

# ALBERTA Trade Contractors Coalition

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## New Market Disruptor? New Risk for Trade Contractors?

Everyone reading this article knows the hottest selling commodity of the last decade is data.

And, you also likely know that your industry, the construction industry, represents 10% of our GDP.

What you may not know, but should, is that a data amalgamator has latched onto the brilliant opportunity of collecting data from the construction sector and offering it for sale. Not only that, they have figured out how you, a contractor, will help finance their business development.

As a trade contractor you rely on three key business partners; your bank, your surety company and the general contractor you contract with. Each of these partners are highly motivated to have access to more industry data upon which they can evaluate and leverage your position.

Banks provide a critical element virtually every contractor must have, a line of credit. Banks have always had the ability to look at their book of business and make decisions about how much credit they can extend. They decide how much they should charge various contractors based on the historic results of their overall contractor book of clients. Now, a data amalgamator can offer a bank the opportunity to see more than just their own clients. Over time, through contractor participation, ie: contractors providing financial data to the amalgamator, the amalgamator will be able to provide insight on the financial well being of virtually all contractors working in new commercial construction. Thus, allowing the amalgamator to assist the bank in making better money-making decisions. An enviable, and profitable position to be in, no doubt.

Another critical element of a contractors' business is the ability to obtain surety. And, just like the banks, surety companies have decades of experience with their own clients. Their underwriting experience could potentially be improved if, instead of just seeing the data of their own clients, they could see the financial situation of every surety client in Canada. Again, we can all understand the motivation of a surety company buying this data.

The motivation of a general contractor to gather sub-contractor financial information is also obvious and it is through this pathway the data amalgamator found the perfect leverage to collect and invoice for the data they collect. For the past year and half, sub-contractors are being pushed by some general contractors to provide pre-qualification financial information to an unregulated, unsupervised data amalgamation company.

## For obvious reasons, sub-contractors are afraid to say no, but they should.

Try to find a sub-contractor who wants a general contractor to know more about their financial position. If a sub trade is too profitable, the GC will push hard for lower prices, if a contractor is struggling through a bad year, the GC will know they are vulnerable. The ability of the GC to compare your company score, generated by data analytics, to the entire industry is not likely in your company's best interest, nor is it healthy for the industry.

This brings us to the real the problem with all this collection of data. Up to this point, trade contractors have always relied on personal relationships with their brokers, their bankers, their surety companies and general contractors. Much of this will be sacrificed if banks and surety believe they can make better financial decisions by removing the human element and replacing it with data analytics.



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This development is not unlike UBER, Air BnB, or other market disruptors. All trade contractors should pay close attention to how this is unfolding and determine if they want to voluntarily provide the necessary data that will change relationships forever.

This may seem like just another pre-qualification company like ISnetwork, or Can Qual or Pre-Qual. However, nothing could be further from the truth. These existing pre-qual companies collect a totally different type of information; insurance coverage, safety records, training information, quality control information and the list goes on. None of them collect trade contractors' financial statements.

Trade contractors report that they object to the fee required by this new financial pre-qual program, and so they should, but the fee is just the tip of the iceberg. Before committing to participate in this program, everyone should take one moment and consider the long-term impact.

With a critical mass of trade contractors' financial information in hand, information which the trade contractor has paid for the amalgamator to collect, it is highly probable the amalgamator will in turn sell data to banks, surety companies and general contractors. How trades will be treated in the future, once this information is available, will likely be far different from how they are treated today. Plus, it is a small step from data collection to artificial intelligence to machine learning. The opportunity to negotiate based on built relationships will no longer exist.

Trade contractors know how important their surety company is to their on-going success. Today, your surety company evaluates more than just your financial statement. They consider the relationship with a contractor over time, and more specifically the contractor's success over time. And most surety companies will even work with their clients to see them tough times to assist with a return to success. Surety companies develop expertise in certain sectors and with certain sized clients. Access to an expanded set of industry wide contractor financial data has the potential to change every surety company's benchmark analytics along with their definition of success. Your relationship with your surety broker won't be as important as the score you receive from the data amalgamator.

So, before you hold your nose, sign the cheque and send your information off to an unregulated, unsupervised data amalgamation company, a company you don't know and don't have a relationship with, take a moment to reflect on what the greater consequences may be. Looking down the road, will your participation be part of the problem or will you be one of the independent contractors who didn't capitulate?

If you think this is just fear mongering, note what Google's chief executive called "for a balanced approach to regulating artificial intelligence, technology brings benefits but also negative consequences."

Our recommendation to all trade contractors is, do not provide your financial information to anyone without an agreement on how it may be used and shared. Better yet, when absolutely necessary, only provide your financial information directly to the owner with a Non-Disclosure Agreement.

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