
The background of the cover features a construction site at sunset or sunrise. Two workers in hard hats and safety gear are visible on the left, one in a grey shirt and the other in an orange vest. A large crane is on the right. The scene is overlaid with large, curved red and blue shapes that create a dynamic, modern look.

**WHY EARLY  
MANUFACTURER  
INVOLVEMENT IS A MUST  
IN A PROJECT DRIVEN  
BUSINESS**



**LIQUIMECH®**



In this paper we will look at **how project driven businesses can manage risks and remain profitable** through uncertain and unprecedented times.

As a project based business we are often faced with new challenges, due to extended Scope ( SOW ) or undertaking projects we have not done in a while or never done before, which creates large risks both to our reputations, but also financially.



in 2020

**41%**

of businesses  
fall in revenue

## Managing Risk

Despite all the rhetoric and money invested in it, risk management is too often treated as a compliance issue that can be solved by drawing up lots of rules and making sure that all employees follow them. Many such rules, of course, are sensible and do reduce some risks that could severely damage a company. However, rules-based risk management will not diminish either the likelihood or the impact of a disaster, just as it did not prevent the failure of many financial institutions during the 2007–2008 credit crisis.

Risk is simply defined as a 'situation involving exposure to danger' or to 'expose (someone or something valued) to danger, harm or loss'. Multiple studies have found that people overestimate their ability to influence events that, in fact, are heavily determined by chance. We tend to be overconfident about the accuracy of our forecasts and risk.

As the world becomes smaller due to internet trends, we are required to become more specialised, leaner and run a tighter ship than any period in history. According to the Australian Bureau of Statistics, in 2020 41% of businesses saw a fall in revenue and a third of all registered businesses face challenges paying bills.

As businesses we are faced with increasing levels of risk that we ultimately have no control over. This is daunting as a business leader or stakeholder as it's something we want to mitigate or minimise; many risks companies take in today's marketplace can be avoided. As we dig deeper, we will showcase some of the pitfalls project-based companies face and how they can be overcome.

# Profitability - Managing Staff Resources

As a project-based business, although we have our core target, every project is different and has its own challenges, every project has a multiple of trades and the variance from role to role is massive.

As new projects are won and the subsequent ramp up, many project-based companies tend to bring everything in-house from a design and engineering perspective. This can be both crippling to cash flows and a head spin for HR managers as they attempt to fill positions quickly often resulting in additional staff to cover the project who are either inexperienced or highly skilled predominately in a unique area. The outcome is individuals trying to fill the gaps in expertise which results in a team of 'Jack of all Trades' however, a master of none.

The results of this approach is somewhat devastating. Not only are details not clearly passed on to the fabrication company who the various packages are farmed out to, it also means all risk apart from warranties for faulty workmanship belong in the hands of the company. The company is then liable for any liquidated damages for hold ups onsite, any items that have been fabricated to supplied drawings that do not fit or are not engineered fit for purpose then there's any rework and the list goes on. The risks and costs associated with the design and engineering of projects in errors and omissions are often in the tens of millions.

## Project Staff

A company might think it makes good financial management to have a projects team with experienced personnel in each area of expertise on staff but this is an incredibly costly luxury. Unless all members of the team are always working on a profitable project using their level of expertise, it's a wasted resource. It makes more financial sense to outsource project work like design that requires highly qualified skills than to employ under-utilised staff.

## Sales Consultant

There is a another silent cost that can have a devastating impact on businesses, that tends to slip under the radar. It's the time it takes a consultant to present the solution, be awarded the project on behalf of the company which takes them out of the game until the project is fully handed over to a projects team.

This time out has a compounding effect on long-term profitability. Not only are they being paid to carry out tasks that they may not be qualified for, but they're not working in their primary job function. A basic formula below lays out what this cost looks like.

## Time out of sales function role/missed sales X Average Sale Value

These projects have long lead times so they need to be looking for the next opportunity straight after the last win. If the sales manager is busy working on a project, it's easy to miss a sales opportunity.



## In Summary – 4 Benefits of Using Outsourced Experts

**Often project-based companies don't realise they're wasting time and money using internal staff.** Underutilised, highly skilled staff or in-house staff that lack specialist skills is costly. Outsourcing specialised jobs to several, reputable suppliers can save a company a small fortune.

### #1 Better Design – Better Result

Use a specialist or the manufacturer to do the design; they know what works and what doesn't. Often the manufacturer's design is less expensive to manufacture than a company supplied one. Specialists are up to date with technological changes, industry updates, and compliance requirements.

### #2 Reduced Risk

When a company keeps a job in-house, they keep the risk in-house. If they do the design and drawings and there's a problem, the company is liable.

The rework costs and lost reputation could have been avoided if the company had commissioned specialists to complete the design and drawings thereby transferring all risk.

### #3 Staff Costs

Remove the costly overhead of in-house staff. By outsourcing specialists jobs, you don't have underutilised, highly skilled staff or 'Jack of all Trades Master of None' on the payroll.

### #4 Lost Opportunity of the Next Contract

When sales staff or management are working on a project, they don't have time to look or tender for the next contract. Large jobs have long lead times and as soon as one contract is secured, they should be working on the next to ensure there's always a pipeline of work.



If your company is doing design and engineering drawings in-house, **speak to Liquimech about outsourcing your specialist work.**



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