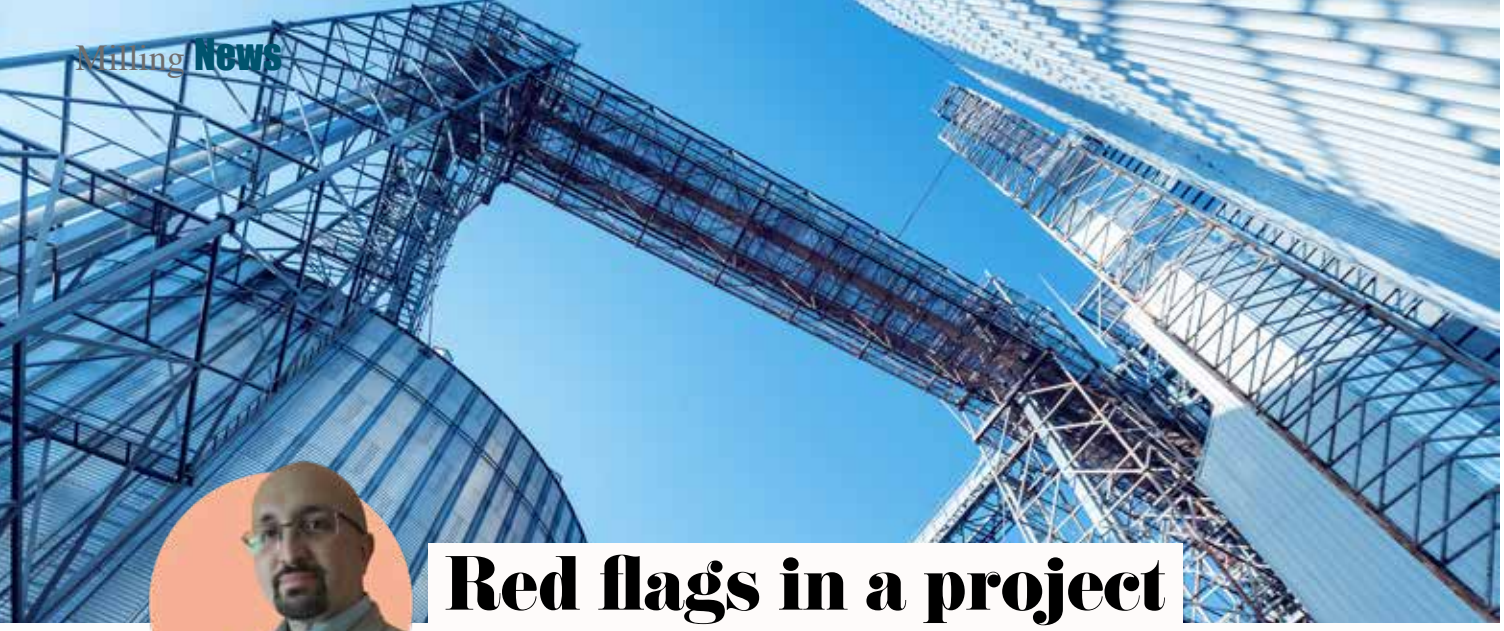

Red flags in a project

Gustavo Sosa

Sometimes, the best you can do for your business is walking away from a project. In my years of experience, I have identified some red flags that tell me to be careful with a client. On the other side, having seen the mistakes made by clients, I can also see some red flags in a supplier. This article tries to give some advice to both users and suppliers of equipment.

When to walk away from a client:

They are asking for a turn-key quotation but won't provide soil studies

There are so many ways this can go wrong. Nobody with half a brain would invest more than one million dollars and try to save five thousand on feasibility studies. The first thing he could be trying to achieve is getting the supplier to pay for it, in exchange for the not-very-serious promise to purchase, and then use the information to get bids from everyone else.

Maybe he is even expecting that you complete the project without doing the studies. Then, when the foundations fail, he will sue you and basically get you to pay for the project.

They are asking for detailed drawings and engineering information

This is called getting an engineering project for free and happens all the time. Most companies would happily pay fifty thousand dollars for a marketing research, but still will dodge paying for engineering. This is totally the responsibility of suppliers.

Like campers feeding the animals, they have taught their clients to misbehave. The problem is not doing the study for free, but the fact that the client is waiting for the first fool that will do it and then pass the information to all other suppliers trying to get the lowest bid.

My position with this is: if the project is simple and I can do it in less than two days, I will do it anyway; but if it is a complex problem requiring weeks of work, he has to either pay for the study or sign a commitment to purchase from me. If he won't do either, I walk away.

The negotiation starts by asking for a discount

There are many ways one can lower the cost of a project, and there are many different ways to consider the cost. If the project has several stages, you could minimise the initial investment (and then pay for expansions with its profit) or minimise the total investment (and that generally requires a larger initial investment) or minimise operation and maintenance cost (which maximises profit).

An educated client would talk about strategy first, not about discount. The ugliest part is that he is probably trying to get advantage from you. You see, I can understand simply asking for a discount if you are buying one silo that is pretty much standard but asking for a discount in a complex project shows an unhealthy attitude. It is not bad per se, but it is a signal of other problems, like a husband who can't name his wife's favourite singer.

They insist on something irrational

This is something like the boss who buys some substandard non-functioning service second-hand and then demands that his maintenance people make it work, because it was a bargain. Sometimes it is fun, like when this client made me repair his 80-years old belt conveyor.

Other times, it is torture, like when I had to build a concrete platform for truck unloading that didn't have a truck pit and was never going to have it because the client's project didn't leave any space for it.

They reject using a letter of credit for payment

This means their credit history is so bad that no bank will take the risk. This happens even to governments, so don't let the size of the company fool you. If he is not good enough for banks, he is not good enough for you.

They reject providing a guarantee

If a company is financially sound and behaves ethically, there is no reason for not providing a guarantee of payment through a bank. He is setting you up for something.

They insist that you provide an insurance/guarantee for a ridiculous amount of money

I saw this happen twice, by two different clients, fortunately to other companies. They will insist that, according to some company policy, all suppliers have to provide an insurance of

one million dollars (for example) and it doesn't matter that your whole supply is only fifty thousand.

This is done expecting that the supplier fails (and, subjectively, we always fail as no project goes exactly as planned) and then sue you. He is expecting to get at least some of the money back and he really doesn't care if you lose your company and your house.

Which are the red flags for a client? Yes, all the above are, because there are plenty of suppliers who are less than stellar, too.

They provided drawings, but they are in 2D

This is 2019. Nobody should be using 2D drafting any more. 2D doesn't let you check for interferences and doing any correction through several plants and elevations will take an eternity.

If you use 2D for a single machine, it means you can't use bill of materials (BOM) and that makes it much slower to quote and to make adaptations. If a supplier hasn't felt the need to be more efficient, that means problems.

For whole construction projects, you need Revit or Microstation, which are 3D systems too, to budget the project appropriately and schedule the works. Anyone who uses 2D, or the traditional 3D wireframe, is not up to date, by at least a decade.

The civil works project doesn't include structural calculations

We could include steel structures here too. If you ask for the structural calculations and the supplier can't provide them, it means they haven't done them, ever. There is this story about Van Halen, requesting to have in the hotel a bowl of M&M's without the brown ones.

They actually had nothing against brown M&M's, but they used them as a signal. If, after arrival at the hotel, they noticed the bowl wasn't "clean" it meant the local agency didn't pay attention to details and they were going to have to double check sound and lighting before the concert.

In this case, you, as the final user, don't need the structural calculations at all, but the fact that the supplier doesn't have them at hand raises a huge red flag; huge enough to consider changing suppliers immediately.

The schedule of the project was done in Excel

MS Project is the de-facto standard software for project management. There are others, but mostly oriented to software development. Any company with experience in project management will have at least a couple of licenses for MS Project and a bunch of people experienced in using it.

If your supplier gives you a schedule that is just a calc sheet with cells painted, instead of the typical MS Project Gantt chart showing the precedence relations, this is a company without experience or just too lazy to keep up to date with technology.

They insist on being paid in advance

If you are dealing with equipment manufacturers, payment in advance is normal. Unless you want to use letters of credit. With a letter of credit, the bank will pay them only after certain conditions are met; but for small amounts of money (in the order of four zeros) it doesn't make sense to go through the paperwork and pay the fees.

This issue is of concern regarding construction companies, because you should only pay after controlling the progress done on site. Maybe you have no money problems and could pay in advance, but they sure have them, and you will regret having trusted them. This is a company without enough cash for even 30 days of operations. If anything goes wrong, they will be unable to go on with the project and will dump you, disappearing from the face of Earth.

They don't have a quality system or quality control plans

While ISO 9000 is not the panacea, at least it means they have some kind of quality system. Other "methodologies" like TQM or Six Sigma are fine, but the supplier must show evidence of having implemented them.

For a supplier of mechanical equipment or steel structures, evidence of factory controls is enough. For an installation or construction company, you need to ask them for a quality control plan on-site. For example, a silo builder should spray hose the roofs of the silos before adding walls, to detect water leaks.

Don't tell them that. Just ask for the installation/quality plan and check if they mention this issue at all. Your equipment supplier or an expert consultant can help you identify issues like this. The construction company should propose a quality control plan for the concrete, to be implemented on site. Ask a third-party Civil Engineer about the local regulations and the available certified testing facilities.

The team doesn't include a surveyor

No need to have one full time (unless the project is huge) but you should see a surveyor once or twice a week to help the foremen transfer the information from the drawings to the ground, and also update the drawings according to corrections made.

Many foremen and Civil Engineers have training in surveying, but the precision of the work is not the same. Any nurse can stitch a cut in your forehead, but you would always prefer a surgeon to do it.

The team doesn't include a Safety Specialist

In any developed country it is mandatory to have one, but in many third-world countries it still isn't. Because of the legal responsibilities involved, your own Safety Specialist shouldn't be the one giving orders to them. Instead, he should talk only to his counterpart in the supplier's team, unless there is immediate risk involved and operations should be stopped. The fact that the supplier's team doesn't have a Safety Specialist speaks volumes of a bad culture and insufficient experience.

So far, these are the main red flags that I have learnt to recognise. If you know of any others, please tell me about them. I love to keep learning.

Gustavo Sosa is a Mechanical Engineer and MBA who specialises in Project Management. He is the CEO of Sosa Ingenieria, a consulting firm performing mechanical design and FEA/CFD, and the Chief of Engineering at RONTIL, a major distributor of grain handling equipment in Uruguay and Paraguay.

Gustavo has two decades of experience in grain handling and milling, including engineering design and project management for projects up to 60 million USD.

In the past, he worked for three years as a professor, teaching fluid power, mechatronics, conveyor design and industrial instrumentation at UDELAR, the largest university in Uruguay. He also helped build the Mechatronics Laboratory there.