the income or loss on your income statement.

3. Full consolidation. Typically, if you're the majority owner, with more than 50% interest in a joint venture, you will use the full consolidation method. This means you consolidate the joint venture's financial statements with your own financial statements for assets, liabilities, revenue and expense items. Then you subtract the minority partner's joint venture interest from your balance sheet and income statement.

Financial statement disclosures are a key component of joint venture accounting. Required information includes the name of the joint venture and percentage of ownership, liabilities and key contract provisions. And, depending on the accounting method you use, supplemental disclosures may be required.

Till death (or project end) do us part

The real work starts after the partners sign the agreement. Each partner should make sure its own scope of work is coordinated internally. While interdisciplinary coordination is everyone's concern, each partner needs to hold up its end of the bargain. Joint venture partners must rely on one another to make sure there are no last-minute surprises.

Just like a marriage, a good alliance is built on mutual communication, trust and understanding. Joint venture partners have little to lose and everything to gain in sharing the risks and the rewards.

Walk — don't run

Reverse auctions are no bargain for contractors

If you haven't heard of reverse auctions, brace yourself: Increasing numbers of project owners are relying on Internet-based reverse auctions to get the lowest bids for construction services. Unlike the traditional sealed-bid method, contractors vie for projects by posting progressively lower, rather than higher, bids online — for all competitors to see.

Enter at your own risk

How does the process work? Owners develop a list of prequalified bidders and invite them to participate in a live, online reverse auction. Bidders' identities are kept confidential during the auction, but critics say it's fairly easy to surmise who is competing. Contractors submit initial prices that are then ranked; all participants are informed of their ranking relative to other bids.

Bidders can submit lower prices as many times as they wish until the auction closes. At that time, all bidders are notified of the final bid rankings and the dollar value of the winning bid. In most cases, the contract is awarded to the lowest bidder.

Is the risk worth taking?

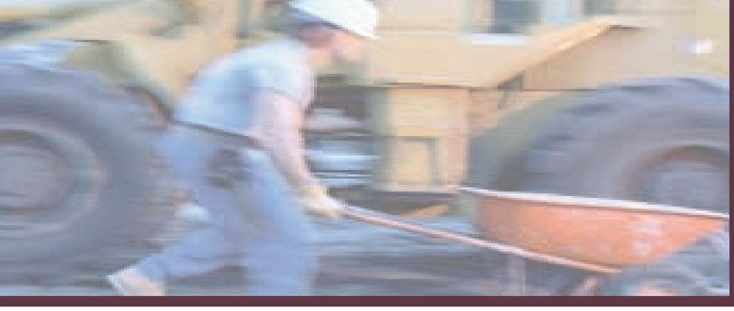
While owners hope reverse auctions will cut costs, leading construction organizations maintain they have just the opposite effect. Contractors tend to submit higher prices in the original bidding with the idea that prices will go down in a process known as "bid gaming." As a result, an owner runs the risk of not receiving contractors' best prices. By contrast, the traditional sealed-bid method motivates bidders to submit their best prices immediately.

Reverse auctions have other flaws, according to an industry coalition that includes specialty and subcontractor groups and the Associated General Contractors of America. By emphasizing price and little else, e-bidding disregards contractors' reputations and the quality of their work. Owners may not get the best contractor for the job.

In 2004, the U.S. Army Corps of Engineers concluded in a report to Congress that reverse auctions are not an effective means to purchase construction services. The Corps found that such auctions have no valid method to measure savings, are labor intensive and show no real return on investment.

Risky business for all

Proponents, meanwhile, claim that reverse auctions can save millions of dollars and that quality concerns can be protected in contract documents. By driving down contract margins, everyone in the industry will benefit, supporters maintain. While the jury is still out, contractors may up the ante by bowing out of projects that are awarded through reverse auctions.



Finding subs that won't let you down

Long before they take bids or award contracts, savvy contractors identify and evaluate the subcontractors they would like to work with. An objective prequalification process can help you ensure your projects are built on time, within budget and at the quality level that owners expect.

What to look for

The objective of prequalifying subcontractors is to mitigate project risks as much as possible. While prequalification shouldn't be used as the sole basis for awarding a contract, it should be incorporated as a critical best practice.

Prequalification processes should be based on both qualitative and quantitative criteria. To determine whether subcontractors are qualified to perform their respective scopes of work, evaluate criteria such as:

General information. What trade categories can the subcontractor legally perform and which ones does your company customarily engage in? What licenses, certifications and professional affiliations does the sub have? When was the business established?

Experience and reputation. Consider the subcontractor's direct or relevant previous experience in completing similar work. Past performance is a key factor in assessing whether a subcontractor is competent and capable.

Financial stability. Areas to review include, but aren't limited to, banking references, bonding capacity, cash flow, debt-to-equity ratios and credit history.

Litigation. Are there any judgments, claims, arbitration proceedings or lawsuits pending against the company or its officers? Has the subcontractor filed any lawsuits or requested arbitration with regard to construction contracts in recent years?

Safety. Has the company been cited for any federal or state safety violations? What corrective measures did the subcontractor take? How are accidents handled? What training does the subcontractor offer his or her workers? Does the company offer injury management and back-to-work programs?

Make the call

After identifying a list of subcontractors based on these measurements, check out the companies a little further. Call the Better Business Bureau to see if any complaints have been filed against them and do an online search for each company's name. Public documents and postings may yield critical information.

Just as you wouldn't hire someone for your own company without first checking his or her references, the same best practice applies to subcontractors. Ask for a list of references and clients, and then contact them.

At that point, your work is almost done. Call the subcontractors on your list and arrange meetings with each one. Introduce yourself and your construction business. Let them know you've checked them out and like their work and that you would like to consider them for subcontract work in the future. Talk about rates, ask what they would charge you and get their typical costs for different projects.

You're ready to roll

At the end of the prequalification process, you'll have a strong list of potential subcontractors you can call on as needed. Because companies and reputations can change over time, regularly update your list and remove any subs that no longer meet your standards. In selecting those subcontractors you believe are most qualified, you can move forward on every project with the utmost confidence.