GEORGE HEDLEY'S

# BUSINESS TOOLBOX *Series*

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GEORGE HEDLEY, CONTRIBUTING WRITER TO *POLISHING CONTRACTOR*

# Don't Be a 'GUESSTIMATE' CONTRACTOR

In Part 1 of George Hedley's Business Toolbox Series, he explains the difference between margin and mark-up and how to calculate overhead.

I just spoke at a national convention of specialty contractors. I left shocked at the number of business owners or estimators who don't know how to price their work. My guess is that over 75 percent of all installation contractors don't know the right mark-up to use to cover all of their annual overhead expenses plus make the net profit they want. The typical standard bidding style is to price work low enough to beat their competitors at whatever customers will pay. Not knowing what it takes to cover your actual job costs, overhead and profit keeps contractors busy doing work for too little a price.

Contractors who don't charge enough for the work they do ruin it for the business owners who know how to run and manage their companies like professionals. These "guesstimate" contractors leave a lot of money on the table every year charging too little. I call it "stupid low" when contractors bid jobs to get them at a cheap price to get work and keep their crews busy. They don't know or calculate their real costs of doing work on a regular basis. They use an industry standard square foot, lineal foot or some other ballpark pricing method to calculate their bids.

Most contractors also don't know the difference between mark-up and margin. Or how much to add to their bids to break even or make a profit at the end of the year. The difference between mark-up and margin is a simple concept to grasp and will make you more money than you currently are, if you follow these steps when pricing your next jobs.

**Mark-Up %** = Percentage of money added to direct job costs to cover overhead and profit.

**Margin %** = Difference between direct costs and sales price divided by the sales price.

| **Job Bid** (Example 1) | | % Of Sales |
|---|---|---|
| Direct Job Cost | $1,000 | 77% |
| Mark-Up @ 30% | $ 300 | 23% (Margin) |
| Job Sales Price | $1,300 | 100% |

**Mark-Up %** =
Mark-Up ÷ **Cost** = $300 ÷ $1,000 = 30%

**Margin %** =
Mark-Up ÷ **Sales** = $300 ÷ $1,300 = 23%

In the example above you are not making 30 percent. You are only making 23 percent on your sales. To earn 30 percent margin on your sales, you would have to markup your costs 42.8 percent.

Let me show you how to calculate the margin needed to make the overhead and profit you want. To determine your job sales price, you must divide your direct job costs by the "margin conversion rate" (MCR).

**Job Sales Price** = Direct Job Costs ÷ MCR

Using the example above, to make 30 percent margin on the job (not mark-up), convert 30 percent margin using the "margin conversion rate" (MCR) formula:

**MCR** = 1.0 - Margin%
**MCR** = 1.0 - .30 = .70

To make the overhead and profit margin you want, determine the final job sales price by dividing your direct job costs by the MCR as follows:

**Job Sales Price** = Direct Job Costs ÷ MCR = $1,000 ÷ .70 = $1,428

| **Job Bid** (Example 2) | | % Of Sales |
|---|---|---|
| Direct Job Costs | $1,000 | 70% |
| Mark-Up @ 42.8% | $428 | 30% (Margin) |
| Job Sales Price | $1,428 | 100% |

In Example 2, margin is 30 percent. If you are selling your jobs using mark-up versus the margin method, you could be losing lots of money.

## Determine your overhead

Next, let's figure out how to determine the margin you need to hit your overall overhead and profit goals. It all starts with what it costs you to keep your business open. The annual fixed indirect cost of running your company is called overhead. Overhead comprises of every cost needed to keep your doors open for the entire year with or without any work under construction. It includes your office or warehouse expenses, phones, utilities, office supplies, postage, computers, website, office equipment, office staff, administration costs, bookkeeping, sales, marketing, advertising, estimating, accounting, legal, banking, company insurance and closed job expenses. Don't forget to include in overhead a regular salary plus vehicle expenses for the owner or president who manages the company.

**OVERHEAD** Example:

| *Operating Fixed Expenses* | ***Annual*** |
|---|---|
| Administrative Salaries & Benefits | |
| - President / Owner (Non Job Charged) | $100,000 |
| - Estimator / Sales | $65,000 |
| - Non- Job Billable Project Manager | $20,000 |
| - Office Staff (Non Job Charged) | $60,000 |
| - Labor Burden For Overhead Only! | $45,000 |
| Vehicles (Non Job Charged) | $18,000 |
| Office, Rent & Utilities | $36,000 |
| Office Supplies & Equipment | $20,000 |
| Telephone, Communications & Postage | $18,000 |
| Internet, Website & Computers | $12,000 |
| Estimating & Bid Expenses | $10,000 |
| Sales, Marketing & Promotion | $36,000 |
| Office Insurance (Non Job Charged) | $15,000 |
| Interest & Banking | $3,000 |
| Professional, Legal & Accounting | $12,000 |
| Service, Closed Job & Warranty | $20,000 |
| Miscellaneous | $10,000 |
| **Total Annual Overhead** | **$500,000** |

Notice what is not included in your annual overhead cost: field labor, field labor worker's compensation insurance, field labor benefits, field trucks, field equipment, gas and maintenance for field vehicles, job insurance, job supervision, and project management. These field costs should be included in your total job costs as they are not needed unless you have jobs to build.

An exception needing to be included in your overhead is the non-job billable portions of your project management, field supervision, field labor and field vehicles you pay for while they are not working on a job. For example, if you have to keep paying a superintendent during the winter months, you'll need to add that portion of his salary to your overhead. And if you can't bill out for your vehicles every day, you'll need to include the downtime days in your overhead cost.

## Determine your break-even

When all your construction jobs for the year bring in enough money to cover all of your direct job costs plus enough to cover your annual overhead costs, you break-even, without a profit. To make a profit, you must add your overhead costs plus a profit margin to your bids. Your overhead margin is easy to calculate. It is the total sum of your annual overhead costs divided by the sales you anticipate for the year.

**Overhead Margin =** Annual Overhead Expenses ÷ Annual Sales

To calculate your break-even overhead margin to use on your bids to break-even, you'll have to estimate the annual sales you'll be able to collect for the entire year. In Example 3 below, you have estimated three different levels of annual sales: $1 million, $2 million and $3 million. For each sales level you estimate, you'll have a different Overhead Margin needed to add to your bids to allow you to break even.

| Break-Even Analysis (Example 3) | | | |
|---|---|---|---|
| Annual Overhead Expenses | $500,000 | $500,000 | $500,000 |
| Estimated Annual Sales | $1,000,000 | $2,000,000 | $3,000,000 |
| **Overhead Margin** To Break-Even | 50% | 25% | 16.66% |
| Break-Even Job Bid (Example 4) | | | |
| Direct Job Costs | $1,000 | $1,000 | $1,000 |
| Margin Conversion Rate | | | |
| **MCR** = 1.0 - Margin% | .50 | .75 | .8333 |
| Job Sales Price (Cost ÷ MCR) | $2,000 | $1,333 | $1,200 |

In Part 2 of this series, we will explore how to calculate your profit and develop a profitable job estimate. In the meantime, learn these important factors and calculate your annual overhead and break-even for your company. ●

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GEORGE HEDLEY'S BUSINESS TOOLBOX Series
PART 2

**GEORGE HEDLEY,** CONTRIBUTING WRITER TO *POLISHING CONTRACTOR*

## How to Calculate an
# ACCURATE AND PROFITABLE JOB ESTIMATE

In Part 2 of George Hedley's Business Toolbox Series, he shows you how to make money with your job bids.


As we explored in Part 1 of this series, making money starts with knowing your annual overhead costs and break-even sales required to hit your goals. Next we will explore how to make a profit and calculate an accurate and profitable job estimate.

### Determine your profit

The profit you want to earn is just that. It is the amount of money you want to make at the end of the year based on the risk you take and the return you want for being a business owner. I recommend contractors have an annual minimum net profit target return of 20 percent on their annual overhead (ROOH). Determine your annual overhead expenses and then multiply by 20 percent to determine your annual minimum net profit goal (pre-tax). Then for the hard part. Try your best to again estimate your annual sales you'll generate over the next year as shown in Example 1.

**Minimum Profit** (Example 1)

| | | | |
|---|---|---|---|
| Estimated Annual Sales | $1,000,000 | $2,000,000 | $3,000,000 |
| Annual Overhead | $ 500,000 | $ 500,000 | $ 500,000 |
| Annual Profit Target **20% ROOH** | $ 100,000 | $ 100,000 | $ 100,000 |
| Total Overhead & Profit | $ 600,000 | $ 600,000 | $ 600,000 |
| **Overhead & Profit Margin** | 60% | 30% | 20% |
| Annual Job Costs | $ 400,000 | $1,400,000 | $2,400,000 |
| Margin Conversion Rate | | | |
| **MCR**= 1.0 - Margin% | .40 | .70 | .80 |

In Example 1, to calculate your final selling price on jobs to earn a minimum of $100,000 for the year, divide your estimated job costs by the MCR to determine your final selling prices.

**Job Bid - Overhead Plus Minimum Profit** (Example 2)

| | | | |
|---|---|---|---|
| Direct Job Cost | $ 1,000 | $ 1,000 | $ 1,000 |
| Margin Conversion Rate | | | |
| **MCR** = 1.0 - Margin% | .40 | .70 | .80 |
| Job Sales Price (Cost ÷ MCR) | $ 2,500 | $ 1,428 | $ 1,250 |

### Set higher profit goals

An annual net profit return on overhead goal (ROOH) of 20 percent is too low for the risk most contractors take. I recommend you consider a higher profit target of at least 40 percent return on your annual overhead. Again, first determine your annual overhead expenses and then estimate your annual sales projected. Next multiply your annual overhead by 40 percent to determine a higher net profit goal for the year as shown in Example 3.

**Higher Profit** (Example 3)

| | | | |
|---|---|---|---|
| Estimated Annual Sales | $1,000,000 | $2,000,000 | $3,000,000 |
| Annual Overhead | $ 500,000 | $ 500,000 | $ 500,000 |
| Annual Profit Target **40% ROOH** | $ 200,000 | $ 200,000 | $ 200,000 |
| Total Overhead & Profit | $ 700,000 | $ 700,000 | $ 700,000 |
| **Overhead & Profit Margin** | 70% | 35% | 23% |
| Annual Job Costs | $ 300,000 | $1,400,000 | $2,400,000 |
| Margin Conversion Rate | | | |
| **MCR**= 1.0 - Margin% | .30 | .65 | .77 |

In the example above, to calculate your final selling price so you will earn a minimum of $200,000 overhead and profit for the year, divide your total estimated job costs by the MCR to determine your final selling prices as shown in Example 4.

**Job Bid - Overhead Plus Higher Profit** (Example 4)

| | | | |
|---|---|---|---|
| Direct Job Cost | $ 1,000 | $ 1,000 | $ 1,000 |
| Margin Conversion Rate | | | |
| **MCR** = 1.0 - Margin% | .30 | .65 | .23 |
| Sales Price (Cost ÷ MCR) | $ 3,333 | $ 1,538 | $ 4,347 |

## Estimating jobs to make a profit

To determine your final selling price on jobs you bid, use a job estimating template to determine your break-even sales price, your minimum profit sales price and your higher sales price.

**Job Estimating Template** (Example 5)

| | |
|---|---|
| **Projected Annual Budget** | |
| Annual Estimated Sales | $2,000,000 |
| Annual Company Overhead | $ 500,000 |
| Break-Even MCR | .75 |
| Minimum Profit MCR | .70 |
| Higher Profit MCR | .65 |
| | |
| **Bid RECAP** | 1,000 square feet |
| Labor | $ 2,000 |
| Equipment | $ 400 |
| Materials | $ 2,000 |
| Subcontractors | $ 200 |
| General Conditions | $ 400 |
| **Total Job Cost** | **$ 5,000** |

| **Final Sales Price** | **MCR** | **Sales Price** | **Cost/sf** |
|---|---|---|---|
| @ Break-Even MCR | .75 | $ 6,666 | $ 6.66/sf |
| @ Minimum Profit MCR | .70 | $ 7,142 | $ 7.14/sf |
| @ Higher Profit MCR | .65 | $ 7,692 | $ 7.69/sf |

## Converting annual targets to weekly goals

Next, it would be great to know how much work you need to perform every week to hit your annual goals. Using Example 5, you need to cover at least $500,000 of annual overhead to break even. If you can work productively for 50 weeks per year, you need to make at least $10,000 more than your job costs a week to pay for your annual overhead. In most parts of the country, 40 productive weeks per year is the average for contractors.

If you work 40 weeks a year, you need to make at least $12,500 more than your job costs a week to pay for your annual overhead.

**Convert Targets To Weekly & Daily Goals** (Example 6)

| | |
|---|---|
| **Break-Even Overhead** | = $500,000/year |
| Productive Weeks | x 40 weeks |
| Overhead Recovery Needed | = $ 12,500/week |
| Break-Even Overhead | = $ 2,500/day |
| **Minimum Profit Goal** | = $100,000/year |
| Annual Overhead & Profit | = $600,000/year |
| Productive Weeks | x 40 weeks |
| Overhead & Profit Needed | = $ 15,000/week |
| Minimum OH & P | = $ 3,000/day |
| **Higher Profit Goal** | = $200,000/year |
| Annual Overhead & Profit | = $700,000/year |
| Productive Weeks | x 40 weeks |
| Overhead & Profit Needed | = $ 17,500/week |
| Higher OH & P | = $ 3,500/day |

## Taking overhead and profit to the crew level

Let's say your company has three regular crews each comprised of five men with trucks. Your crew cost might look like this:

**Typical Crew Cost – 40 Weeks / Year** (Example 7)

| | |
|---|---|
| Labor – 5 Men @ $30/hour | $ 150/hour |
| Down Time @ 10% | $ 15/hour |
| Truck | $ 15/hour |
| Small Tools & Equipment | $ 10/hour |
| Miscellaneous Supplies | $ 10/hour |
| Total Crew Cost | $ 200/hour |
| 3 Crews | x 3 |
| Total 3 Crews Cost | $ 600/hour |
| Total 3 Crews Cost | $4,800/day |

To determine how much you need to bill each day, 40 weeks per year, add the following costs to your crew daily rates shown above in Example 7:

| | | |
|---|---|---|
| Break-Even Overhead | $2,500/day | ($104/hour/crew) |
| Minimum Overhead & Profit | $3,000/day | ($125/hour/crew) |
| Higher Overhead & Profit | $3,500/day | ($145/hour/crew) |

To break even in the example above, each of the three crews will have to be billed out $200 per hour to cover their cost plus $104 per hour to cover your company overhead = $304 per hour, plus what you want to earn for profit. If you want to make the higher profit amount, your crew billing rate is $200 + $145 = $345 per hour.

Understanding what it takes to make the money you want is not a simple task. It takes time and concentration to figure out your numbers. And then it takes discipline to actually ask and get the proper amounts you need to make a profit at the end of the year. Take the time to get to know how to make a profit, and then you might actually make it become a reality! ●

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GEORGE HEDLEY'S BUSINESS TOOLBOX *Series* PART 3

**GEORGE HEDLEY,** CONTRIBUTING WRITER TO *POLISHING CONTRACTOR*

# Is Your Bid-Hit Ratio OK?

Make sure you get enough of the jobs you bid.

Bid-hit ratio is the rate at which you successfully bid or propose on projects. For example, a 5:1 bid-hit ratio says for every five jobs you bid or propose on, you are awarded one. Do you know what your bid-hit ratio is? Do you keep track of it? How do you use it?

Whenever I present my "Estimating and Bidding Strategies that Work" program at conventions or companies, I always ask everyone what their bid-hit ratio is. I have observed that well over 50 percent don't have a clue what their ratio is. Less than 25 percent know and track theirs. To me, this is like driving a car blindfolded — trying to go somewhere without a clue as to where you are headed!

## Keep track

In order to determine how many jobs to bid, what type of jobs to bid and which customers give you a higher percentage of their work, you must know your bid-hit ratio. Track it monthly, quarterly and yearly. Track it for all projects you bid on. Track it by each customer you bid to. Also track by job type: large versus small, local versus out of town, commercial versus industrial, bid versus negotiated, plans and specs versus design-build, etc. Another item to track is the number of competitors you bid against on each project.

As you study your bid-hit ratio trends, you will find certain customers give you more work than others. You will find certain kinds of jobs you do better with. You will also discover when competing against too many competitors, you don't often succeed. This simple tracking system will help you determine which jobs to bid and which jobs not to bid. It will also help you determine when to eliminate a project type or

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customer from your plate and seek out better opportunities in which to invest your estimating dollars.

## The right ratio

I have surveyed over 10,000 companies to determine what a good bid-hit ratio should be. The results vary from as low as 1.5:1 to as high as 35:1. Which is the best ratio for you? Obviously, the lower the ratio, the better. But, the right ratio is what works for your company.

Companies who negotiate lots of work tend to have lower bid-hit ratios. They also require additional overhead expense marketing, pre-construction services, customer development and public relations. Companies that obtain most of their work from public works tend to have higher bid-hit ratios. But they usually have more estimators which offset fewer marketing dollars needed. The trade-offs usually balance out at the bottom line.

*In order to determine how many jobs to bid, what type of jobs to bid and which customers give you a higher percentage of their work, you must know your bid-hit ratio.*

## Bid-hit ratios revealed

See how you compare to the averages observed around the country.

| General Contractors | Bid-Hit Ratio |
|---|---|
| - Public Works | 6:1 to 10:1 |
| - Private Bid Work | 4:1 to 6:1 |
| - Negotiated Work | 2:1 to 4:1 |
| **Subcontractors** | **Bid-Hit Ratio** |
| - Public Works | 7:1 to 11:1 |
| - Private Bid Work | 4:1 to 6:1 |
| - Negotiated Work | 3:1 to 4:1 |

The right bid-hit ratio is what works for your operation. A 35:1 is too high and 1:1 is impossible in today's competitive market. The highest reasonable ratio for public works should not exceed 10:1 or 11:1. Higher than 11:1 costs too much to bid and won't provide a reasonable profit. For private work, I recommend you strive for a 4:1 ratio or less. This can be accomplished by pre-qualifying your customers before you bid to ensure you are on the right bid list.

The key is to track and know your bid-hit ratio. With an accurate history of your results, you can determine which road you want to take. Keep your eyes open, look for ways to improve your bid-hit ratio and hit your target every time. ●

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GEORGE HEDLEY'S BUSINESS TOOLBOX Series
PART 4

**GEORGE HEDLEY,** CONTRIBUTING WRITER TO *POLISHING CONTRACTOR*

# Low Bid Is Not Enough

10 tips to win more profitable work.


Bidding lots of jobs is not enough to guarantee a steady flow of profitable work in today's competitive marketplace. Successful general contractors and subcontractors have learned their bid is only one step in the sales cycle.

As a general contractor, we bid several jobs every month. For each project, we receive about 100 subcontractor bids for the 30 sub-trades usually required. On average, less than 15percent of these bidders ever call us to present their bid, review their proposal, discuss their bid or even to meet with us for any reason. When we don't hear from our valued subcontractors, we assume they don't have more to offer except their price. And when they finally do call, they only ask: "How do I look?"

## Do you sell more than price?

Most contractors and subcontractors are proud of their quality work, reputation and personal service. And today's financial demands, project complexities and tight schedules require project owners to often look for more than low bid. But, if they aren't aware of the added value a contractor offers, the buyer has no choice but to evaluate and select based on price.

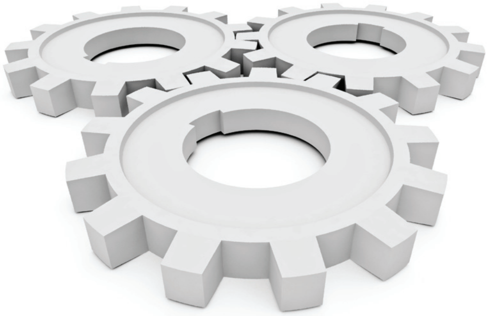
As a construction business speaker, I see thousands of different construction companies in all parts of the country every year. I recognize 10 things successful contractors and subcontractors do to get more than their share of the profitable work. See how your company compares to this list.

1. **Written marketing & sales plan.** Companies that plan their futures create their futures. Sit down and write your sales and marketing plan including sales and profit goals, customer targets, market areas, and project types and sizes. Then record the action steps necessary to make it happen.
2. **Marketing budget 2 to 4 percent of volume.** Companies who invest in their futures make more money than those who don't. Create an image, logo and marketing materials to build an impression of who you are, what you stand for and what you specialize in. Invest at least $10,000 per year on marketing, mailings, flyers, customer events, meals, ball games, golfing, thank-you gifts and cards to send out to customers.
3. **Customer relationship follow-up program.** Identify your top 20 customers and spend time with them at least every 2 months in a relationship building settings like meals or events.
4. **Target marketing mailing program.** Keep a database of your loyal, repeat and potential customers and your referring parties. Use a simple software program like Sage ACT customer tracking software. Mail something every 2 to 3 months to your entire list to keep your name in front of them to pique their interests and tell them what you can do for them.
5. **Expertise, specialty or niche.** Successful companies are known for being the best at something. Some are known for project types, or difficult jobs, or fast track, or design-build. To be the best, your customer must know what you specialize in. Let them know and tell them again and again.
6. **Sales and presentation skills.** To win great jobs takes professionalism, knowledge and confidence. Firms who are awarded more jobs are well trained in sales and presentation skills, and show up at the project interview with their team rehearsed and ready to impress.
7. **Right place at the right time.** Estimators are more than price givers. They are in the sales business and spend lots of time with their customers. To be at the right place at the right time, you must be in your customer's office at least once a week.
8. **Referral solicitation program.** The easiest way to double your sales is to ask loyal customers for a referral. Referrals don't come often without asking, and when asked, customers will give. A simple checklist is all it takes to remind you to ask.
9. **Active in industry and community.** Successful companies are seen by everyone, everywhere. They are active in their industry associations and community organizations. They serve on boards of directors and give time and money to make things better.
10. **Cutting edge.** Leading companies use the latest tools, techniques and technology to stay ahead of and lead their customers. They show the future to their customers instead of complain about changing.

If you want to increase your chances of winning more than your share of profitable jobs, consider implementing these 10 tips. Make your bid only one small part of the selling process and join the list of very successful companies. ●

## 7 Steps to Win Big at the Project Interview

To increase your odds of getting a signed contract, score big at the project interview. More and more, clients pick the winning team at the project interview based on a rating scale in which price is only one factor with limited weight. Clients rank project teams based on five to 10 criteria, including overall value, team members, creativity, quality, construction methods, experience, safety and price.



As they evaluate you, remember clients don't care about what you've done or what you've built, clients only care about what you will do for them. Tell them how you will help solve their problems and meet their goals.

- **Use the Project Team Approach.** The most important factor for most clients is the actual project team. Every valuable team member must be ready to participate, contribute and look professional in the interview.
- **Research the Client.** Learn everything you can about your client's selection criteria before the interview. Discover what's important to them, their history of past projects, and how they award contracts.
- **Gather Maximum Information About the Project.** Visit the project site with the whole team before the interview. Look for creative ideas, value-added opportunities, design enhancements, and project short-term and long-term needs.
- **Use a Prepared Agenda.** Teams that "wing it" look unprepared. Using a printed, prepared agenda for the meeting shows your team is competent, organized and ready to proceed.
- **Be Ready to Defend Yourself.** Assume your competitors are going to share any negative information they have about you. Make sure you have a positive story for questions that may arise. And never badmouth your competition.
- **Use Visuals.** Fifty-seven percent of what your client remembers about your presentation is based on what they see. Thirty-five percent is based on the way you say it. And only eight percent is based on what you say. Make sure they see a lot, and like what they see! Stand up, walk around, point to charts, hand the client photos and move again. If you can, set up the interview room in advance and post photos, plans, and charts on the wall.
- **Rehearse.** A one-time walkthrough could be your winning move.

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PART 5

ONLINE EXCLUSIVE

# How to Create Your Company's 'WOW' FACTOR

## 7 ways subcontractors can 'wow' general contractors and suppliers.

Being a general contractor is a hard way to make an easy living. There are lots of moving parts totally out of your control. On every job we have over 5,762 chances to make a mistake, miss a schedule or tick off customers. Things aren't perfect including the plans, specifications, field conditions, inspectors, subcontractors, suppliers, deliveries, conflicts and payments. Our customers expect everything to go exactly as scheduled, with perfect quality, no hiccups or extra costs. Wow, I am getting depressed just thinking about trying to accomplish this!

The problem with the construction business is every party wants to make more money by providing the minimum. Scope of work is clearly defined and most contracts are awarded to the lowest qualified bidder based on price. The bidder who offers better service for more money rarely gets the contract. This causes every general contractor, subcontractor and supplier to balance providing great service and exceptional quality while making a fair profit.

I am a general contractor and developer of commercial and industrial projects from $2 million to $15 million in size. On every project we select from our database of over 3,000 companies to eventually hire at least 35 subcontractors and buy from five to 10 suppliers. The bottom line when choosing subcontractors and suppliers is all of them are almost the same except for price. Very few contracting companies do anything different than the others. They give you what you pay for — the minimum — no more and no less. Because of this, sadly, we usually award based on price.

## The 'Wow' factor

I have asked hundreds of companies the following question: Why should customers pay more for you than your competition?

Everyone says they are better but can't point to anything specific they actually do differently than their competitors. Someday, I hope to find a team of subcontractors and suppliers who really know how to "wow" me.

## How to 'wow'

### 1. MAN THE JOB

It is easy to get jobs you can't handle — bid them cheap! When bidding, be prepared to properly man projects with enough qualified trained workers. A larger job may take 15 men to maintain the schedule. If you only have 20 men on your entire crew, don't bid it and hope you can find enough help when you need them. I want trained crews led by jobsite foreman who:

- Have ongoing training
- Speak English
- Can make decisions
- Can read the plans
- Understands codes
- Knows the contract
- Runs a safe job

### 2. BE WELL FINANCED

I've heard many a time, "I've got to get paid by Friday or I can't make payroll." This is not the general contractor's problem. All general contractors and subcontracts include payment procedures for every project. Generally when you invoice by the 25th of the month, you will get paid by the following 15th through the 30th of the next month. This is how the construction business works.

Subcontractors and suppliers who are undercapitalized usually don't have enough working capital or an adequate bank line of credit to handle the work they can get. This causes a cash-flow crunch which doesn't allow them to hire enough help to get their jobs done on time. This creates stress and causes their businesses to run inefficiently. This makes everyone upset including the general contractor, construction manager and project developer; it also hurts the other subcontractors on the job. The underfinanced subcontractor then makes their problem become their customer's problem, which ends up in lost profits and no repeat work.

To run a successful subcontracting business, I recommend at least 20 percent of your annual sales volume in working capital plus a bank line of credit of at least 15 percent of your annual sales as a backup. When a subcontractor hits me up for money, I ask them what their line of credit is. When they answer they don't have one, I know I am dealing with a poor business owner who doesn't know how to run a profitable business.

### 3. MANAGE THE CONTRACT

Step one: READ THE CONTRACT! Most subcontractors never read their subcontracts. Like a dog in heat, they are so excited to get awarded a job they'll sign just about anything. I take care in writing specific and complete subcontracts to clearly lay out how I want the project managed. Most subcontracts include clauses which clearly define how to:

- Provide proper notice
- Get paid for extras
- Proceed on changes
- Present a change order
- Delay the project
- Keep the schedule
- Communicate
- Attend meetings
- Submit items for approval
- Get paid
- Proceed when not paid
- Handle disputes

What makes me really upset are subcontractors who ask for change orders 13 weeks after the extra work was completed. I want subcontractors and suppliers to manage per the contract and follow it to the letter.

### 4. BE PROACTIVE

Typical subcontractors wait for the general contractor's field superintendent to call and inform them to start work on the project. For example, a superintendent calls the plumbing contractor on Wednesday and says, "Okay, we need you next Monday." The subcontractor replies: "Gosh, Monday, I can't start on Monday, I wish you had called me earlier. I am really busy right now and I don't have the submittals approved yet."

A pro-active subcontractor is on top of every job they have

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a contract to build. They don't wait for customers to call. They take responsibility for monitoring all their projects by visiting jobsites early and staying in touch with project superintendents on a regular basis. When they get the call to start, they're ready, the materials are approved and available, the foreman is familiar with the project, and they are ready to man the job as required to maintain the schedule.

Be proactive rather than reactive. Go see the general contractor, sit down and ask how you can make the job run perfectly for them. This almost never happens. Visit the jobsite and walk the job with the superintendent one or two months before you're supposed to be there. Stay in touch with the project manager or field superintendent on a weekly basis to monitor progress. Ask: "How can we help you meet your project goals?"

### 5. MANAGE THE JOBSITE

It would be really special if subcontractors and suppliers treated our jobsites like their own homes. In your home you don't leave trash all over the place. You don't leave a project unfinished. You don't borrow your neighbor's phone, power or toilet without asking. You don't damage other people's work and sneak away without telling someone you'll fix it. You don't create unsafe conditions and leave them exposed for your family members to encounter.

Why do I have to do a final walk-through and make a punch-list for all of the subcontractors to complete? Can't they see what's wrong with their work? This drives me nuts. I expect subcontractors to be professional. Here's a jobsite management wow checklist:

- Weekly safety meetings
- On-going everyday cleanup
- Haul your own trash away
- Provide temporary facilities
- Protect materials from theft
- Keep your tools locked up
- Do your own punch-list
- Keep your own set of plans
- Do your as-builts as you go
- Protect finished surfaces

Check-in with the project superintendent every day before your crew starts work and discuss schedule, priorities, manpower, conflicts and issues. Before you leave the jobsite, again check in with the superintendent to discuss what is left and what is next. Never leave a job when you think you're finished without a walk-through to inspect your completed workmanship.

### 6. HELP ME!

My working relationship with subcontractors and suppliers is a continuous push and pull versus give and take. Today we are nearing completion on a 12-building project. Each building has been sold and the occupants are waiting to move in. It is obvious we need the subcontractors to finish and get their final inspections. It is such a hassle to get them to perform as they have countless excuses why they can't complete their work and man the job properly. This poor attitude and unacceptable business practices are the norm in the construction industry. Doesn't anyone care about anything but themselves?

I want subcontractors and suppliers who care about the overall project goals and will do whatever it takes to make it happen. I am not asking them to lose money or go beyond the call of duty — just do what they are contracted to do. This includes meeting the schedule, caring about their customer and the ramifications of not finishing projects on time. On the project I described above, we have a $14 million loan clicking along at $2,300 per day interest. Plus there are 12 building buyers trying to schedule their move-ins. When subcontractors miss their deadlines on this project, over 100 people are affected plus the associated costs. Subcontractors, help me out!

### 7. MORE 'WOW' IDEAS

- Send me a thank-you note
- Bring me leads
- Get bids in on time
- Give me value-engineering ideas
- Don't overcharge on change orders
- Send me product literature
- Keep me informed of new ideas
- Help me make a profit
- Give me a referral
- Train my superintendents
- Get an email account
- Carry a handheld email device
- Use email
- Carry a digital camera
- Use your digital camera
- Take me to dinner
- Ask me: "How can we improve?"

When we've got a choice to hire Joe's Electric versus Ed's Electric on a project, we weigh lots of variables. Consider our choices: Joe's Electric has five electricians, is a pain to deal with and generally asks for non-reimbursable change orders. Ed's Electric has 30 trained electricians, is always there when you need them, and is fair and timely on change order requests. If the two bids are only 1 or 2 percent apart, we are going to award it to Ed's Electric every time. I don't need the hassle. Life's too short and construction is too hard.

How subcontractors and suppliers can "wow" general contractors is to be more proactive and less reactive. Help project managers anticipate problems, get the job done properly, provide enough qualified trained field help, finish ahead of schedule and suggest better ways to save money. It is easier to "wow" a general contractor than you think. It doesn't take a lot to set your company apart from the pack. Try a few of these tips and you will get more work, make more money and have more fun. ●