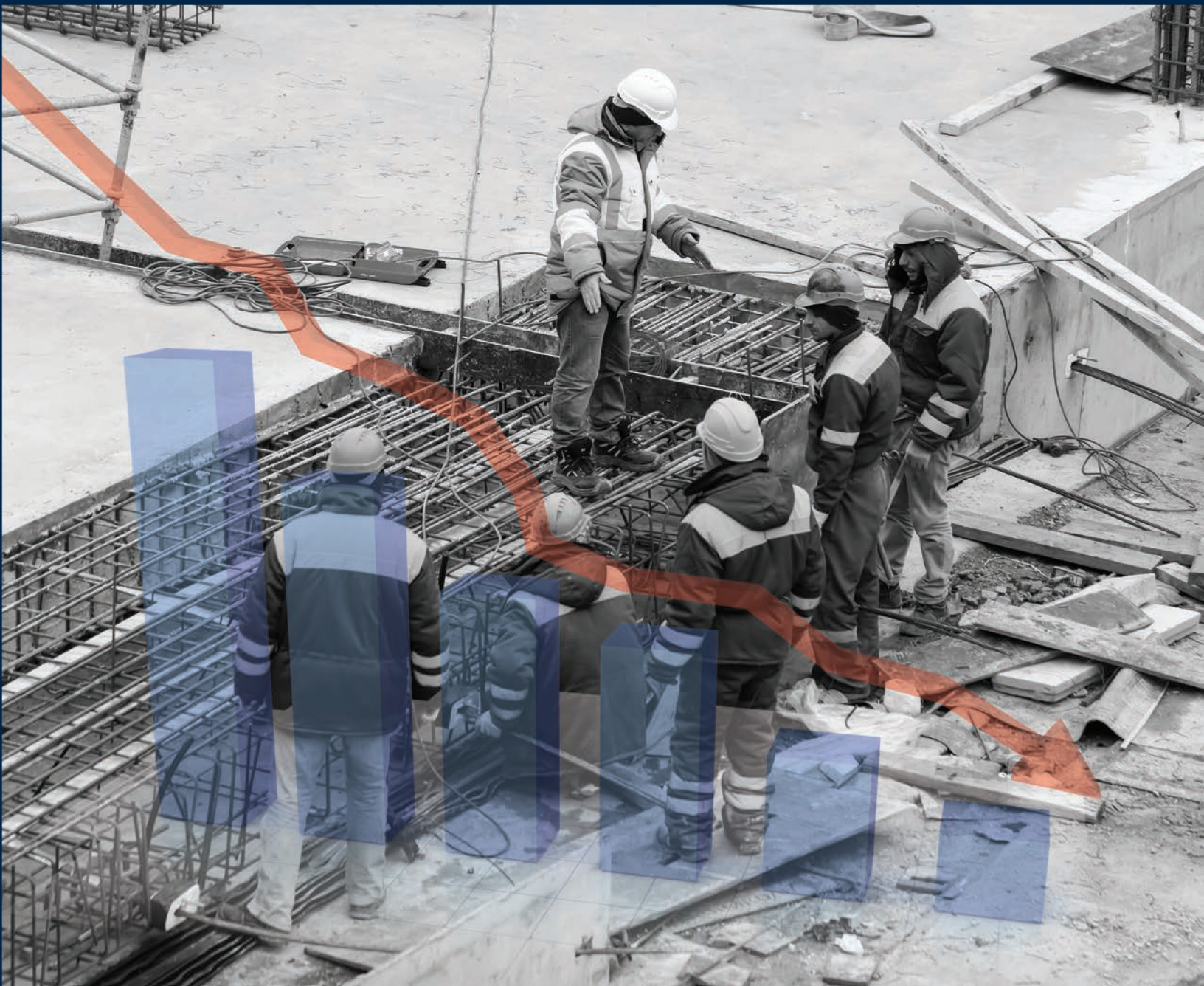




2021

The Holdover Phenomenon

A drain on construction project profit margin



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What is the Holdover Phenomenon? The Holdover Phenomenon is defined as "holding on to" or keeping full-time tier two craft employees on the payroll even when tier one employees by themselves can efficiently handle the current project workload.

This regularly occurs because contractors have been adversely impacted for years by the trade worker deficit and are conditioned to believe qualified, safety-minded craft professionals cannot be sourced, on a *precisely-as-needed* basis. Today's skilled workforce shortage is documented by the U.S. Department of Labor as being at record levels.

As a result, many contractors "holdover" tier two employees on projects for days or weeks based on concerns they will not be able to onboard qualified trade workers as the current project workload escalates beyond what their full-time, tier one workforce can handle; or, as new projects begin. Essentially, many construction businesses are willing to accept overstaffing – for short phases during the project lifecycle – as a necessary evil.

Result – Construction companies are paying unnecessary holdover costs related to wages, insurance and benefits for employees not needed on payroll to meet project workload demand. Whether held-over for 1 week or 5, workforce productivity significantly declines, and project profit margins plunge.

The Holdover Rationale

The evidence supporting the concept of the Holdover Phenomenon is based on data acquired through more than two decades of productivity analyses completed between Tradesmen International and construction businesses nationally. Thousands of in-depth studies using actual historical labor-related data, including W2 records, has shown that most construction businesses – small to large – are comprised of:

- **30% Tier One craft employees – The safest, most skilled and highly productive workers**
- **40% Tier Two craft employees – Safe, skilled and a little less productive workers**
- **30% Tier Three craft employees – Decent skills, reasonably reliable... a good pair of hands**

During slow economic markets, construction businesses typically layoff their bottom 30% and even a part of their middle 40%. However, in a robust economy, where backlog increases and skilled labor is in high demand, many of these same businesses "holdover" the bottom 30% on their payroll – even when they cannot be kept productively working. Causes for reduced workload in high economies range from seasonal factors and normal project lifecycle lulls to material delays or delays caused by other subcontractors. In addition, as projects end, there is commonly a short gap before the next project begins.

Keeping the bottom 30% on payroll during these short delays or gaps is the "Holdover Phenomenon" – conscious overstaffing for short periods of time. The phenomenon is triggered because of the widespread shortage of qualified craft professionals and, ultimately, on the misconception there is no reliable source that enables access to qualified workers on a "just in time" basis.

Prevalent Industry Challenge

The ability to sustain a balance between workload and skilled workforce throughout a project lifecycle is a constant challenge. This is difficult for two reasons:

1. **Natural project workload fluctuations** related to project stage, material or equipment delays, setbacks caused by other subcontractors, changing client directives, weather-related stoppages, etc.
2. **Inability to secure qualified craft professionals on a "just-in-time" basis** based on the growing shortage of a trained workforce, particularly in peak season and during robust economies.

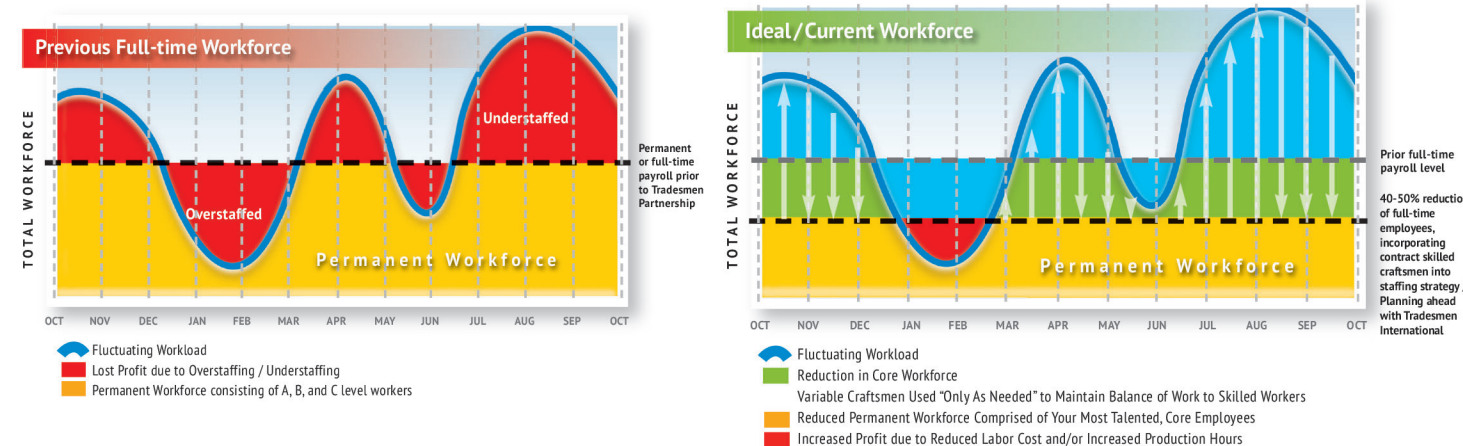
Proven Strategy/Solution

The industry's most profitable contractors are those who run a highly lean permanent workforce, comprised only of their most reliable, skilled and safest craft employees. As workload grows beyond what this lean group can handle, they are supplemented with contract skilled labor, such as is provided by Tradesmen International. Factors critical to the strategy's effectiveness:

1. **Collaborative labor planning is essential** – Tradesmen boasts a nearly 80% fill-rate on client trade orders when given a day or two notice; that fill-rate escalates to more than 90% when an additional 4 workday lead time is given.

To "stand prepared" to deliver the right number of job-ready craftsmen with specific trade skillsets, on a precise date, our service reps need to be part of the labor planning process. This can mean we attend regular project

Having confidence that Tradesmen stands prepared to provide qualified trades, on a "precisely-as-needed basis," enables contractors to run a lean full-time payroll and to maintain a right-sized workforce throughout a project lifecycle, ultimately achieving substantial profit margin gain.



production meetings, or at minimum, there is consistent communication with your site management who keep us updated on project specifics impacting manpower need.

This collaborative approach has proven effective with contractors of all sizes. It gives our field operations team critical insight into trades needed and skills required. Ultimately, the partnership results in an average 6 working day notice prior to the actual need date of our employee(s). This enables us to reserve our best available employees coming off other projects and/or to reach out – via our more than 200 recruiters – to specific individuals in our substantial trade databases comprised of nearly 500,000 workers. These are craft professionals who successfully completed our stringent vetting process and scored high on client satisfaction surveys.

2. **Tradesmen employees must be flexed in and out based on workload level** – When it is projected that your leaner, full-time employees can handle the work volume, Tradesmen's employee must be returned to us. After nearly 30 years in business, we find that – particularly in peak season when concerns escalate over finding qualified craftsmen – many contractors try to hold onto our employee(s) when project lulls occur. This is clearly counterproductive to efforts to sustain the work-to-worker balance.

The strong, collaborative relationship we have with site management substantially mitigates this Holdover Phenomenon. It gives Tradesmen personnel advance notice of when our employee should be taken off the project and assigned to another project in the area. Essentially, it keeps that worker on our payroll and, as the project's workload rises, we can reserve that employee – or another with a comparable skillset – for delivery to the jobsite on a "precisely as needed" basis.

Consistent Results

By incorporating contract skilled labor into staffing strategies and including Tradesmen in the labor planning process, you can achieve:

- **Elimination of holdover when you have the ability to obtain qualified, job-ready craftsmen precisely when needed** – Again, knowing your labor need 5-6 working days in advance enables us to regularly achieve a 90% order fill-rate on the specific date requested. That number approaches 97% within three days subsequent to that date.
- **Substantially improved workforce productivity** – Decades of productivity analyses performed have proven that the collaborative relationship between Tradesmen and our contractor clients results in an average workforce productivity gain of 17%.
- **Increased project profit margins** – Matching workload with the right level of qualified workers helps construction businesses get their projects done on time and on, or under, budget. The result is considerably fortified bottom lines.
- **Other significant labor-related savings** – In addition, Tradesmen handles all costs and risk associated with Workers' Comp, Unemployment, Benefits and Safety Training of our employees. These are costs that you would incur if you added to your full-time payroll.

Tradesmen International provides Labor Productivity Analyses and W2 Assessments at no cost to clients. The goal is to help determine – using your internal data – if your core, full-time workforce is optimized and, if not, exactly how much leaner your workforce should be to realize substantial profit margin gains.

To learn more about how you can receive a custom, "no-charge" Productivity Analysis, call 800.573.0850 or an office near you at www.TradesmenInternational.com/directory.



We meet with Tradesmen's service rep monthly and discuss current project standings and upcoming manpower needs. The goal is to give them the specific skilled labor qualifications we need and the dates we need them mobilized to our jobsite. By planning ahead, Tradesmen has been able to hit a 96.2% order fill rate for contract employees.

~ Sal Dimare, CFO

LMI Mechanical only carries about 12 electricians on our full-time workforce. We're not big enough to have an HR manager and when workload increases it's up to me or my supers to call our contacts or place want ads. That approach has never yielded the quality craftsmen that Tradesmen delivers with a single phone call.

~ Frank Finelli, Contractor

For years, I maintained 20 guys on my permanent payroll whether I needed them or not. Tradesmen proved to me that this approach crushed my manpower productivity and cost me thousands in profit margin loss. Now, I have 16 carpenters who I can keep productive; I use Tradesmen about 6 times a year during my peak season to meet workload demand.

~ Sam Frankino, Project Manager

Until we met Tradesmen, we had to either add a 2nd shift or pay our floor welders a ton of overtime. In both cases, it cannibalized our profits. Now, I give Tradesmen a week notice when I see our contract obligations can't be met internally and their welders step in only for as long as I need them. Doesn't impact my payroll costs or Workers' Comp in any way.

~ Lou Holtzman, Production Manager



Corporate Headquarters

Tradesmen International, LLC

9760 Shepard Road, Macedonia, OH 44056

800.573.0850

440.349.3432

www.tradesmeninternational.com/contact

www.tradesmeninternational.com

Major Accounts Division

Heavy Industrial & Multi-Site Markets

866.399.3789

Major@tradesmeninternational.com

Marine Division

Shipyards & Yacht Building Markets

866.883.1386

Marine@tradesmeninternational.com