

enterprising solutions

WITH ROBERT GROSSMAN

Subcontracting — Friend or Foe?

Hiring someone to do work for you used to be a lot simpler than it is today.

When you signed a contract or issued a purchase order, you knew exactly who would be showing up to do the work. While that may still be the case with smaller projects, today's enterprise systems can be a very different animal.

While there are many companies that claim to handle everything for large sophisticated systems, it's surprising how many of them turn to outside help to supplement their own skills or provide added manpower.

Subcontracted work is nothing new and it can be either an advantage or a drawback depending on the reasons behind it.

A contractor that never subcontracts work may miss out on the advantages of a specialist for projects that break new ground. They may also fall short at crunch-time, lacking enough people to complete their project if they have another project going on as well.

On the other hand, a company that frequently relies on subcontractors may lose control of the project. If there's a problem, it may take longer to resolve, causing delays and unnecessary friction.

Don't Create Contracting Problems

How can you ensure that subcontracting won't be a problem on your project?

First, be very clear that you want all subcontracted relationships disclosed up front, and on an ongoing basis if something changes.

Second, make sure you're still directing all activity through the prime contractor. You have no contractual relationship if something goes wrong, and informing the subcontractor of a problem doesn't necessarily protect your rights.

Should you hire a contractor that subcontracts work? That really depends on the contractor. Let's look at a few examples.

Contractor A handles large, sophisticated projects around the world. They have a core staff — project managers, system designers and support staff — but outside of their home market, they rely on subcontracted labor.

When they do a project in a location that cannot be served by one of their offices, they find a local contractor and have them perform the installation while the design and project management is handled in-house. This works well for them — they're competitive in price because they're not flying in their own people, and the services they provide require skills the local contractor does not possess.

If a problem crops up, there's someone local who can fix it, while the backing and experience of the larger integrator ensures that the project won't be a training mission for them. As long as they disclose the subcontracted relationship up front, it shouldn't be a factor.

Contractor B is moving in the opposite direction. They have the arms and legs to install the project but aren't sure if they can handle the design, engineering or project management. They subcontract that work to a third party who has the right experience to supplement their team.

Unlike the first situation, this one requires more thought. If the third party is essentially "captive" to Contractor B, this can make a lot of sense. They might be a semi-retired person, or someone who does this work part-time. If they've got a long-term relationship with Contractor B, there shouldn't be an issue.

But what if the subcontractor does other work as well? If they're in business



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independently of Contractor B, chances are they make more money when they contract directly, which means your project is always going to be a lower priority to them. If they get too busy with their other clients, or their relationship with Contractor B takes a turn for the worse, you may wind up with a contractor that doesn't have the skills to complete their project.

If you're in this type of situation, consider hiring both parties yourself. Essentially, turn Contractor B into an installer, with his intended subcontractor hired directly as your consultant, designer and/or project manager.

Sub May Be Better Than the Sum

The examples above bring up another dilemma of the subcontracted relationship: What if, in your opinion, the subcontractor is better than the prime contractor? Can you work directly with them in the future?

While there may be a noncompete agreement between the contractor and subcontractor, that's really their issue, not yours. If you prefer the subcontractor, you may consider approaching them directly the next time around.

Just be careful to weigh the consequences. It could be that the subcontractor seemed better because you saw them more, or the part of the project they worked on was higher profile. If they were part of a team working on the job and the project went well, you may want to keep the same team together the next time around. ■