# Contractors Grapple With Increase in Pre-Qualification Requirements

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For decades, contractors have used third-party pre-qualification services to provide performance data to owner-clients. In recent years, however, the demand from these services for more detailed information has skyrocketed. As a result, contractors are forced to spend more time and money complying with the new requirements. The situation has prompted many in the industry to call for a better and more efficient way to give customers the information they need — and groups such as TAUC are taking action.

When pre-qualification services first launched in the mid-1990s, contractors were asked to report data on basic "bread-and-butter" topics such as risk and safety compliance. A handful of third-party providers collected and analyzed this data, then passed it on to owner-clients, who used it to decide which contractors would ultimately be hired for projects. But over the years, two things happened: more third-party services popped up, and all of them — new and old alike — started requiring contractors to provide more information.

"Third-party services quickly expanded their scope of services beyond the traditional areas of risk and safety," explained TAUC EHS Director Alex Kopp. "They started asking for more details on a contractor's insurance and financial status in addition to everything else. Then the list just kept growing."

What makes things even tougher for contractors — especially smaller companies with limited resources — is the sheer number of third-party services their clients use. Each service has its own proprietary software platform. "They all want

the same basic data, but contractors have to provide that data separately for each provider or customer, and in a variety of formats, depending on the software," Kopp added. "Companies have no choice but to devote more time and personnel just to enter the information — not to mention the cost of subscribing to the various services themselves."

## "Just Another Level of Regulation"

Last fall, as frustration over third-party pre-qualification requirements continued to simmer among contractors, a coalition of four national specialty trade contractor associations jointly investigated how it was affecting their members' businesses. The groups — The Association of Union Constructors (TAUC), National Electrical Contractors Association (NECA), Mechanical Contractors Association of America (MCAA) and Sheet Metal and Air Conditioning Contractors' National Association (SMACNA) — had earlier agreed to collaborate on issues affecting the construction and maintenance industry on a national and regional level, and this one certainly fit the bill.

The groups sent a comprehensive 16-question survey to their members in October 2021. More than 220 companies responded, split roughly 50-50 between small contractors (99 or fewer employees) and larger ones (100 or more). Here's a quick summary of the survey's major findings:

- 72% of employers said they were dedicating in-house employees and resources to manage the various

third-party platform subscriptions that must be kept up to date.
- 90% said the information third-party services asked companies to provide was "not always applicable to the scope of work being bid."
- 83% reported paying up to $25,000 a year on subscription fees for various third-party service accounts; the remaining 17% spent up to $100,000 or more.
- 32% said the pre-qualification process discouraged them from bidding on certain projects.

"It's just another level of regulation," said one contractor. "Third-party pre-qualification is like an extra layer of government." Another commented, "We have been struggling with this problem for quite some time. As we are a smaller company, sometimes new 'potential' customers would like us to sign up before we're awarded work or for small jobs where the cost [of pre-qualification] outweighs the overall gains yearly."

One contractor summed up the situation this way: "Like most things which start out to be good, the pre-qualification process has taken on a life of its own. A whole industry has grown out of what used to be a simple process of proving we're a legitimate contractor capable of doing the job."

## A Single Standard?

Many respondents said they wanted the industry to move toward a more standardized pre-qualification platform. "It would be ideal if all services had questionnaires in similar formats with common terminology,"

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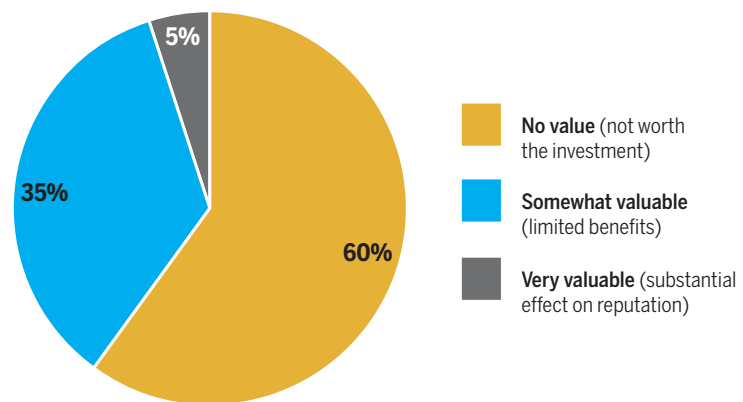
said one respondent. "Some large clients require prequals on small tenant finish work as well as large capital expansions, [which] just seems to be out of whack with the risk involved."

"I recommend a standard electronic prequal form used industrywide, with fill-in fields to provide additional info that is specific to the owner/GC/project," said another contractor. "I would require annual updates with a fee of $1,000 or less, plus $100 or less for each connection."

"The results of this joint survey — the first of its kind — have made it crystal clear that the current pre-qualification system is imposing a huge burden on contractors across the country," said TAUC CEO Daniel Hogan. "It's not as if contractors don't want to give owner-clients the information they need. It's a matter of coming up with a practical, efficient and streamlined way of providing that information."

"As a result," Hogan added, "over the next 18 months, TAUC, NECA, MCAA and SMACNA will begin exploring the efficacy of a universal pre-qualification program. We realize this is a huge undertaking, and coming up with a solution won't be easy. Everyone has an idea on how to improve the pre-qualification process, and now is the time to discuss them. We're committed to an open dialogue with all stakeholders, including owner-clients and third-party service providers." ∎

**When required, how much value does third-party pre-qualification services add? (i.e., return on investment)**

- **No value** (not worth the investment) — 60%
- **Somewhat valuable** (limited benefits) — 35%
- **Very valuable** (substantial effect on reputation) — 5%

**What issues or concerns does the pre-qualification process cause that most affect your organization?**

| Issue | Percentage |
|---|---|
| Confusing process | 41% |
| Takes too much time | 71% |
| Annual cost of third-party subscriptions | 74% |
| Too many third-party programs to manage | 63% |
| Other | 11% |