

Scott Morrisey
Owner
Red Line Wall Systems, Inc.
Commercial drywall and metal stud installation company

Construction has long been an industry filled with men considered rough around the edges, unable to sit behind a desk or just good with their hands. Construction jobs gave these men an occupation that suited their disposition and still enabled them the opportunity to provide their families a solid middle class life style. Our company has prided itself on its ability to provide jobs with good wages and a generous benefit package. We understand that if a man does not have to worry about taking care of his family he will be more productive on the job site.

Cash paid and 1099 under insured sub-contractors have always been a negative factor in our industry. But over the last 10 years the ranks of these people has been exacerbated by a wave of illegal underground labor which is able to expand into and withdraw from a region depending on work load. This can severely disrupt or in some cases destroy a small legitimate company that has long held ties to the local community.

Construction can be a very competitive, labor intensive business. Most jobs work on a 5% profit mark-up leaving no room for error. In the commercial drywall industry, labor will typically make up 40-50% of the total job cost. In a highly competitive industry like ours labor tends to be the prime target when pairing down costs for those willing to break established rules or bend vaguely written guidelines. Our company which supplies health, disability and dental insurance along side other benefits like holidays and vacations make these expenses a deal breaker when competing against the "underground economy".

Using Red Line as an example and the aforementioned benefits you can get a feel for what we are up against.

S.S.I. / Med	.08
Unemployment	.05
Workmen's Comp.	.11
Health Insurance	.16
Holidays / Vacations	<u>.08</u>
	.48*

When we bid against companies who bend or break established rules of engagement who are willing to short change their workers in any or all of these overhead categories, can put us at a 20 – 25% cost disadvantage. This disadvantage is impossible to make up in the total project cost line items.

Let us explore some of the myths and facts "as we see them" based upon our experience as a small company (50 plus employee's) in the construction business.

Myth 1. Construction is a low skilled occupation.

Fact: Nothing can be further from the truth. It seems to be the perception today that the more a person sweats and gets dirty the less skilled his occupation. As business owners we understand that it takes about 5 years of training and field application to become a qualified commercial carpenter. This is a significant investment of time and treasure for any business.

**as a percentage of hourly wage.*

Scott Morrisey
Owner
Red Line Wall Systems, Inc.
Commercial drywall and metal stud installation company

Myth 2. Our company needs "underground" labor to get the job done.

Fact: This is yet another fallacy many times driven by greed and companies over extending their abilities and qualifications. Good management is a lot like being a good farmer. Jobs and man power have to be tended to and managed. Good management is hard work but it is necessary for a company to succeed in a competitive market place.

Good management and oversight is being supplemented by lower skilled higher volume labor extending the survival of inefficient companies while simultaneously increasing the ranks of a lower skilled less productive work force.

Myth 3. Underground workers fill the void of a stagnate industry that has no need for innovation or continued skill development.

Fact: Underground workers stymie innovation and productivity gains.

If you over supply an industry with cheap labor there is a no need to innovate as long as a steady supply of cheap labor can be accessed.

In our industry alone over the last 20 years new tools, products and equipment have increased labor productivity by up to 50% in certain applications. Going forward I can envision an industry that uses more high tech tools, machines and materials making a highly trained and motivated work force more desirable than a lower skilled more plentiful labor pool.

Myth 4. As long as underground workers pay at least some insurance we are all protected.

Fact: Underground workers tend to be under insured and under taxed which increases the burden upon legitimate fully insured tax compliant companies. Any accident caused by an under insured company will eventually be met with an across the board premium hike. Many of these workers are using personal vehicles with no commercial underwriting to transport men and materials. Also in many cases "under the table" workers are straining our social safety nets by "double dipping". Some have no problem working a full week for cash while collecting an unemployment check that has been funded by taxed labor.

Some of the worst offenders are criminals, dead beat dads and illegals who only work for cash so as not to get caught up in a paper trail. Some employers understand this and use it to their advantage to drive down labor costs.

Point of reflection. We feel that the underground economy was partly responsible for the "Mortgage Meltdown" we are now experiencing. The ability for some builders to exploit easily attainable underground workers fueled an already heated housing market to the point of overcapacity. Some industry experts estimate that our over built inventory will last well into the year 2010. Had hot housing markets used naturally occurring internal labor shifts much like we had during the Texas oil boom years we quite possibly would not be in the unfortunate situation we currently find ourselves mired in

Scott Morrisey
Owner
Red Line Wall Systems, Inc.
Commercial drywall and metal stud installation company

Standard Example:

Company 'X' fully compliant drywall contractor.

Skilled drywall carpenter \$25.00 per hour	\$200.00
Insurance and benefit package as noted earlier 48%	<u>\$96.00</u>
Total daily direct cost	\$296.00
Average daily production 20 sheets a day or \$14.80 per sheet.	

Company 'Y' 1099 non compliant drywall contractor.

Skilled drywall \$25.00 per hour	\$200.00
Insurance and benefit package 0%	<u>0</u>
Total daily cost	\$200.00
Average daily production 20 sheets or \$10.00 per sheet.	

Project with 5,000 sheets of GWB:

Company 'X' Cost	\$74,000.00
Company 'Y' Cost	\$50,000.00

If this were your general contracting company who would you hire?

To date Red Line Wall Systems manor of competing with such cost structures is 3 fold.

1. Find good men with good attitudes who want to go to work everyday.
2. Provide them with training, tools, equipment to safely maximize skill levels.
3. Take care of the employee and their families the way would like if we were in their shoes.

The result while not the rule is above average performance.

The same men who once would hang 20 sheets a day will now hang 26 for an average cost of \$11.39 per sheet so on the 5,000 sheet job we become competitive at \$56,950.00.

While not the low bidder still close enough for some contractors and owners to consider the best project value not the lowest numbers.