

## Chapter 1



# Excellent Management in Your Construction Company

You and your contracting business can enjoy the financial benefits of a smoothly running operation. You simply find out what makes a contracting business work effectively and do those activities routinely over time. If you do a good average job of this, you will be operating more efficiently than most other contracting businesses. That is all it takes to get to excellence and gain a distinct advantage in the market place.

Rewards to you for excellent management include:

- Greater profits
- More financial stability
- Extra enjoyment in running the company
- Less risk to you personally

## The Excellence Model

Construction trade work is different from construction business work in this important way; a superior trades person controls their own work to produce the excellent product. A superior business person has to control their work

and the work of others in order to achieve excellence. Controlling another's work production is called management.

As the size of the company work force gets larger and other managers are employed to oversee various parts of the process, managers may manage other managers who also manage the tradework. Other managers might manage the business workers. Both trade work and business work have to be coordinated by top management to assure the quality of the product. In order to deal with this complexity there has to be a model, even for the simplest organization. The model must include three critical parts:

- The business product
- The flow of work in the organization
- Performance units in the company

## **The Business Product**

Your contracting business sells a product that customers buy. You may have the type of product that is bought and installed, like a hot tub, or built-in furniture. More likely the product is one that exists in a person's mind and is described through a set of plans and specifications, like a new house or an updated plumbing or electrical system. Whatever you sell, or plan to sell, has to be clear to both the customer and yourself. More critical yet, the idea of what is to be done has to be the same in both your minds if the customer is to be satisfied.

### **Business Product Graphic**

The graphic on the next page shows the elements of a successful business product. Whether yours is a one person business or a large firm with 30 or more employees, all the elements of the business product have to be present.

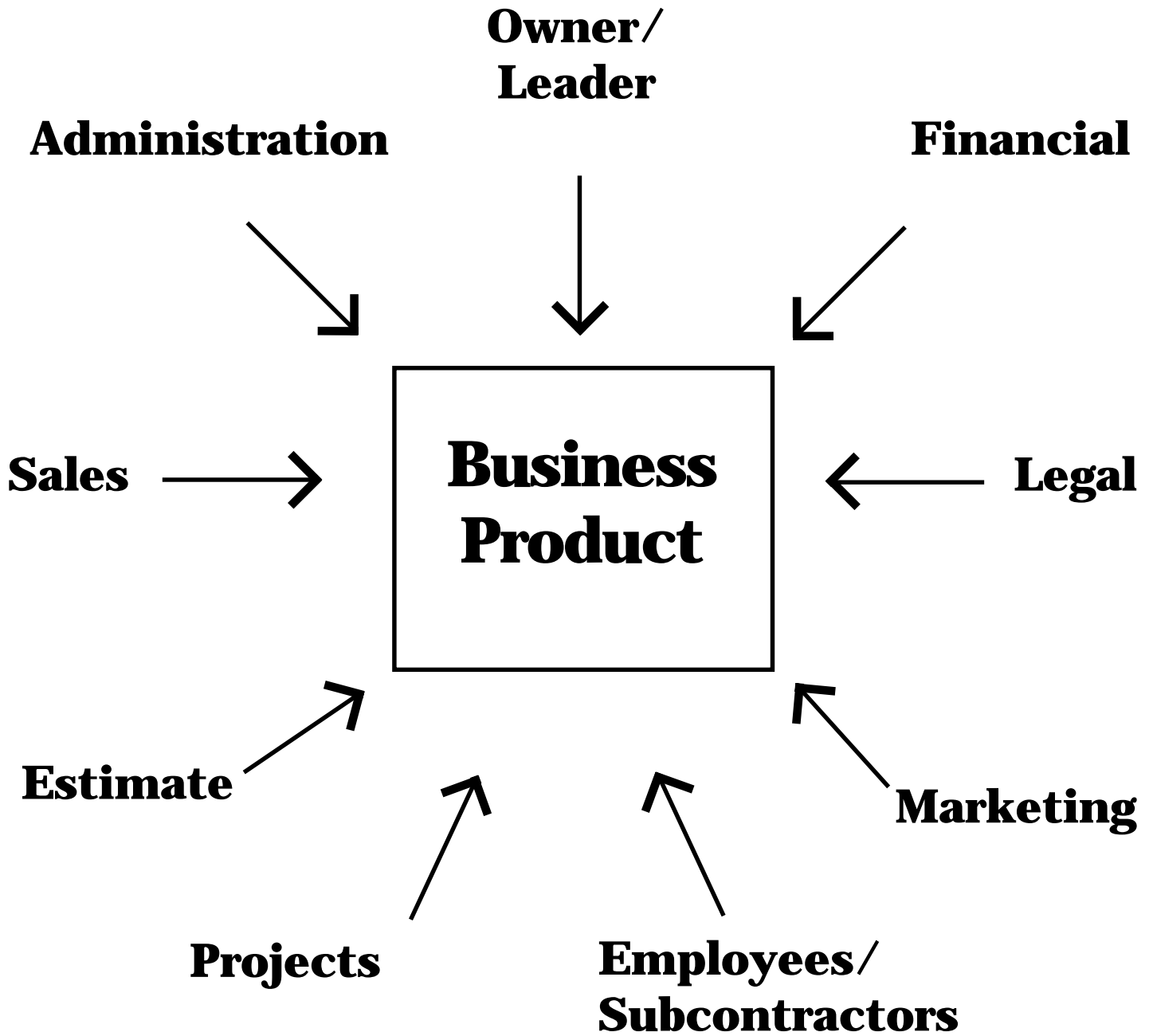
Each following chapter deals with one of these nine elements in detail.

*The effective manager in a company gets the job done. Hard work is good, but gets no prizes. Work has to produce results in line with stated objectives.*

## **The Flow of Work in the Organization**

Your business product is produced by following a project's process as it flows through the business. To be successful it has to follow a specific flow pattern and be dealt with at every point on the process. Shortcuts are always long routes to success. Just as with a building process, each part has to be done in order and correctly completed to insure the success of the whole project.

**Exhibit 1: Business Product Graphic**



The flow of work is different for each company, based on the product produced and how it is done. A large company will not do the same tasks in the same way to produce an identical product as a small company would. Each organization can administer tasks differently while producing identical products. Therefore, each company organizes in a way to produce the best product they can in the way they see as ideal for their operation. It seldom works to copy the work flow process of a company that is similar to yours.

## **Flow of Work Graphic**

Every successful contracting company will move through the flow of work pattern (Exhibit 2, page 9), usually with different emphasis from item to item. Your best beginning is to determine how you will deal with each item in your business rather than how to avoid specific items. To be successful in business you must deal with each one in turn or be certain that an item does not apply to you. Skipping a step could cost you dearly.

*Success in management depends on attention to detail. When sloppy work is done, the customer will notice. Deals are easily killed in the sales phase when the work is not done on time or is inferior.*

## **Marketing**

All new business begins with marketing. You have to find people who are interested in hiring you to do their work. This means going to them with the story of your business. Chapter 4 deals with marketing in detail.

Good marketing produces people who call in for information or estimates. These people are called “leads” and begin the process of person-to-person contact.

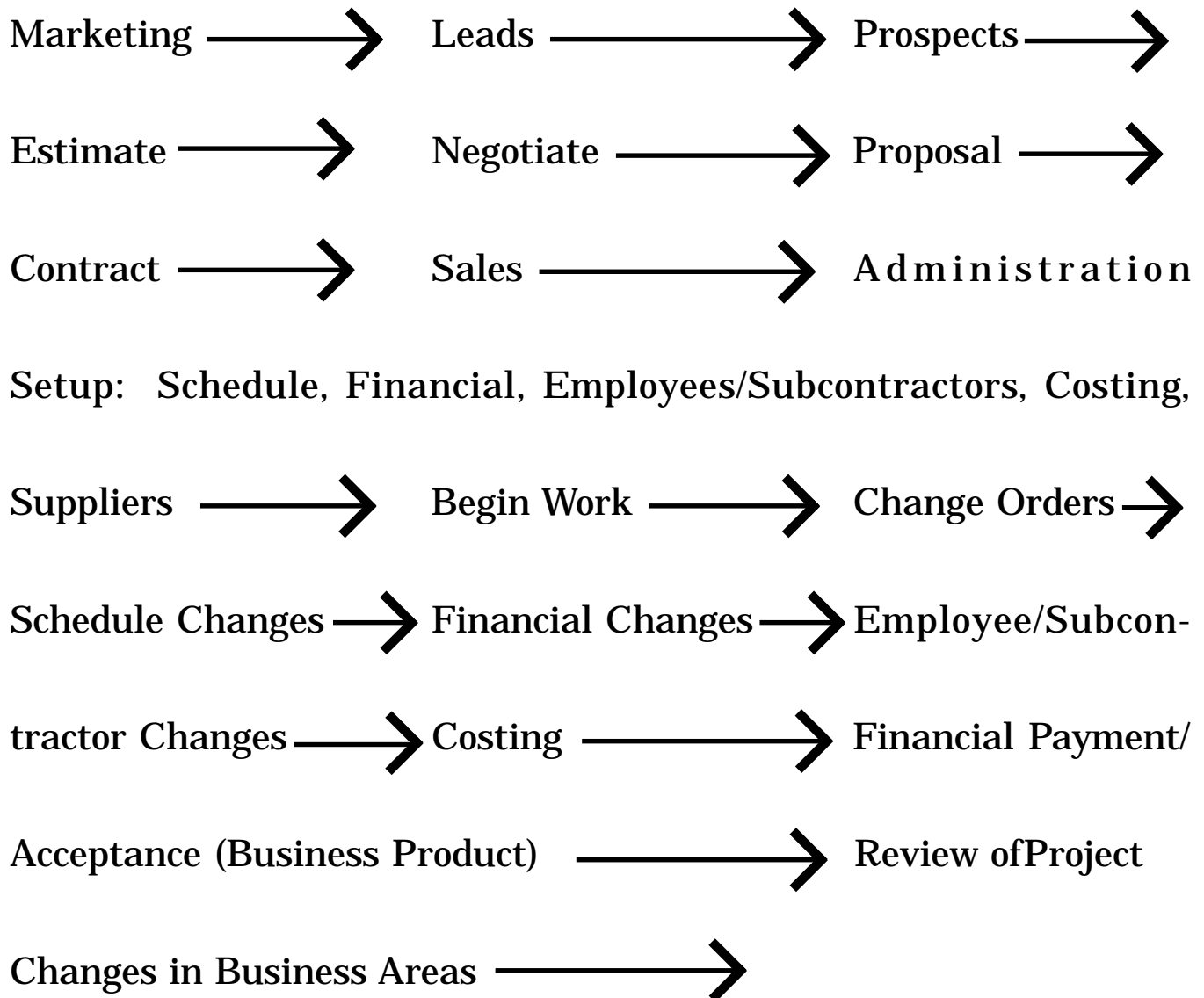
## **Leads**

When a person calls in to your company for the first time they will get a “first impression” of how you operate. If this is favorable, you have an advantage; if not, you begin with a problem to solve. Therefore, you want the people who make first contact with a lead to be able to make the most inviting impression possible.

The easy way to do this involves a form which is filled out. (See Sales Lead Form, Figure 1, on page 84, in Chapter 3.) The form guides the person through a series of questions that show that you have their project concerns at heart while gathering information about the person and the project. If the person willingly gives you the information and can answer questions easily, it usually means they are solid prospects and are looking for someone they can work with. If the questions are not easily answered, the person may not

**Exhibit 2: Flow of Work**

# Flow of Work



be ready and will require some development. The form will reveal what you need to know to determine if you have someone who qualifies as a prospect.

## **Prospects**

A lead has to qualify to become a prospect. One of the most wasteful exercises in selling is to work with a prospect who is not ready to go on with their project. While you do not want to drive people away, you have to find out if the person is ready to move on the project they want.

You have to ask questions to determine their readiness. These include:

- “When are you planning to begin the project?” This might be the case for a remodeler.
- “Have you determined a source of financing that works for you?” A family seeking a new custom home might need this question.
- “How many houses will be completed each month?” An important question for a subcontractor who does roofing, plumbing, or electrical work to ask.

All productive sales people learn quickly to size up prospects. Most contractors have many leads and prospects coming and going regularly. There is no time to deal with people who will not develop into customers. Choosing the correct leads to follow and prospects to work with is the sign of effective sales management.

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*A sales person is not necessary when the prospect knows the product well. In the case of a book, a computer, or a bicycle, a person knows the product well enough that they can order it on the internet or by mail and be comfortable that they know what is coming. Not so with most construction projects. The customer wants to feel confident about a company's ability to complete the project the way they want it done.*

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## **Estimating**

The next step to a sale usually involves estimates of the work to be done. Rarely is your customer working with you alone in finding out who will do their work. They are often in touch with other contractors to compare pricing and services. Here is another opportunity to gain an advantage by handling this step carefully and professionally. (Estimating is covered in detail in Chapter 7.)

Your efforts at qualifying the lead into a prospect can now begin paying off. Questions about the project are needed. A checklist dealing with the type of project helps you to cover every aspect of the project, even things the prospect did not consider. A checklist for a remodel project is shown as a rather

complicated example of a checklist. (See Exhibit 21 at the end of Chapter 7: Estimates.) A specialty contractor's list could be shorter and still be complete.

The prospect's plans and specifications have to be detailed and complete to allow for a firm estimate. As part of your qualifying process you have to make sure that your estimate matches what the project will turn out to be. As you will see later in the book, a number of staff people might be involved in the estimating process:

- The sales person gathering correct information for the estimator. Their accurate information is critical to the estimate.
- The estimator rechecking items in the estimate that are unclear. Specific models and brand names might be required with specific prices as well.
- The production staff who may have to find room in the schedule for the project. Will the customer's start and finish dates work with other projects already contracted?
- The administrator may need to make sure there are sufficient workers to do the job by checking vacation schedules and subcontractor availability.
- Financial people would surely want to know that funds are coming in on time to finance the start of new projects. Cash flow is always critical, especially when you are the busiest.

Eventually you get the estimate out and it is time to discuss it with the prospect. At this point the sales person will begin the process of negotiation on how to make the project work for both parties.

### **Negotiate**

Prospects usually do not want to accept the first efforts of estimating. There can be many "give and take" sessions to work the price down or change items in the project in order to accomplish the objective while still holding to a price point. Remember that your prospect is likely to be talking to other contractors. Your detailed information and estimating process will pay off as you work with the prospect to find a common ground in the project.

The end result of negotiating is preparing a proposal for the customer to accept. The proposal has to be as detailed as possible because it will become the contract when signed and accepted. The agreement you have with the prospect when negotiation is completed has to cover every significant detail of the project.

When changes are made to the estimate, the schedule, or the price, other people in the company often have to be consulted. One person can not make arbitrary

changes without knowing how it will affect the rest of the company. is necessary as you come up with new approaches to the project.

When you reach this level of agreement you prepare the proposal.

### **Proposal**

Your project proposal will become the contract between you and the owner or general contractor. It has to be correct, stating:

- The terms and conditions of the project:
- The payment schedule
- The plans and specifications to be used, and
- Standards of performance of the work

Every detail of the project that could cause a dispute should be noted and reviewed prior to signing the proposal.

*A superior construction product requires a decent sales person to convince the customer to buy. A decent construction product often needs a superior sales person to develop the confidence for the customer to buy.*

### **Contract**

The contract is the legal explanation of the project. In a dispute it will be the document used to determine what the intent of the parties was at the time of signing the contract. Nothing either of you say before or after the contract is signed is likely to have an effect on the settlement of a dispute. If you agreed to it, it has to be detailed in the written contract.

All of the company staff who deal with the management of the project have to understand the terms of the contract. In some cases you may want to break the contract terms into those parts that individual management people will be dealing with. For example:

- The financial person has to know the payment terms to predict cash flow.
- The production person needs to understand the timeline for the project as well as difficult aspects of the construction.
- The estimator wants to get actual cost information to see how close the project came to the estimate so corrections can be made in future estimates.
- The administrator of the company wants to be able to see the total picture of the project so internal records will be current.

The company has to perform to the letter of the contract. No one in the management group can be unaware of what the contract calls for.

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**Sale**

The sale is completed when the customer signs the contract. The sales person's work is not done though. It is their responsibility to make sure that the company management staff understands all the customer's expectations. On the one hand, a garage is to be built. What is the expectation of the customer in how the flow of the project will go? Where are the opportunities for the company to make strong positive impressions during the course of construction?

The sales person has had the most in-depth discussions with the customer. It is their job to communicate the needs of the customer to the managers so they can meet these needs easily. If the process is working correctly, the sales person has routinely notified the staff of special needs so they have been included in the costs and made part of the contract. The fine points of their thinking is what has to be communicated. In many cases it is how you want the customer to feel about the project when it is done. This requires everyone to work from the same ideas.

If the customer is happy during the project as well as at the end, they will be a wonderful source of referrals. Any customer promoting your company will benefit the sales process.

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*All business is personal even after the sale. The sales person represented the company, often single-handedly, to the customer up until this point. Now the rest of the company has to produce the same level of customer satisfaction as the promises of the sales person and the contract did. The administrative operations will do this one task at a time until the project is done.*

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**Administration Setup**

The sale is made, the contract is signed and the project is scheduled into your administration system. Now the administrator starts to make the coordination and communication happen. They monitor the progress of the project and look for items that have to be corrected in time to keep things on track.

This position is one of the most difficult to explain in a specific way for a given contracting business. It will operate differently for various contracting companies based on:

- The type of work done
- The size of the company
- Whether a business is a general contractor or subcontractor
- A growing company or established one

In all cases they will include these areas of management:

- Schedule
- Financing
- Employees
- Subcontractors
- Costing Process
- Suppliers

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*Managers and employees are looking for “A good place to work.” You will attract and keep better people with a better business organization. People will work hard and produce at high levels while remaining loyal if the business supports their policies, creative thinking, and gives strong recognition for their part of the company’s success.*

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## **Schedule**

The project schedule is critical to the health of the company. Predictions of cash flow have to be made on the basis of project payments coming in on time. Payments depend on the project staying on schedule. When problems occur that have any affect on the schedule, including a speed-up of the project, the administrator has to communicate the change to other managers so they can begin changing company operations.

In addition to the financial problems of schedule changes these can come up:

- A delay in one project can set other projects that are being negotiated back, requiring more negotiation.
- Estimates may need to be changed to allow for more people in order to get the project schedule back to normal. The extra costs will have to be added to new projects coming up for bid.
- Arrangements have to be made with suppliers and subcontractors to change their schedules to deal with the delays.

To be effective the administrator has to hear accurate information about changes and problems quickly to allow the greatest flexibility in making changes.

## **Financing**

The financial condition of a contracting company can change rapidly. Delays, slow payments, mistakes and other costly problems can take profits quickly. The financial manager has to keep on top of cash flow and be ready to make changes to finances to keep the company solvent. Maintaining accurate records with no delay in getting invoices and making payments keeps the financial person busy.

All projects are priced to recover labor and material costs. In addition, all of the costs of business, plus the anticipated profit, comes from the project price. Project costing, the comparison of estimated costs to actual costs, must be done constantly and quickly.

The financial person gathers information from many sources and trades data with other managers in the company including:

- The owner about financial goals
- The estimator about changes in business costs that have to be added to markup
- The production people about costs of labor and benefits
- The administrator about new equipment and other office necessities
- The sales people about how payments need to be collected

Almost everyone in the company can give useful information about operations if they are asked correctly and they are expected to provide cost-saving ideas.

*All employees should know that there are no stupid questions or stupid ideas. Management has to take care that every question or idea from an employee is taken seriously. If this attitude is not carried out by management, the employee will assume that their questions and ideas are not welcome, even if posters say otherwise.*

## **Employees**

Employees are of two types:

- Those that produce income
- Those that are part of overhead

### **Employees That Produce Income**

Your company will make money off of some of its employees. A simple example of how this is done is when a plumber sends out a service person whose time is billed at \$60.00 per hour to the customer, but is paid \$22.00 an hour for their time. The difference goes to operate the business and realize profit. Other employees who produce income are:

- The crews that do the work such as carpenters, laborers and other trade people who are paid less than the amount billed
- The sales person who brings new business in
- Subcontractors who work for less than what is billed

A good way to look at productivity in production and sales is the amount each person brings in to the company while doing their work. It is a way to measure how well each person is doing in relation to others. The only way you can do this is to:

- Collect careful time records
- Know the difference in billing amount and the cost per hour of the employee
- Keep careful records of sales costs
- Get complete cooperation from your employees in carrying out the process

*Management exists to support the income producers in the company. The first question you should ask is this: "What can we do to make these employees more effective?"*

## **Employees That are Part of Overhead**

All other employees are cost items to the company, including you, the owner! The company has to pay salaries for this work and the productive employees have to cover these costs and also produce the profit.

In order to help the company these employees have to be aware of their costs to the company and be part of keeping their costs as low as possible. The administrator is usually the one who works with the financial person and the owner to collect information on how costs are going. Lowering costs and holding to budgeted projections for projects and overhead is one way to increase profit.

Another way owners encourage frugality among all employees is to provide some sort of profit sharing plan. The more the employees understand how to hold costs, the better they will respond, especially if they get a portion of it.

## **Subcontractors**

In many companies subcontractors are part of getting a project done. If you operate as a subcontractor you can be part of a smoothly running general contracting company. If you offer services that help the general contractor to operate more efficiently, you can gain an advantage over other subcontractors.

Getting subcontractors to the project on time, with all materials on the site, and with complete instructions on how to proceed can be difficult. It takes more than just the project manager to make this happen. The administrator will help by making sure information gets to the subcontractor. The sales person, estimator and financial person may have an effect on the willingness of the subcontractor to perform as you desire. Getting paid on time, getting updates on the work to be done and details of project site conditions will all help to keep their attention focused on your project.

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*Subcontracting may be the cheapest form of producing your business product. Some contracting businesses are set up to take full advantage of this fact. They include homebuilding, remodeling, plus specialty trades like siding, window replacement or deck construction. The contracting company sells the project and a subcontractor is hired to do the installation. One person can operate this type of business, and it can be any size, doing a number of trades at the same time.*

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### **Costing Process**

As soon as the project begins, the project costing process starts. Profit is only achieved when the project is done within its estimated budget. If costs are not rigorously controlled, the company will constantly be fighting poor cash flow.

Every item in the estimate of any significance has to be compared to actual costs. The easiest way to do this is to use an estimating form that has a column for inserting actual costs as they come in. In Chapter 7 you will find forms that you can use to make up your own form for costing.

In order to collect the information and get it to the correct area, each invoice has to be routed to specific projects. In addition, time cards have to be set up to allow employees to record in detail how much time was spent on various tasks on the project. As soon as timecards come in the administrator or financial person can begin assigning labor costs. All information that is not according to the budget has to come to the attention of the financial person and the estimator. Making quick adjustments to costs and pricing can save the company a lot of money over a year.

### **Suppliers**

You are the customer of the suppliers that you use. They want to keep your business by keeping you happy. They can not work magic when you make a mistake or forget to order on time. Managing your material ordering process helps you keep the project on time and on budget.

Usually a supplier will assign you a sales person. You order through that person and generally solve problems with them as well. Communication with these sales people is critical to smooth material flow to the project. The production manager and the administrator have to know how to get the sales person to help them get materials on time and orders correct. The estimator has to have a quick link to current prices and availability. Your management staff has to be skilled on how to work with all of your supplier's sales staff so they get the greatest benefits from their services.

Here is another way to gain an advantage. Establishing and maintaining relationships with these suppliers means they can help you keep costs low.

What do you have to do? Simply be reasonable in how you ask for service and pay them on time and in full. A supplier who is paid on time will be a happy supplier.

## **Begin Work**

Now you can begin to work on the project. The management group is ready to make the project a reality. The employees are up to speed on the nature of their work and day-to-day operations should move smoothly to completion.

*A good test for your management skill is not what you can do, but what can be done by your company when you are not there. Can your people efficiently manage the routine tasks?*

## **Change Orders**

Few projects are completed without some changes. Any changes to the original agreement have to be in writing to become enforceable. No verbal agreements are likely to hold up in court.

Everyone in the organization should be on notice about when a change order is necessary and what to do if changes are suggested to them. This is especially true for employees. If owners or general contractors ask for extras, everyone has to know what the next step is. In all cases the next step has to be that a change order is prepared.

A change order is an addition or deletion to the original contract agreement with plans, specifications or descriptions detailing the change. The price change and payment process is included. Most of the time a change order involves:

- The estimator to get new pricing
- The production manager to schedule the changed work
- The financial person to approve the payment terms
- The administrator to arrange for changes to operations

As each change order is completed it is costed along with the rest of the project.

## **Schedule Changes**

Changes to schedules are common. Many factors come up to force changes. However, the change can be managed for the least negative impact to the company. This involves coordination and communication among the management staff.

When the first hint of a possible change is noticed the managers have to be notified. They will have to know:

- What is the cause of the change?
- Who is affected?
- What can be done to deal with the change to experience the least overall disruption?

All of this can be dealt with if managers communicate immediately and effectively.

When everyone who is affected by the change is asked how it can be corrected, there are many more possibilities available. Often an adjustment to current operations can make the change of little effect. The idea is to make the adjustments quickly and correctly.

### **Financial Changes**

Whether the financial change is positive or negative, the company has to find out about financial changes and act to make the best of them. If the change is negative the financial person has to know quickly and be able to act decisively. If positive, how can the company make best use of it?

Project costing during the course of construction is the best way to keep on top of potential financial problems. Following the budget for the project assures that there will be profit as estimated. When things change, adjustments have to be made. If the project comes in under budget it allows the sales person and the estimator to look at their numbers more closely and become more competitive in pricing.

Business costs follow a budget just as projects do. These costs can either go over or stay under the projected budget amounts. The administrator and the financial person have to closely monitor these expenses so the estimator uses the correct overhead figures in the estimates. All non-project costs come from the markup amount. At the end of each project the total costs of materials, labor and overhead items have to be accounted for in the project's total cost. Each project has to pay its share of company overhead and profit.

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*All contracting business operations take capital to start and run successfully. When things change for your business financially, and they are sure to from time to time, capital will be of great help in regaining stability. A major goal of business operation is the protection of assets. When you start the business, the assets you put in become part of the business. These assets should grow to keep pace with the size of the business. As capital is one of these assets, your capital should grow to meet the needs of your business in order to remain stable.*

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### **Employee and Subcontractor Changes**

Whenever people are involved there are unpredictable changes. People get sick, are injured, have family problems and in other ways create problems for project schedules. Management involves people so managers are always dealing with these type of changes.

Many of the problems involving employees and subcontractors can be eliminated through extensive interviewing in the hiring and selection process. It is your manager's job to find the best people to work with the company. The time and costs spent to hire correctly are paid back over time with fewer disruptions to work flow.

On the other side, your managers have to provide good working conditions and reasonable work loads to allow the employees and subcontractors to work effectively. They will simply burn out and experience frustration if their work process is not well organized. You want a process of working together that allows the workers and the managers to do their best work.

The only way to lower the cases of misunderstanding is to communicate. People can only be given information in a few different ways. However you get the information across to your people, it is up to you and your managers to get it done and get it correct.

### **Project Costing**

As the project comes to a close you are ready to do an in-depth review of the costs. This is part of the total review to come later but should be done as soon as all the costs are recorded and available. Cash is the lifeblood of your business. You have to know what this project did for your cash position.

As you know, we have been encouraging you to do costing right from the start. If you did this most of the costs are now recorded. It is time for management to look at the results. While the financial person might be able to understand the numbers best, it is important to make sense of them to all the other managers and especially you, the owner. Each manager position should look at the costs to see how they could have been reduced.

All suggested changes and improvements have to be built into your estimating system. New pricing guidelines and markup percentages might be in order. Take your valuable cost data and use it in every way you can to improve your operation.

### **Final Payment**

For many contractors collecting the final payment is a fearful event. The customer will not pay unless everything is in order. If your project went according to plan, this should be routine with no surprises.

As you approach the final payment your managers have to be sure that all contract items and services are completed. If you were in contact with the customer during the project, you should know what your reception will be when you ask for the final payment. Your managers should know as well. Instead of dreading this moment, be sure that your entire operation is geared to make this moment in stride and accept the owners congratulations for a project well done.

### **Acceptance of Product**

The goal is a nonexistent punch list. Most contractors will have a short list of items that are not complete for reasons like these:

- The supplier back-ordered the specialty light fixture.
- The mason has a repair to the stone veneer and has to get a small supply of stone.
- The door hardware came in the incorrect model and will be changed when it arrives.
- It is a bit too muddy to do final grade in one area and will have to be delayed.

If you were able to keep to your schedule and the terms of the contract, the customer has been accepting the project as it has been constructed. A happy customer during construction usually stays happy through to the end. Do the little things correctly each day and the bigger idea of the complete project will easily be accepted.

### **Review of Project**

One of the best ways to help managers to understand each other's work is to complete a full project review. This involves each manager reviewing the positive and negative aspects of a project as they have dealt with it. Not only will they have to look at their part of the project, they will also learn how other managers see the project.

Nothing gives the total picture better than seeing how others in the company dealt with their own problems. Some examples of differences are:

- The production manager gets to see how labor costs matched up to estimates. Were costs within the budget? How did the administrator save some of their project managing time by doing a few simple duties?
- The financial person shows the business costs attributed to the project. Managers discuss the possibilities of getting equipment that might more than pay for itself in only a few projects. The estimator will check out how much it might lower labor costs.

- The administrator presents the file that holds the legal records of the project. It is full of contract forms, change orders, lien releases and waivers. It is the complete legal record of the project. Congratulations are in order because on this project the paperwork went as smoothly as it ever has. Disputes were nonexistent, keeping all the parties in good humor.
- The estimator explains that, in spite of a well organized project, the electrical contractor had problems with getting materials specified in the plans to the site on time. The production manager and the estimator discuss searching for another subcontractor.

The possibilities are usually few and pleasant when the project went well. They are often endless and dreary when the project went bad. No matter what the situation is, a project review will help, even improve, your business.

### **Changes in Business Process**

Suggesting operational changes and putting them into practice are two very different things. Change means people have to change. People will usually resist change unless you can show how it is to their benefit. As owner you will have to lead the change process by demonstrating the first changes in your operating procedures. When you can show how you are changing to improve the company, others will follow your lead.

## **Performance Units in the Company**

A performance unit is a type of team approach to getting specific units of work done. There are nine elements to a contracting business which must work together to produce the product, as noted in Exhibit 1: Business Product Graphic on page 7. In many cases they will not all work together at the same time. Smaller groups of people come together to deal with units of the flow of work to achieve the greatest efficiency of production.

Some of the combinations you could use are as follows:

- Owner, Sales and Marketing
- Financial, Estimating and Production
- Administration, Owner and Employees plus Subcontractors
- Legal, Owner and Administration

*Management is essentially about thinking, not doing. It is best called "mental labor" because it deals in ideas and creative solutions.*

## Owner, Sales and Marketing

The owner might decide to branch into a new product or market area to increase income and profits. Examples of this could be:

- Adding a specialty of doing deck construction in addition to remodeling
- Adding plumbing work done directly for owners to the subcontracting work done now
- Expanding the range of area you will work in to include the county area around the city

In these cases this group would be called together to work out how the marketing would be done and which customers were easiest to sell.

In another case, the marketing person might have found out that the company is well respected in an area of business that can be expanded with a more focused approach. These might include:

- Specialty roofing installations on residences that are being remodeled. These roofs can be marketed to remodelers and homebuilders as custom items.
- A manufacturer might be seeking a new installer for its product in the area, an installation that your company and production crew have great skill at. The manufacturer offers marketing assistance to its installers.

The sales person could discover that there are some neighborhoods that the company has done a lot of work in. It would be easy to get referrals in these areas and expand the range of the company's presence without great expense in marketing.

If the owner calls this group together on a regular basis there is reason to expect the company will be responding to new opportunities in sales and marketing.

## Financial, Estimating and Production

Perfection, in the eyes of a financial person, is a company that can hold to its budget for business expenses and project costs. This means there are no scrambles to find cash to pay bills beyond those that were expected. This group of managers and key people can make it easier to hold to the budgets by helping to make sure they are within reach.

The estimator has to know the real costs of all aspects of the project as well

as business expenses. The financial person has to supply the business cost figures and then work to get the company to hold to them. These two work together so that the pricing of the project includes cost items correctly assigned to the project. They then review actual costs as they come in to make adjustments.

The production person has to help both of the others by supplying accurate information on what the project requires in terms of special materials, labor and other nonstandard costs. These are then built into the estimate. All of the costs that the estimator and the project person agree on become some of the special budget items for the project. It is often these special costs that make it hard to make a profit on some projects. This group meets regularly to discuss the many items that have to be included in projects to keep the financial person happy with budget performance.

### **Administration, Owner Plus Employees and Subcontractors**

In this performance unit you find all of the people doing production in the field as well as in the office. Coordination between the field and office staff can make a huge difference in the efficiency of a company. If both parts of the business are able to support the other in getting work done, there has to be superior performance.

The owner or general manager will be concerned about how information is handled between the office and field. Often there will be decisions made about how to improve flow of information and how to better respond with detailed responses that help the operations. For example:

- Administration can make sure that safety reports, hazardous material data sheets, and other required forms are ready, or completed as required, for the field people to have when necessary.
- Employees have routines that alert the office about vacations, emergencies and other issues that will take them off the project so other workers can be arranged for.
- Subcontractors are contacted regularly by the administrator to make sure they are on schedule for project work coming up. Any changes are discovered in time to make adjustments and keep the project on schedule.
- Production people rely on the office staff to keep them current on orders, deliveries, production workers and subcontractors.

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*Tracking project costs is part of the flow of work. You can also track performance by setting up units that have goals, budgets, and time lines. Each of these areas can be measured against a standard. In fact, to be fully useful, they must be tracked by how well they did based on their work descriptions.*

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## **Legal, Owner and Administration**

This performance unit has the responsibility to keep the company out of legal trouble while negotiating contracts that are clear and correct in describing projects as the project owner wants them done. As owner, you want to be protected by the legal documents the company works with, but not in a way that pushes customers away because of their complexity. The idea is to make the legal relationship with customers, suppliers, subcontractors, and banks reasonable for all involved.

The legal people are usually outside professionals and consultants but can be employees in a large company. The owner and administrator will normally come up with questions about how to deal with a legal issue that they are unsure of. The process will usually involve negotiations about how to change documents and forms that the company uses to better protect it and make the customers less wary of signing agreements. A customer will often have an attorney review contract forms, proposals, and other terms and conditions of documents used in contracting. You do not want to put the customer off with your documents.

Ultimately the company has to perform according to the terms of the contract documents which include:

- Plans of the project
- Specifications and details
- Contract document, including change orders

This performance unit has to make sure all managers and employees are on the same page regarding details of how the project is to be completed. This group works to keep everyone informed as the project develops to completion.

Other performance units can operate in other business areas such as:

- Employees, Production Supervisor and Subcontractors
- Sales person, Estimator, and Project Supervisor
- Accountant, Project Costing Reviewer, Marketing person

These are sub-units and often do not deal directly with management. We will look at these types in the chapters that follow.

## Managing the Business

Managing takes parts and pieces to create the whole. The whole process of operation follows the lead of the business plan. Many trades people make the mistake of turning their trade work process into a business plan. This process leaves out most of the business aspects required of contracting.

A business plan corrects the common errors of the trades person going into business, as well as the mistakes of business people assuming contracting is like other business operations. To gain your advantage you simply construct and follow a detailed business plan. This is your job as business owner. If you have not already done so you should stop now and begin to make yours without delay. Use the *Advantage Contractor<sup>B</sup> Business Success Series* course *Volume 10: Business Planning for Construction Contractors*, as a guide.

Without a business plan you can not manage the business to a goal. Worse yet, your managers will not have a clear guide of the business goal and will likely be at cross purposes in their management objectives. Help everyone out and make sure that you have a useful business plan.

## A Written Business Plan

If your business plan is not in writing it can be called a phantom plan, unable to be communicated to anyone. You may say that the words you use communicate the plan to others. The truth is that your description of your business plan will likely be different each time you describe it. No two people will hear the same plan for the same business idea.

Getting any kind of a business plan on paper is evidence of:

- Commitment to a plan idea
- The idea being thought out
- The idea being clear enough that it can be discussed
- An intent to follow through

*At the end of Chapter 2 there are some examples of business plan outlines that you can use as patterns for your business plan. There is no exactly right outline for every contracting business. The idea is to use the samples to build your own plan, which will ensure that your business works for you the way you want it to.*

As the owner and leader of the company you have to develop a complete business plan that fully describes the business operation. The clearer you are on how the business will operate, the easier it will be to communicate the business goals to managers and employees. The idea is to be able to share your vision of the business clearly and completely. When your staff understands

what you want the business to do, they can more easily relate their work to your business goals.

## **A Blueprint for Building a Business**

You can use the concept of a project blueprint as a guide for setting up or improving your contracting business. If your business is new, you are starting with an empty lot. If it is to be improved, you can use the idea of remodeling your business. In both cases you are working from an idea to a functioning reality.

### **Site Work**

All projects require site work to get ready to build. Your business plan requires preliminary work to determine what kind of business can be built to achieve your goals. A building will serve the needs of the occupant. Your business will serve your needs.

Instead of hiring survey and excavation crews, you will search yourself and your goals for the correct placement of business goals. The questions above serve to help you take the business idea and determine how it will work within the boundaries of your trade, management, and financial abilities. Just as the building has to fit on the lot, your business has to fit your personal requirements and abilities to run it.

Questions and gathering information are the site work of your business. Everything you find out about your business idea becomes part of your business plan. When your business plan is done, your business site work is done.

Just as the site is now ready for the building, your business is now ready to be built. The business plan has to be as complete as the building plans and specifications. However, there is one major difference between being ready to build a building and building a business. With a building you know a lot about the trade work required to complete the building. In most cases you will hire specialists to do certain trade work such as:

- Electrical
- Plumbing
- Fire sprinklers
- HVAC systems

In your business, you may be much less familiar with the “trade work” of business. You can solve this by hiring specialists and learning the business

trade work required of your business. For example, you can consult with these types of people:

- Accountants
- Bookkeepers
- Attorneys
- Bankers
- Management experts
- Sales experts
- Financial planners

In this case you may spend much more time than a builder doing your business site work. Remember, it is of no use to start building your business until you are ready to take the project on. All mistakes will be financial. This means you will lose money or incur financial liabilities because of your lack of preparation.

*You will always hear about businesses that are started without a business plan and that do well, even over time. As with all situations, there are exceptions to the rules. What is not always recalled are the vast majority of businesses that fail without a plan. A business plan will greatly increase the odds of controlling your destiny.*

### **Foundation**

The foundation of a building represents its bearing strength and stability. The foundation holds the building where it is intended to be and does not allow it to move, even in difficult situations like floods, wind and earthquakes. It has to be strong.

Your business foundation deals with cash, production and customers. You have to produce a product or service for customers and make a profit. This is the foundation of all business operations. Without these business foundation items the business can easily fall to slow times, poor cash flow, and poor quality production. Your business will not succeed without all of the three business foundation elements; cash, production and customers.

### **Cash**

Cash is the lifeblood of any business. Without cash to pay bills and wages, your business is dead no matter how much work you have lined up or contracted. Contracting work is normally cyclical with variations for seasons, economic ups and downs, and the amount of bids accepted. You have to keep a strong foundation of cash at all times for business stability. While loans are possible, they should be a second choice.

You can keep cash flowing with contract payment terms designed to pay for

the project as it goes. Any problem with schedules or disputes over payments can make cash stop flowing on time because of late payments. Bills will still come in and have to be paid. Your business plan has to take into account how you will keep cash available at all times, even when things slow down.

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*Few contractors give enough attention to cash needs in their business planning. Most plan with the idea that business will always be good and do not think about how they will deal with slow business and economic cycles. In contracting companies cash can accumulate and disappear quickly. Communicating the financial health of your business to your staff is a good idea, even if it only informs them of how the company is doing generally. The nature of people is to help when they know there is a problem. If you are regularly dealing with financial crisis, your staff will burn out responding. Keep the financial peaks and valleys as shallow as possible. Everyone will be happier.*

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### **Production**

Production has two foundation elements; quality and on-time completion. Your project has to be what the customer expects, in terms of quality and on-time performance, as called for in the contract. Either problem will affect the way your business holds its strength.

Your business plan has to address production in terms of how you intend to keep from having quality and timely completion problems. If you are to do all the trade work, it is your problem directly. In most cases you will be working with many others to keep production up to high quality standards and on-time delivery.

*You will not ever find a perfect course of action for any complex issue. The idea is to keep working to develop more effective courses of action.*

### **Customers**

You sell your products and services to customers. They have to be satisfied so there will not be payment problems and disputes. In addition, your best and cheapest form of marketing is word-of-mouth by satisfied customers. Therefore, part of your foundation has to include how you will keep prospects and customers satisfied.

All of the people you work for and with, as you get new work contracted, will require your attention to their project. You can not expect anyone to understand and accept delays and late information in response to their questions. Your company has to be able to respond to all the people who need something from you. This takes management of your staff in order to produce satisfied customers.

While this may all sound difficult, remember that it is far easier to deal with

happy people than with unsatisfied people. It is also easier to find new customers when the present ones are satisfied. Satisfied customers are part of your business foundation. Without them your business is on much less solid footing.

### **Frame**

With a solid business foundation you can begin to build the structure. Using your strong cash position, quality production and effective marketing plans as a base, you add processes to maintain them.

The frame of the building represents its basic strength as a structure. The frame is built to withstand the use of the building as well as to resist the breakdown of the building. Your business should have the strength of a strong frame. With your business, the frame consists of those primary operations that keep a business functioning:

- Marketing to produce new customers
- Managing to keep the business operating efficiently
- Financial dealings to maintain a strong cash flow
- Accounts and records to know the health of the business

### **Marketing**

Marketing is the promotion of your business. It is a set of routines that you do constantly to make and keep people aware of your company. You target certain people who you believe are the best prospects for your products and services.

Contracting normally has cycles which range from way too busy to not busy at all. Marketing is designed to level out the work so you are busy most of the time with the type of work that is best suited for your operation.

### **Managing**

Contractors can manage projects very well where they are directly involved in the work. When it comes to managing the operation of the business, there are many more problems. Yet a business has to be managed to be effective.

Your business plan has to show how you will deal with management issues. This is called “contractor work” in other volumes of the *Advantage Contractor Business Success Series*. Contractor work separates the business activity from the trade work all contractors like to do. The frame of your business has to include these management skills.

You may find that you can hire out some of these management duties. Full time and part time employees can be used to do a certain amount of the management tasks, especially those involved with accounting, recordkeeping

and estimating. You will find that as you give up doing these tasks, you will also have to make sure that you are carefully reviewing the work. You have to make sure that the employees are doing the tasks as you desire.

### **Finances**

The financial duties of your business are critical to the structure of your business. Low cash reserves will bring down even large and established contracting businesses. Your business structure has to be financially strong with good pricing and strong profits.

*Profits are the only income that produces surplus for your business. Every other part of your income is a cost. The fee you charge has to recover all the costs of the project, the costs of operating your business structure, and the profits necessary to secure the future of the business. Profits are not "what is left over" but a specific, predicted part of every project's price.*

The business has to have a process for:

- Estimating
- Pricing including markup
- Budgeting of business costs
- Cost control of business expenses
- Cash flow accounting
- Project cost accounting

These processes are part of the financial structure of the business and act to give financial information quickly and accurately. With these processes built into the structure of the business, there is little likelihood that there will be financial surprises.

Your business plan has to provide for the means to keep in touch with the financial pulse of your business. The financial plan portion of your business plan is the method you will use for this critical task.

## **Accounts and Records**

Your accounts and records of the activity of the business are the final part of your business structure. These papers and other items that you will save and record show what your business has done in any time period you may want to know about. The history of your business is not only important to you, it is also important to government agencies that regulate your business. You are likely to be audited by these people:

- Insurance company
- Employment departments

- Workers' compensation departments
- State revenue departments
- IRS

Your business has a separate history from you, in spite of the fact that you might be a one person business. You can not combine your personal and business records. If you fail to keep this separation, the above agencies can insist that you provide an accounting or they will levy maximum amounts for your payments. If you do not report all cash and expenses flowing through your business there can be substantial penalties.

*Independent construction contractors are named correctly. Most contractors are bothered by the rules and regulations that they feel inhibit their work. The fact is, if you choose to do contracting you had better decide to work with the system rather than against it. It is simply easier. There are many contracting companies that work within the rules and make a fine profit while working with all the agencies that regulate them. Save your energy and do likewise.*

Just as you have to know what your goals are and plan to make them a reality through your business plan, you have to have a means to know how you are doing on the road to your goals. Accounts will deal with:

- Income
- Business expenses
- Costs of materials
- Labor costs including payroll
- Subcontractor payments

Records have to do with:

- Sales negotiation notes
- Contract documents
- Specifications of the project
- Installed equipment in projects
- Schedules and work completed
- Client records and warranty information
- Financial and payroll records
- Labor costs for past projects kept by type of work

With good records you can go back and find information to use in upcoming projects to give you an advantage over your competition. This is especially true with difficult and specialized projects. Records of past financial performance give you powerful information about what might be coming in the future.

## Systems

Every building needs systems to function for the occupants. In buildings these include:

- Plumbing
- HVAC
- Electrical
- Phone and T.V. cables

In your contracting business, your office and administration systems have to support the business operations. These include:

- Record keeping
- Sales
- Promotion
- Estimating
- Accounting
- Personnel

Within the structure of your business you build systems to accomplish various tasks which involve different people. Each system is designed to take information and produce a specific result. Except in a one-person business, no one person will do all aspects of the system because there is more than one person involved.

## Recordkeeping

Records come from many sources:

- They come in the mail in the form of papers from government agencies.
- They come from field staff in the form of invoices, time cards, and project schedule information.
- They come from financial records developed by bookkeepers, accounts and office staff.
- They come from subcontractors and owners in the form of contracts and project documents.
- They come from the sales people in the form of sales leads, prospect information and contract negotiations.

*Small pieces of paper can cause many problems. These come into the company from many sources. All managers and most employees will be given papers that are valuable to someone in the company who needs it to make decisions or record payments or expenses. Your attitude of careful handling of all papers has to reach everyone in the company. Your business plan has to address how small items of information and small pieces of paper will move through the company's staff and get to the correct person.*

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## **Sales**

When the sale is made there is a transfer of information to the production and administration staff. The sale has produced a detailed set of instructions about how the project will be done. Now this information has to be communicated around to all affected staff.

While sales negotiations are going on, the estimator and production people might be consulted about the costs and schedules a project might generate. Everyone has to be communicating about how the company can take on another project and who is to be doing the work. As soon as a sale becomes certain, the company has to get moving to get the project underway.

## **Promotion**

Part of your marketing plan is the consistent promotion of your business identity to the community. This involves a set of routines done by several people in the company. As the owner, you would do much of the promotion by telling people about what you do and by being active in the community. Your association with others would be promotion in many ways.

In addition to what you do yourself, others in the company would also promote the business. For example:

- Someone would make sure there is a listing ad in a few printed media like a newspaper, local newsletters of interest and other advertising papers.
- The project leader or supervisor would talk to neighbors about projects and get sales people in touch with the prospect.
- You might sponsor a local sports team for a season by buying hats or uniforms with the company name and logo on them.

Your promotion system would keep the name of your company in public view constantly by using tasteful reminders.

## Estimating

The key to accurate estimating is current information. Materials prices change often. Even the items you order regularly can take a price increase when you are not aware of it. You find out with your first invoice that you are paying more for the lumber than you estimated. A price increase occurred just before you ordered. How are you going to keep your prices up-to-date for each estimate?

Labor is the hardest part of estimating. Many contractors make up a price list for labor tasks that are common to their operation. The estimator can go to a price list and use the rate listed for the specific task. This becomes of little use if wages go up, benefits go up or a new more expensive person is hired for the task. Administration staff have to keep these rates current. Any changes in costs of workers' compensation or unemployment have to be added in.

Costs for any task can change based on the pressures of the project site and the weather during work. You can list separate rates for various difficulty levels of any task. You have to guess or predict what difficulties the crew might have on the sight, without raising the labor rates too high and losing the project.

The easiest costs to forget, or get incorrect, are the costs of operating the business. Most contractors guess wildly at how much it costs to run the company. You can not afford to do this. Set up a business cost budget and figure a way to apply the costs to every project you estimate. The *Advantage Contractor Business Success Series* courses, *Volume 5: Construction Estimating* and *Volume 4: Cash and Finance in Construction Contracting* can help you greatly in doing this.

## Accounting

There are two types of accounting, tax and financial. Your system has to handle both well. Only when you have current and accurate financial and tax information can you be assured that your company is fiscally fit, or if not, to act to correct the problem quickly.

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*Your accounts are the recorded history of your business. Everyone you deal with, from your banker and tax advisor to auditors and tax collectors, wants to know about this history. Make life easy for yourself and set up your accounts so you can easily understand them. Do not let someone set up accounts that you do not understand fully and can not read easily to gain the complete financial condition of your business. Ask for advice about what items in your financial statements and accounts mean, but never get into the situation where someone else has to explain what your accounts mean.*

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## **Tax accounting**

Taxes have to be paid. The best way to deal with taxes is to make the correct payments at the proper time. This is easy when you are up-to-date on your tax liability. This is the least expensive way to pay taxes and it will keep auditors from darkening your door. Do not make problems for yourself; pay your taxes in a timely and accurate manner.

## **Financial Accounting**

This part of your accounting system produces the financial statements that show you the performance of your business. These statements tell you:

- The value of your business; Balance sheet
- Your profit situation; Income statement
- Your cash position; the Cash statement

Of these, the cash statement is the most critical. For the sake of your business you can not afford to misunderstand your cash position. This is most critical in times when the business is growing, or if there is a lot of new business in a seasonal busy period. Your business needs extra cash to take on extra business. If you are not taking in enough cash to meet current bills and expenses, your business could close. No cash means no business.

Your accounting system has to protect you from any financial danger. In the *Advantage Contractor<sup>B</sup> Business Success Series* course, *Volume 2: Record Keeping for Construction Contractors*, a records system is shown that you can use to supply your accounting system with current and accurate data for these critical financial statements.

## **Personnel**

Any business is primarily made of its people. Whether it is you, or you and many employees, you have to get all the people involved to support the same process. This means communication of accurate information in a timely manner. Your personnel system has to bring in quality people and help them fit into the system. This often means training about how your company works and then following up on how they are fitting in.

All the systems listed above rely on people doing their job as they are asked to. You can not insist on rigidly set rules, because you want people to solve problems in creative ways within the system. Your task is to have everyone understand how the company process operates so they can act for the benefit of the company at all times.

## Finish

Finish work on a building covers the rough edges and gives the building its “look and feel.” An unfinished building will work just fine, but those using it will not feel very good about how they relate to it. Finish adds a concern to keep the building “looking good.”

Many contracting companies do fine trade work, but they seem to not be concerned about how the business impresses customers and prospects. Your business has to “look” good as well as do good work. You can finish your business with:

- A logo for your business
- Good looking stationery and forms
- Clean vehicles and equipment
- Clean employees and maybe uniforms
- An office that is neat if not pretty
- Prompt answers to questions and phone calls

You know contractors who seem to have too much “finish” in that they may not do the same quality work as some other contractors. Yet these contractors can stay in business while they improve their trade work because their customers are satisfied with how the project looks. There may be some repairs, but these contractors do them quickly.

Just as you will buy what looks good rather than something that is of better quality in some cases, your prospects are greatly influenced by what they see. Show them a “finished” business identity.

## Long Term Use

All of your work, from the site work to the finish items, combines to produce a strong, workable product for a long time. Every owner expects a trouble free building which the occupants can use as intended.

Your business has to endure if you are to get the benefits from starting and operating it. No business can expect to immediately produce a big success and hold it for the long term. More likely you will start slowly and build the business into a profitable enterprise. You have to assume it will take time.

All buildings require maintenance on the systems and the finish of the building. A business is no different. You have to keep the business systems working and make adjustments as required by the business operations and

growth. The look of the business can continually improve by adding customer features that make them feel good about your business.

Your business can only meet your personal expectations over time. The longer your business can produce for you, the more you will realize in personal results and goals.

*Computer software programs can help you get started on your plan. However, they tend to be poor at any kind of integration. This means that you can fool yourself easily because a poor part of the plan will not show up in a way to alert you to a correction. If you want your business plan to look good, the computer programs can produce what you want. However, they will not usually show you your errors of judgement. Any lender will want you to defend your plan. If you built it yourself, you can do it easily. If the computer built your plan, how good are you going to be at defending it? And, ultimately, will it work? As Brian McWilliams said, "No amount of automation will turn a lousy idea into a winning business."*