

7 Secrets of Successful Contractors

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Introduction

Welcome to *7 Secrets of Successful Contractors*.

It's relatively easy to start a construction business, yet very difficult to manage one. Construction is a challenging industry to operate profitably. Why? Contractors face many of the same challenges all businesses face, such as:

- The need for adequate funding (initial and ongoing)
- The need for trained, reliable personnel
- The need for management talent
- The need for company policies and procedures
- The need to develop loyal customers
- The need for an effective Sales and Marketing plan/team

Contractors, however, also face additional obstacles:

- (Large) equipment investment
- Managing personnel and equipment in remote locations
- Coordinating material delivery to multiple locations
- Field personnel who still have a "It's the Wild, Wild West" mentality—that there aren't any rules
- Limited customer loyalty
- Customers who base purchase decisions on one factor—the lowest price
- New competitors, many of which are happy to make \$10 an hour on a job
- Suppliers who have been burned many times by other contractors, and subsequently charge you higher rates and/or make unreasonable payment demands
- Projects that can change drastically from the original plan (and bid!)

- The complexity of coordinating manpower, equipment, materials, and subcontractors to facilitate the smooth completion of work
- Customers who don't pay on time
- Field employees who often are less-than-motivated
- Customers who do not respect your company costs (overhead) or your need to earn a living (profit)

To Your Success

Because of the many issues facing contractors, it's critical to identify and be prepared to accomplish sound business and personal goals. The *7 Secrets of Successful Contractors* provides a great start in this direction. I suggest that you read through this Profit Guide once, then go back and attempt to use as many of the secrets as possible.

Properly implemented, the following information will help you see your business with fresh eyes. ***New knowledge*** is the first step in your success plan; ***taking appropriate action*** should be step two.

Good luck in building a more successful construction company!

Secret 1: Build Customer Loyalty

Issue: The misconception in construction that marketing is “optional.”

Many contractors believe that marketing and customer service efforts are not effective in construction. Thus, usually the only time most contractors devote to marketing and customer service is when they aren't busy—when, in fact, the time to devote to marketing must be done when you're busy, *before* job volume slows.

Here are several other misconceptions many contractors share:

- Building a continual stream of work is impossible.
- Contracting is a “feast or famine” business, and that will never change.
- You must take every job, regardless of how profitable, or you may not be able to pay your bills.
- Good customer service is based solely on the quality of your work.

Most contractors also believe that having a core group of loyal customers who provide repeat business isn't possible. There's still a strong feeling among contractors that customers lean one way—“the contractor with the lowest bid gets the job!” However, this isn't necessarily true, and can be overcome with consistently implementing a plan addressing sound marketing and customer service principles.

Overcoming the Misconceptions

During the past 20 years, my contractor clients have proven the just-mentioned misconceptions wrong. When a sound marketing and customer service plan is executed, the positive impact on sales and profits are far greater than the time and money spent by the contractor and his team.

To be a successful contractor, you must distinguish yourself from all other contractors by *not* going along with the status quo. You also must believe in and follow these universal business truths:

- Customer loyalty is defined by customers who bring you their new projects, consistently refer you to others, and respond positively to your relationship-building efforts.
- Developing a group of loyal customers who provide you with projects on a regular basis doesn't happen by accident.
- Contractors can increase sales and profits by developing higher-profit jobs. These higher-profit jobs are easier to obtain from loyal customers.

- All successful projects and ventures begin with a plan.
- Good customer service must be defined by your *customers*, not *you*, in order for you to succeed as a contractor.

Thus, the key to long-term business success *is* based on sound marketing and building customer loyalty. And these don't happen by accident; you must make them happen.

Success Begins with a Plan

Creating a plan to build customer loyalty requires dedication, focus, and specific planning to anticipate and overcome obstacles. The office—with the whirl of fax machines and ringing telephones and buzzing beepers—is not the place for serious planning. I strongly suggest that you schedule a one- to two-day retreat offsite. Here are additional suggestions to make your offsite retreat as professional and as effective as possible:

Meeting Essentials

- Have all key managers and personnel attend
- Hire an outside professional to facilitate the meeting (it's very difficult to "operate" on yourself!)
- Before the meeting, decide on the results you want
- Take copious notes and use these as a basis for your plan
- Assign implementation responsibilities to appropriate staffers
- Establish goals, timetables, and checkpoints
- Schedule regular "check in" meetings to review progress
- When you're "on course" with your plan, celebrate this!
- When you're "off course" with your plan, correct it!

Prepare a Simple Agenda

Before the meeting, meet with key people (including the facilitator, if possible) to prepare an agenda and an expected time frame for each agenda topic. Agenda topics should include the following:

- I. Today's Goal
- II. Steps Needed
 - a. Which Customers to Target
 - b. Ways to Outreach to These Customers
 - c. Internal Person Assigned to Each Customer
 - d. Deadlines/Budgets/Goals for Each Customer
- III. Identify Follow-up Reports and Timelines
- IV. Set Follow-Up Meetings (30, 60, and 90-day increments)

Identifying Target Customers

At the offsite meeting, what should you focus on? Begin at the beginning: identify the target accounts that your organization would like to secure business from within the next year.

1. List all current and past customers
2. List customers you've never done work for but would like to
3. Now prioritize the names on these two lists based on these factors:
 - a. Who are your best customers? (Who pays their bills on time? etc.)
 - b. Who do you know best, i.e., have the best existing relationship with?
 - c. If you could only pick ONE client from each list, which would it be?
 - d. How accessible is each decision maker?
4. Now pick the top 10 candidates from each list. These are the first accounts your team should approach.

Building Relationships

Now it's time to develop a plan to build effective, win-win relationships with each of the target customers you've identified.

There are many ways to build strong relationships with current customers or prospects. Several ways include:

- Maintain regular contact (ways to do this are almost endless: write notes or send them your company newsletter, send welcome letters or thank you notes, follow through immediately on change work, send e-mail notes as appropriate, etc.)
- Develop regular in-person "state of their project" meetings (such as breakfast or lunch)
- Identify what "priority performance" means for them (this is simple to do—Ask them!)
- Identify and join organizations they belong to, and attend the meetings to maximize your exposure or even get on the same committees (also, see if you could meet with the prospect or client before or after the meetings)
- Know when their birthday is, and do something special for them
- Learn about their family and acknowledge special occasions
- Inform them that they are a "priority customer" for your organization and explain what this means
- Offer extra services (such as early estimates, etc.)

Here are additional relationship-building tips:

- Return all phone calls promptly
- Keep your word no matter what
- Avoid excuses
- Educate customers as to what you plan to do for their project
- Meet deadlines
- When project changes occur, inform customers immediately
- Frequently confirm that the customer is happy with the project; ask them for their concerns or questions

Final Points on Building Customer Loyalty

It is essential to review all plans and goals on a regular basis. You will probably want to do this every three months, or a minimum every six months. Review what has worked...and what hasn't. Update your plan as needed. If something seems to be particularly "broken," spend some brainstorming time attempting to develop a solution, or at least several possible alternatives.

Also, confirm with your team that relationship building takes time. Not all efforts will be received warmly by customers or prospects; some people simply are not friendly or want to keep an "arm's length" away from all contractors. When you run into this type of person, respect their boundaries and leave them alone. It's your job to master the process of developing good relationships. You have no control over customers' responses, nor should you stop performing professional customer loyalty-building activities because of the negative responses of a few.

Finally, note that it's also critical at this stage to confirm that each of your team has "bought into" the established goals, and feels ownership for its ultimate success. Encourage questions or comments. Seek out concerns. Confirm that all team members agree that the established goals are:

- 1) realistic, and
- 2) in the best interests of your contracting company.

Remember, motivation flows from the top of the organization down. If you get busy and postpone or forget about deadlines, you are sending a clear message to your staff that this is no longer a priority. You as the owner/leader must make the commitment to an ongoing customer loyalty-building plan before anyone in your company will, too.

Secret 2: Develop Extraordinary Supplier Relationships

Issue: Today's competitive market demands purchasing materials and services at the best available prices.

Prices for materials vary (often widely) from supplier to supplier. Building a better relationship with the supplier and the supplier's sales rep will allow you to ask for and receive better pricing, terms, and treatment.

Good supplier relationships don't just happen. It's the opposite—building solid supplier relationships takes effort. All contractors must develop effective win-win relationships with a select group of suppliers who are willing to offer your construction company better prices and superior service. You must be proactive about this; if you don't develop these relationships ahead of time, when you need help, you won't get it.

Building Better Supplier Relationships

The key to this secret is simple—get to know your suppliers' reps! Don't treat the rep as a second-class citizen. A good sales rep can be your "White Knight" within a supplier, lobbying on your behalf for better pricing, terms, and service. At a minimum, supplier reps often have some leeway in pricing decisions and/or can create special "deals" based on a contractor's needs.

Here are ways to build better relationships with your key suppliers:

- Take the time to get to know your suppliers and their reps. Personally get to know your salesperson. Know their full name, how long they've been with the supplier, and other business-related information. Know their habits, their strengths, and their limitations.
- Get to know as many other people at the supplier as possible. This includes top management, support personnel, and their bookkeeping staff.
- Keep in regular contact with your supplier reps. Often they will be the ones contacting you, but if not, send them a quick e-mail or make an occasional phone call.
- Don't hesitate to ask the supplier for what you want in terms of pricing and services. Be careful, though, not to overdue this—every project should *not* have a razor-thin budget or nearly-impossible-to-meet deadlines.
- Regularly discuss and monitor all supplier relationships. Try to discover problems *before* they negatively impact the relationship.

Always Think ‘Win-Win’

Over time the best relationships are ‘win-win’—where both sides benefit. Don’t enter into a supplier relationship focused solely on what your company can gain. Seek out ways you can help your suppliers. Pay your bills on time. In fact, pay your bills *early**—this will show the supplier that you’re committed to a long-term, win-win contractor-supplier relationship. (**Early bill paying can also have a positive impact on your bottom line, as many suppliers offer early-pay discounts.*)

Use the following chart to build better supplier relationships:

	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5
Company Name					
Supplier Rep’s Name and Contact Info					
Other Contacts					
Relationship Status					
What We Can Do to Support Supplier					
Supplier’s Early Payment Discount Rate					

KEY POINT: Avoid the temptation to “jump ship” to a new supplier simply because they offered cheaper materials on one job. Long-term relationships can be very important. However, don’t continue with a long-time supplier because you “always have.” It’s a good idea to price shop to confirm that your preferred supplier is still giving you competitive pricing.

Secret 3: Hire and Train Effective Employees

Issue: Good employees are hard to find, train, and keep.

Finding, hiring, and training competent, motivated, and enthusiastic staff is difficult in all industries, and especially challenging in construction—an industry notorious for untrained, independent workers who have negative (or, at a minimum, uncaring) attitudes.

Without a consistent hiring and training program, your company's work will be inconsistent, which translates to lower quality. This will lead to a poor reputation, resulting in fewer jobs. Your desired success will always elude you until you have developed a dependable management team, office support staff, and field workers.

Creating a Hiring Program

Like any aspect of business—or construction—the key to hiring and training effective employees is to put a plan in place and then follow it. Replacing staff is expensive and disruptive to the entire company. Developing a personnel program, including goals and timetables, will help you reduce turnover and improve staff quality.

WARNING! Hiring casually will lead to low productivity and high employee turnover, both of which mean additional expenses and lower profits.

If your goal is to have a highly effective and productive team that supports your business direction, then you must implement a simple, effective recruiting and hiring system. System elements should include the following:

- Plan and Prepare
- Source and Promote
- Screen and Interview
- Test, Validate, and Select
- Offer and Hire
- Follow Through

Plan and Prepare

Establish your recruiting plan, set your hiring criteria, and prepare your reverse resume.

Establish your recruiting plan by setting the goal for your new hire. Clarify the exact result you seek, list the steps you'll take to accomplish the goal, identify the timing by when you expect to complete this hire, set a budget for promotion, and list the resources you'll need to hire and identify the target hire date.

Establish your recruiting criteria with a job description and reverse resume. Identify slots in your schedule to conduct telephone and face-to-face interviews.

A **reverse resume** defines your expectations regarding the characteristics, skills, experience, and special equipment knowledge needed to perform the job. A **job description** defines the primary areas of responsibility, tasks, pay range, benefits, and to whom the individual will report. A well defined job description and reverse resume are critical, as they serve as the source documents for the remaining steps in the hiring process.

Source and Promote

Identify sources, prepare ads, get the word out, and evaluate results.

Identify sources of potential applicants, such as classified advertising, local trade schools and colleges, suppliers, the competition, employee referrals, and government agencies. Then **get the word out** in as many ways as possible: place an ad in your local newspaper, fax a notice to local trade schools, etc. For higher paid positions, you also may want to consider placing ads in out of town papers appealing to the applicant "willing to relocate."

Evaluate results by tallying which sources produced the highest number of qualified candidates. To save money, keep this information on file.

Screen and Interview

Pre-sort and screen resumes, conduct interviews, and rate candidates.

Pre-sort and screen resumes or applications by the criteria established in your reverse resume. Then contact qualified candidates and perform **interviews**. In general, the interview process will consist of: an initial telephone interview, a face-to-face meeting, and a final interview with key staff.

Questionnaires for each step of the interview process are critical to proper screening. Create a list of open-ended questions; probe into subjects taken directly from your job description and reverse resume.

Score candidates by matching their capabilities against your previously defined requirements. Select three to five top candidates.

Test, Confirm, and Select

Test top applicants, check references and other information, then make a selection.

Test applicants using a “paid working interview” or a predetermined questionnaire that accurately reflects the skills, education, and experience required to perform the job. Compare results.

Check and compare each top candidate. Do all necessary background and other checks. Call references they have provided. Verify information on their resume.

Make a final selection based on all input—interviews, questionnaires, reference and background checks, etc.

Offer and Hire

Prepare the offer, make the offer, and finalize hiring details.

Create the **offer** by preparing a script or formal offer letter (formal letters are usually reserved for management or key positions). If you are creating an offer letter, be certain to first have your labor attorney review the wording.

Make the offer by either bringing in the candidate for a meeting or by calling them on the telephone. Please note that an immediate decision is not required nor should be expected by you; it’s perfectly acceptable for a candidate to “think about the offer” for a day or two—just be certain to set and agree on a deadline to learn their decision.

If the candidate agrees to the offer, **finalize hiring details** and establish the first day of work. Make this first day an appointment to begin the paperwork and other necessary hiring details. Send your winning candidate a welcome letter confirming the position they have accepted, the salary and benefits agreed upon, and their start date.

Finally, **send all other applicants a thank you note**. In the future they may be candidates again, or even a supplier or customer!

Follow Through

Set expectations, provide safety and job training, and monitor performance.

In the new hire’s first days, be certain to discuss your **expectations** and how his or her performance will be measured. **Provide safety, job, and other required training**. Monitor the employee’s performance, and provide him with frequent updates and feedback.

KEY POINT: A good personnel system should also include a detailed process for handling under-performing employees, including the potential need to fire someone. Again, tap the resources of an outside expert if needed; firing employees and/or dealing with employee problems can be potentially dangerous and/or unlawful.

KEY POINT: Another important factor is your organization's Safety Program. *Every* employee should be informed of and trained on this subject, and be able to effectively carry out your company's safety policies.

Employee Training

Training is critical to developing effective staff and keeping them for the long-term. In addition to an overall introduction to the company and its policies and procedures, each new employee should have at a minimum a half-day training program. You may need to hire an outside consultant to create or deliver this training. This investment is well worth it, as the dollars you spend now will pay dividends later in terms of reduced staff turnover and improved production rates.

Consistent training and review assures that employees are being acknowledged and treated in a manner that supports company success. Suggested training topics include the following:

- Employee Empowerment
- Time Management
- Effective Delegation
- Negotiation Techniques
- Conflict Management
- Handling Upset Customers

Consider these other elements of good training programs:

- Have a variety of training methods available, depending on the job function. Some employees/positions may benefit from simply being shown what to do; others may respond best to computer-related training programs; hands-on workshops are also popular and effective.
- Don't burden existing staff with training unless you take into account the impact the training will have on their job. In other words, don't ask your payroll clerk to do a half-day training program on the day payroll is due, and then complain when payroll is late.
- Don't neglect field staff training. Put a formal training program into place both for new employees, and as an on-going review for all field staff.
- Remember that training never ends. The best organizations and people continue to grow and learn. Don't think that a half-day training program the first week someone is hired will be "it" in terms of training. Everyone in the organization should be attending some type of training program at least once every six months. Time spent in training is *not* wasted time, it's an *investment* in the growth of the person and the company.

- Hiring or promoting someone into a management position does not automatically mean he or she will know how to effectively manage employees or perform job functions. Provide this person with new-manager training both when they begin and throughout their initial year.

Motivation

Let's face it: Money is a huge factor in retaining effective workers. The best training programs and the best office/field environments only go so far; good employees want to be rewarded fairly and in accordance with your local standards. Your employee motivation plan should consist of three interrelated elements:

1. *A competitive salary and benefits program.* Again, you may have to utilize an outside expert to help you establish what other local construction companies are paying. This "benchmarking" will help you when deciding salary issues and also show your employees that you're being fair (*if your salary ranges are near the top of industry standards*). In addition to salary, put on paper for each employee all the benefits they receive as an employee, along with a corresponding dollar amount. Often, an employee will receive an amount equal to or more than half their annual salary in benefits, but he won't be fully aware how much this is because these payments are often "hidden" and do not show up on paychecks.
2. *A short-term bonus opportunity.* Employees perform better when they have an incentive to perform better. If your company has a bonus program, make certain that every employee understands how he can benefit, and what he can do as his part. If your company doesn't have a bonus program, consider starting one. These can be as varied as the types of jobs you receive; attempt to create one that both rewards people based on the company's goals (to promote teamwork) and also rewards employees who go "above and beyond" their normal job duties.
3. *A long-term reward opportunity.* Closely tied to a short-term bonus opportunity is a long-term plan to reward employees who stay with you year after year. You don't necessarily need to give them part of the company (although that is an option, and would be great!), but you can be creative in building a program that's both significant and easy to understand and execute. If you have trouble creating such a program, ask your top employees what types of long-term incentives interest them (in fact, you should seek employee input for all salary, benefit, and bonus matters—people like to have their opinions and ideas heard, even if they aren't necessarily implemented).

Developing an Effective Management Team

All employees within a company are valuable; your Management Team, however requires particular care and guidance as this group will help with both the short-term company operations and its long-term strategic plans and direction.

Follow these suggestions to build an effective Management Team:

- *Set as a Management Team goal the "guiding" of your company* (traditionally known as working "on" your business rather than "in" it). Please note, though, that the business owner must adopt some (not all) of the Management Team's recommendations or people will quickly lose faith in this process.

- *Include outsiders on your Management Team.* Think of your Management Team as a mini-Board of Directors or mini-Board of Advisors—experts who can offer valuable input and advice. The Management Team should include key management personnel and key employees within your business, as well as outside experts familiar with construction, such as your CPA, a valued supplier—even a long-time customer! Outsiders help avoid the “tunnel” perspective that develops when only staff are involved in planning and decision making.
- *Keep everyone on the “same page.”* Distribute your company’s personnel policies and guidelines through all departments, and insist that all staff (particularly managers) consistently apply the procedures in daily activities.
- *Plan for growth.* Discuss as a group your company’s growth goals, and the potential growth path for key Management Team members. Even better, begin to form “paths of succession” where staff are groomed over time for a new position.

Proceed with Caution

With this secret, we’ve covered a great deal of ground. Know that you will probably need ample assistance with the various recruitment, hiring, and training elements from an outside professional who specializes in these areas and who has the knowledge of all pertinent state and federal laws. Employment is one of the most regulated business areas, and fraught with pitfalls for the uninformed.

Finally, as much as possible, document your recruitment, hiring, and training plan. These written guidelines will not only ultimately save your company time in the long run, they will confirm that your organization is following all employment laws and treating all employees and applicants fairly.

Secret 4: Plan Appropriately

Issue: Failing to plan is planning to fail.

Just like with any construction project, *planning* is a critical element in the overall success of your company. However, many contractors view business planning as a waste of time. It's just the opposite; acting *without* a sound plan is a waste of time and money in both the short- and long-term.

Success Foundation

Most contractors are great at taking action. Few, though, are great at planning. A well developed, clear, written business strategy—communicated to all staff—is crucial for short-term profit and long-term success. To use another construction example, think of planning as your *foundation for success*.

Follow these suggestions to strengthen your planning:

- Include as many management and staff personnel as possible in the planning process; obtaining their input and “buy in” will go a long way in management and staff support and commitment to all plans.
- Complete a master To Do list and Goal Sheet for the business. Update daily.
- Daily, plan for jobs/projects (production) and sales activity.
- Weekly, create time to review plan progress and pitfalls. Set new goals to correct your course.
- Monthly, review goals versus accomplishments. Evaluate all key business elements, such as sales, cash flow, production, collection, profit, etc. Pay particular attention to unusual shifts in expenses, job costs, etc.
- Quarterly and as needed, track all jobs as well as company performance. Do an operational review; monitor key tax and financial objectives; measure actual vs. goal and make corrections as necessary.
- Annually, review the entire company. Review staff objectives and performance. Monitor financial projections and actual amounts. Review operational procedures and performance.

KEY POINT: While planning is essential for success, remember that too much planning can be as destructive as too little. Keep planning simple to remain effective. Never let planning prevent positive action.

Operating Under One Flag

It's vitally important for each person within the organization to understand the company's values, goals, and ways of doing business. Only when employees understand how their actions can impact the company's success will they be as effective as possible.

Can you—and everyone within your organization—answer the following questions?

1. What is our company's number one goal?
2. How does my job relate to the company's bottom line?
3. What are my primary areas of responsibility?
4. How do I help the company make more money, or save time or money?
5. How do we market our products and services?
6. What does "customer service" mean at our company?
7. How do we compete in the market place?
8. Are we a profitable business?
9. What is our company mission?
10. What is the management team's vision of success?
11. How are decisions made within our company?
12. Where will our company be in...one year? five years? ten years?

If only the business owner or a few key personnel know the answers to the above questions, your company has a serious problem. The solution is to involve all staff in the formulation of your business plans and goals, and to communicate changes or updates regularly.

The Business Plan

As you can see, planning requires a plan—whether it's for a project or the successful running of the business. Once your team has created this business plan, follow these suggestions to get the most out of your plan:

- Hold regular review sessions with staff to assess progress and make course corrections.
- Meet annually to review, modify, and update the plan as needed. Acknowledge that this is a living, changing document that must grow as your company grows.
- Attempt, as much as possible, to be proactive, not reactive. Be creative; see how far ahead of the “curve” you can be. Don't accept the status quo; seek to be unique and ahead of the competition.

Secret 5: Manage Your Financial Stability

Issue: Financial success and stability do not happen accidentally.

In order to set your company apart from the struggling contractors of the world, you must first commit to creating a stable financial platform for yourself and your company. This takes planning, time, and (usually) a dollar commitment, but the resulting stability—and peace of mind—are well worth your investment.

Get Serious

Here are some “big picture” financial management insights and suggestions:

- Don't just *think about* or *talk about* financial stability, **take charge** of your finances
- Use reports to make key business decisions, NOT your emotions or feelings
- Hire a competent bookkeeper
- Effectively manage your bookkeeper or outside bookkeeping service
- Hire a competent financial planner and/or investment advisor
- Hire an aggressive, qualified CPA
- Computerize your office
- Plan to build wealth, NOT merely pay the bills

Because financial management is as critical as any other aspect of your business, your financial team must be part of the overall company planning or you are at great risk, because you won't know (until it's possibly too late!) where problems exist within the company.

With this in mind, be certain to put proper reviews and controls in place. Mistakes happen; so does the occasional dishonest employee. Create proper controls and see that they are carried out to the letter. Also, let people know that you're “watching.” I know one contractor who pays an outside consultant to come into the office on a regular basis to reconcile some of their bank statements. The consultant asks people a lot of questions and makes a lot of “noise.” Is the consultant needed to reconcile the bank statements? Not really, but the contractor wants the staff to know that independent eyes are surveying the books.

Financial Need-to-Know Information

Financial stability is obviously a key necessity for both the short- and long-term success of your business. Cash flow management, profitability, effective growth management, inventory control, and many other financial factors must be done well—even one of these elements not properly managed could ruin your business. (Think of change order management as a similar example—having to “eat” one undocumented change order on a project could wipe out the project’s entire profit.)

To keep on top of your company’s financial stability, you will need to clarify the following questions for yourself and your management team:

Do you receive financial statements in a timely manner (in time to make corrections if needed)? Yes No

Do you understand your financial statements? Yes No

What sales volume must your company complete each month to be profitable? (Do you know your break-even point?) _____

Do you know your cost of goods percentage? (sometimes called the gross margin) Yes No

What is your profit goal for the current year? (percentage of sales) _____

Do you typically have the cash you need, when you need it? _____

What job volume can you complete each month with current staff? _____

How much does it cost your company to add a new person? _____

What dollar amount increase in sales will you need to hire a new employee? For what position, and at what salary? _____

Are You Serious About Financial Success?

Financial reports are the key to being able to effectively manage your business's financial health. Establish the following nine financial management reports and use them to fine tune operations weekly, monthly and yearly:

Weekly

1. Job costs compared with job estimates
2. Job progress reports from field superintendents
3. Field supervisor report on job labor used compared to budget
4. Major materials purchase orders compared to budget
5. Estimating calendar

Monthly

6. Profit & Loss (P&L) statement (no later than the tenth of the following month)
7. Cash flow projections for the month (by the twenty-fifth of the previous month)
8. Job backlog status (by the fifth of the following month) showing jobs in progress with dollar amount left to bill, jobs under contract but not yet begun, and jobs pending (those bid but with no contract yet)

Quarterly

9. Cost reduction analysis, from each department, with specific cost reduction suggestions

Financial Fitness Insurance

Monitor or do the following to maintain business stability and a positive cash flow:

- Establish your monthly break-even sales level
- Know your cost of goods percentage
- Know your minimum backlog requirements to maintain field continuity
- Daily monitor the following:
 - ~ Accounts Receivable
 - ~ Accounts Payable
 - ~ Cash Balances
- Know your job labor expenses vs. job budget on each job, every week
- Meet regularly with your banker(s), partner(s), and investor(s) to update them on your financial progress and upcoming needs

Profit-Building Tips

Here are specific ways to save money and/or build your bottom line:

- Pay bills on time to avoid late charges
- Take advantage of early pay incentives
- Plan ahead for all purchases; anticipate future financing needs
- A large part of sound financial management is strong cash flow. Develop a realistic credit policy and communicate this to your customers. Establish at the beginning of the project how you expect to be paid, and how often. Put all of this in writing!
- Avoid accepting projects with little or no profit “just to keep the teams busy.” These projects offer no margin for error; one mistake on your company’s part and you will be losing money on the job. Only accept work where you have built in proper overhead and profit amounts.
- Track all inventory and supplies
- Put some savings aside now, even if it’s a small amount
- Diligently keep tax records *throughout the year*

KEY POINT: Establish credit for your business separate from your personal credit. Build your credit history systematically and monitor it regularly. Don’t let your business or personal credit rating be a surprise.

Utilizing Computers

Computerizing your financial operations will go a long way to giving you the proper financial management reports and controls. You may want to begin slowly with only your accounting system; there are programs today that offer integrated estimating, accounting, project management, and financial analysis applications.

One note of warning: computerize slowly and systematically. Know what you want to accomplish. Don’t hire untrained “experts.” When you do purchase new software, also invest in staff training to get the most of out your system investment.

[Editor’s Note: For help choosing new accounting or financial management software, see the *Choosing ‘Best Fit’ Construction Management Software Profit Guide* available at www.profit-press.com.]

Secret 6: Manage Your Projects More Effectively

Issue: Job problems don't solve themselves.

Jobs don't manage themselves; they don't tell you how to make them more profitable. Jobs become more profitable through great planning, established and clearly defined processes and procedures, and effective management.

Minimizing Profit-Busting Surprises

Once a job begins to go badly, it seems that no matter the effort taken, it can't be turned around. Sound familiar? Each job must begin properly to have a chance to run smoothly and be profitable. This bears repeating:

Job management begins at the beginning.

A consistent job approach is mandatory for real success. To build this consistent job approach, think ahead, plan ahead, and act ahead by doing the following:

- Before you begin any work, obtain all necessary documentation, including a properly signed contract, a clear scope of work, schedules, etc.
- Be ready for change orders; have a system in place to have change work documented, approved by the customer, and forwarded to office staff.
- Maintain a daily project journal. Every day log a page with day, date, time, and actions taken or experienced on the job site. Also note any interactions with your clients, other contractors, suppliers, vendors, and the like.
- Use the five phases of project management to track job progress. Create a list of everything that must be accomplished as a template, using this outline:
 1. Open. Obtain signed contract and deposit; make copies of plans or other necessary documentation. Update take-offs, scope of work; create job costing and establish a field file and office file.
 2. Plan. Create project schedules, assign labor, order materials. Meet with labor and foreman.
 3. Execute. Start work. Receive materials. Collect and code receipts and other job-related documentation. Turn documents into office daily.
 4. Monitor. Report progress to customers. Obtain signed change orders. Update job costing, schedules, etc. Progress bill.
 5. Close. Finish the job. Walk through the punch list; correct any problems. Obtain final customer sign off. Complete and file all necessary paperwork.

Jump-Start and Complete Jobs the Right Way

Here are additional ways to manage your projects more effectively and more profitably:

Before the Contract Has Been Awarded

- Review your bid. Confirm all estimates with standard pricing from previously successful jobs.
- *In advance*, clarify and understand the project's scope of work.

After the Contract Has Been Awarded

- Meet with the customer to discuss why the job was awarded to your company and help set their expectations for the project.
- Prepare a master project schedule, and deliver this to all necessary staff, subcontractors, vendors—and the customer!
- Host a pre-job meeting with the estimator, field supervisor, and purchasing manager. Discuss how the job was bid, how it will be constructed, what potential shortcuts are available, the labor hours budgeted to complete the work, and any other pertinent information. Seek input and “buy-in” from all attendees.
- As much as possible, anticipate potential trouble spots, and put contingency plans in place *before they are needed*.
- Prepare a comprehensive bill of materials with all needed materials listed in detail with source.
- On larger items, challenge your suppliers to provide better pricing. (Be willing to give something in return, such as quicker payments on your part.)
- Place purchase orders immediately for all materials, and specify the need-by dates.
- Markup plans and specifications with information needed by the field. Make this fool-proof!
- Create a procedure to meticulously document and track all change orders and/or changes to original contract. Get all change work signed off by the client in writing!
- Prepare a “Field Information Folder” containing the following:
 - Project information, equipment drawings, and specifications
 - A map showing directions to the job
 - Copy of the bill of materials with a supplier's name and purchase order number for each item
 - Copy of the estimate without prices
 - Copy of items of work prepared by the architect
 - The job construction schedule
 - Budget of labor hours bid for each item of work

- A list of all pertinent companies and people associated with the job—the general contractor, the owner, utilities, inspector(s), suppliers, subcontractors, etc.—with phone numbers for each and a description of their part of the job
- Change order documentation and other necessary forms

Give the Field Information Folder and job plans to the job foreman for his review at least one week before the job is to start.

Post-Construction

- Meet with everyone in your organization who worked on the job (both in the field and at the office). Critique the job. What went well? What could have gone better? Could problems that arose have been anticipated in advance? What should be done the same next time? Differently?
- Review all job costs with the estimator, purchasing manager, foreman, and field supervisor. Was the job profitable? Were you able to save money on materials? How could you have made more money on the job? Was all change work documented and billed? What should be done differently on the next job?

KEY POINT: Always seek input from customers. Create a good customer input survey and send this to the customer once the project has finished. Seek their honest opinion, from their perspective, on what went well and what could have gone better. Follow up with a phone call to thank them and address any outstanding issues. This shows that you care about them, and strengthens their customer loyalty for potential future business!

Secret 7: The 10 Questions You MUST Be Able to Answer

According to the U.S. Small Business Administration (SBA), contracting is the number one business most frequently started at home. A primary reason for this is that contracting has a low entry threshold; one good job can begin a business. However, contracting is also a very risky business. Many small contractors—and large construction companies—fail each year.

Utilizing the secrets found in the previous pages will help set your construction company on the path to success. To further cement your success, I strongly suggest that you answer the following 10 questions. Spend as much time as necessary and include as many people on your team as possible—your success is at stake!

The 10 Questions You MUST Be Able to Answer

1. What sets our construction company apart from the competition?
2. Is our existing construction knowledge enough to ensure success?
3. How can more work be <i>negotiated</i> rather than <i>competitively bid</i> ?
4. How can the company's financial situation be improved, particularly cash flow and profitability?
5. How can projects be managed more effectively?
6. How can profits be increased and still build the business for future growth?
7. How can effective employees who care for the business be found, retained, and rewarded?
8. How can successes be replicated and learning result from mistakes?
9. What outside business or management expertise do we need, and where can these experts be found?
10. How can we have more fun?

Moving Forward

Well, there it is! While there are certainly other factors involved in the ultimate success of your business, these 7 Secrets are vitally important to the long-term stability and growth of your business.

Now the question becomes this: where do you go from here? Remember, knowledge is not power (as the old adage goes)—it is the **application of knowledge** that creates success!

How will you begin to improve your business? Which of these secrets do you currently do well? Which of these do you plan to implement first? Know that one common—and often fatal—mistake made by small business owners is to continue doing the *familiar and comfortable* rather than what needs to be done to grow the business. Avoid this at all costs! Remember, if you always do what you've always done, you'll always get what you've always gotten before!

So take some risks, challenge yourself and the people within your organization, and do the difficult tasks that spur success. In other words,

GO FOR IT!

About The Author

Sherryl Dever has worked with scores of construction companies to better their bottom-line profits and provide managers and owners with greater peace of mind. Since 1987 she has been principal of The Business Resource, a group of financial and management consultants who provide small businesses with expertise and assistance with planning, marketing and sales, financial management, and other core-business topics.