



SMALL CONTRACTORS INITIATIVE: BONDING & ACCESS TO CAPITAL

Partnering to Get Work

1. SMALL CONTRACTORS CAN PARTNER WITH PRIME CONTRACTORS TO GET WORK.

- a. Reasons to partner:
 - i. Gain experience.
 - ii. Gain market share.
 - iii. Increase sales.
 - iv. Increase bondability.
- b. Tiers.
 - i. What is a third-tier contractor?
 - 1) The prime contractor is considered to be the first tier and is the only tier with which the “project owner” works.
 - 2) The prime contractor may have a need to sub out a portion of the contracted work.
 - a) Reasons to sub out portions of work:
 - i) Inability to do the type of work.
 - A. No experience in the type of work.
 - B. Not enough manpower.
 - ii) No time to complete the type of work.
 - ii. The subcontractor that the prime contractor hires is considered to be the second-tier contractor. The second-tier contractor communicates and does work under direction of the prime contractor.
 - iii. When the second-tier contractor needs to sub a portion of his contracted work, the subcontractor that gets a portion of the second-tier work is considered to be the third tier.
 - 1) The third-tier contractor communicates and works under direction of the second-tier contractor.

2. WHO PAYS?

- a. The “project owner” pays the prime contractor for work completed.
 - i. The prime contractor pays the second-tier contractor for all work that the second-tier contractor is obligated to complete.
 - ii. The second-tier contractor pays the third-tier contractor for work that the third-tier contractor completed.
 - iii. Each tier is responsible for all the tiers under it. If the prime contractor subs to a second-tier contractor and the second-tier subs to a third-tier contractor; the prime contractor is responsible for the ultimate job; the second-tier contractor is responsible for everything the prime contractor subs to him/her; and the third-tier contractor is responsible for the smallest part of the job that was subcontracted to him/her. However, if the lower-tier contractors fail at their jobs, the prime contractor is ultimately responsible and will get the job completed while undertaking steps (legal) to recoup expenses and fees for having to complete a lower-tier job.

3. INSURANCE/BONDS.

- a. General liability, workers’ compensation, and automobile.
 - i. As a rule of thumb, subcontractors should carry their own insurances.
 - 1) Most project payment rules require insurance certificates for general liability, workers’ compensation, and automobile insurance. Check the contract minimum requirements for amounts.

- 2) Partnering.
 - a) Occasionally, the prime contractor “may” absorb your insurance costs if you are not insured. However, if you are not insured, the prime contractor might not be interested in your services.
 - b) If you have a general liability for \$500,000 and the contract calls for \$1 million, the prime contractor may make up the difference and withhold a fee from your contract for the additional liability the prime contractor is inheriting.
 - c) All contractors, regardless of company size, need to have workers’ compensation insurance. Very few “project owners” will allow you to do any work without proof of insurance prior to beginning the job.
 - d) Bonds:
 - i) The prime contractor may absorb your bond amount into his/hers if you do not have bond capabilities.
 - A. A fee may be charged to you.
 - ii) The advantage to subcontractors is they are already bondable.
 - A. Reduced prime contractor’s need to bond for high amounts.
 - B. Allows the prime contractor to take on more work due to the subcontractor being bonded.

4. HOW TO PARTNER.

- a. Marketing.
 - i. Market to prime contractors that need your services. Even if the prime contractors can do what you do, they often prefer to partner with subcontractors.
 - 1) Partnering with subcontractors allows prime contractors to have their human capital resources for other projects.
 - ii. Who to market to.
 - 1) Know your trade and the other trades that begin the project before you arrive and the trades that begin the project after your trade is complete.
 - a) If you know the paving crew needs the curb and gutter in prior to paving and you are a concrete contractor, market your services to paving contractors.
 - b) If you are a painter, you can market to the drywall contractor, who get projects to install, tape, and texture drywall, and often is able to get painting as an add-on to the contract. The drywall contractor may subcontract to you (painter).
 - c) If you are a plumber, you can market to landscapers. Often the landscaper is good at landscaping but not proficient at tying into the water system or installing a backflow preventer. Market to landscapers to complete all plumbing to the lawn sprinkler manifold (including the backflow preventer).
 - d) If you have small (Bobcat or equivalent) equipment and are on the project for your trade, market to other trades that need trenching, grading, and other equipment needs.
 - iii. Spread the word.
 - 1) Tell everyone about your company and willingness to partner on large projects. People to tell include:
 - a) Insurance agent:
 - i) Get a list of other contractors serviced by your insurance agency.
 - b) Small Business Development Center.
 - c) Go to classes and meetings to network.
 - d) Local plans rooms.
 - e) Trade publications:
 - i) Place ads.
 - ii) Look for prime contractor ads.
 - f) Materials suppliers.
 - g) Local trade association.
 - h) State certifying agencies:
 - i) Licensed trades.
 - ii) General contractor license division.
 - i) Others.