

Hardhat Workbook



Business Tools To Boost Your Bottom Line!

By George Hedley

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About George Hedley, CSP CPBC



George Hedley CSP CPBC helps contractors get their BIZ to work, grow and always make a profit! He is a construction business building expert, a **Certified Speaking Professional** and **Certified Professional Business Coach**. He is the recognized authority on how to build a growing construction business into a company that consistently produces bottom-line results, profits, loyal customers, systems and structure.

George was recently named the "USA Business Coach Of The Year" by the Professional Business Coaches Alliance.

George built his commercial construction company from \$0 to \$50 million dollars in only 7 years! For his accomplishments, George received the nationally recognized "Construction Entrepreneur of the Year" award by Ernst & Young and "Venture" magazine. To date, he has built over 750 projects valued in excess of \$750 million dollars, executed over 10,000 subcontracts, and owns & manages over 200,000 square feet of commercial & industrial buildings. George is a graduate of the University of Southern California in Civil-Structural Engineering and served as President of 3 industry associations.

Today, George works with over 75 contractors as their **BIZCOACH** and mentor. He runs **HARDHAT Presentations** as a professional speaker to the construction industry and has presented over 500 keynote speeches and workshops to companies and associations. He is a regular speaker at World Of Concrete for over 22 years, as well as AGC, ABC, ASA, NUCA, IEC, IRE, ASPE, CFMA and at 100 other major industry conventions. George is also a regular columnist in 'Construction Business Owner' magazine & 10 other construction industry publications.

George Hedley has authored several books available including:

Get Your Construction Business To Always Make A Profit!

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George also offers ongoing **BIZCOACH** services for Construction Companies, provides 1 on 1 **Strategy Sessions** for business owners, facilitates **Strategic Planning** retreats, presents regular **Webinars**, holds **BIZ-BUILDER Boot Camps**, and hosts peer mastermind **Hardhat BIZGROUPS** for construction business owners.

Email George To Set A Time To Talk About Working With Him As Your BIZCOACH & Mentor



George Hedley CPBC

HARDHAT BIZCOACH

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Business Tools To Boost Your Bottom-Line!



By George Hedley



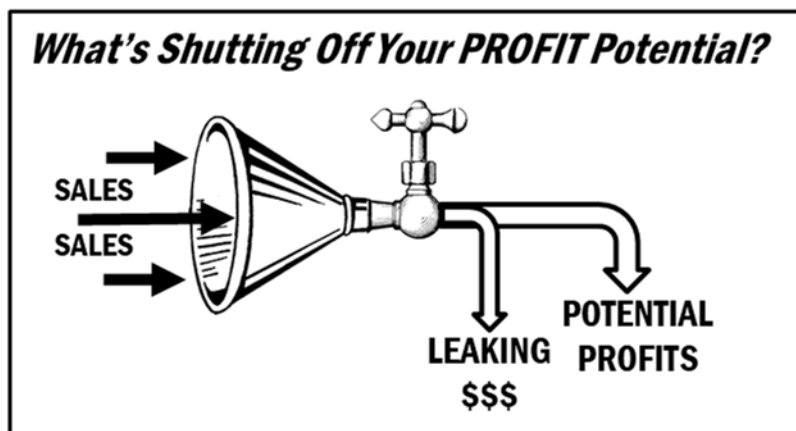
What's Shutting Off Your Profit Potential?

By George Hedley

Most contractors today have several factors reducing their potential profit. Owners and managers get extremely busy putting out fires, preparing bids, scheduling crews, and keeping up with the day-to-day pressures of running their construction business. More projects increase workloads and sales volume, which continuously adds to the list of accountabilities and responsibilities required to keep the machine running. But more also causes cracks in the armor, holes in the boat, and profits to shrink as money leaks out in every directions.

What's your profit potential?

If your company could maximize the available opportunities to produce more profit, would you make more money? Of course! Imagine how much money you could make if everything in your company was working perfectly without any leaks, restrictions, or problems. Now imagine your company was a funnel with a shut-off valve controlling the flow of profit output. A steady flow of sales volume enters the funnel in the form of revenue. The funnel absorbs and reduces the profit output by paying invoices for job costs and overhead expenses. Leaks also cause some money to flow out of the funnel. The leftover flow will be the net profit cashflow exiting the end of the funnel into an equity account. Now imagine there's also a profit shut-off valve reducing the net profit output. Would your current company operations, workload, systems, structure, customers, processes, productivity, or people shut off or reduce some positive profit flow potential as well?



What would it take to open your profit flow valve?

To look for ways to reduce the restrictions slowing down your profit flow, you have to stop and take an objective view of obvious room for improvement in how you do business. As a contractor business coach, I get lots of opportunities to observe the inner workings of companies, interview key managers and supervisors, and look at what's working, what's not, what needs to be fixed, and what's reducing potential profits. There are several common problems many construction companies have which continually reduce their bottom-line profits. Unfortunately, during busy times business owners, managers and supervisors are overloaded and don't have enough capacity or extra time to improve their company. As a result, these profit reducers continue and significantly reduce the net profit potential.

Shaping Sheet Metal's leaking ship.

For example, I just recently consulted with Arnie who owns Shaping Sheet Metal Contractors. During my work with their management team, we discovered the estimators were padding bids to cover for their inability to estimate accurate job cost labor correctly and field labor rates used weren't high enough to account for all the taxes and burden costs. In other words, their labor rates were too low and their estimate of hours to complete the work was rarely accurate. This caused two problems. First, they were not successful on most bids when the estimator padded crew hours which reduced their sales volume and increased their estimating workload to win enough work. Second, when they did win bids, the completed job profit was always less than they hoped for due to their labor rates being estimated too low. The estimator and owner both were aware of these issues but hadn't made it a priority to implement a solution to stop this profit shut-off valve problem.

Shaping Sheet Metal was operating under the program that busy is better and more important than making money! To open your flow of profit, you must stop how you are currently working to take a hard look at what's slowing down your flow. The following is a list of common problems and solutions which will close some holes where you are leaking money and get your net profit flowing a positive direction.

6 Steps To Pro-Actively Improve Profits!

1. Stop bidding with inaccurate overhead and crew rates or missing items!

Admit it - your bids are not accurate! Most companies don't know their current and exact overhead mark-up, rate keep accurate job cost history data or know their exact production crew performance rates.

- Verify your overhead mark-up rate is accurate. Your current overhead mark-up is total annual overhead expenses divided by projected total annual job costs.
- Verify your labor and burden rates are accurate. Example: how many items can one field worker install per hour.
- Stop bidding using dollars per quantity - \$2 per S.F. for labor.
- Start bidding using quantity per hour - 25 S.F. per hour for labor.
- Have the estimator review final job cost results with the foreman after job completion to verify and update the bid production rates.
- Update your cost history library to track bid rates versus actual production rates monthly.
- Develop an estimating checklist of all items required and often missed when bidding jobs.

2. Stop tolerating profit margin fade!

Why do your jobs come in over budget? Likely your field labor on self-performed work tasks took longer than estimated. Admit it - profit margin fade is caused by bad estimating, slow field production, an incomplete bid, project manager not knowing the costs, superintendents and foremen focused getting the job done versus controlling costs, or any combination of these. Your job is to find the problem and stop it!

- Make sure project managers and field supervisors know their budgets for labor production hours before they start work.

- Keep field supervisors informed weekly using a production scorecard showing job labor hours spent to date versus the budget based on quantities installed.
- Project managers must prepare an updated monthly job cost report with costs to date, estimated cost to complete, and estimated final cost.
- Make sure estimators and project managers are not overloaded so they will have time to focus on accurate estimates and/or achieving the project production and profit goals.

3. Stop doing extra work and change orders for free!

It amazes me how many contractors tell me they aren't capturing revenue for many change orders they perform. Why? This is so obvious and easy to fix! Admit it - there is no excuse for doing extra work without prior approval from customers. The real problem is that construction company owners allow this to happen, and don't have or enforce a standard system to get paid for additional work.

- Pro-actively managing change orders must be a top priority for project managers and field supervisors, and foreman.
- Never do work without a signed authorization to proceed. Ever!
- Develop a standard change order time and material rate sheet. Detailed rates must cover all your labor costs per the contract including supervision, trucks, equipment, tools, supplies, move-on & off costs, insurance, temporary requirements, power, barricades, etc.

4. Stop allowing field crews to go over budget!

A common profit reduction problem is caused when general superintendents, superintendents, and general foreman do not focus on keeping field production labor costs on-budget. Instead, they work hard spending their days scheduling and moving crews around, ordering and delivering materials, inspecting quality, meeting with customers, checking timecards, and doing required paperwork. Admit it - there is nobody in your company accountable to keep labor costs on budget!

- Assign someone in your company to be 100% responsible to achieve field production goals.
- Implement a weekly job cost scorecard tracking system - to get a copy of George's "Field Scorecard Tracking System" email GH@HardhatPresentations.com.
- Make sure someone visits jobs two days before you send crews to start working.
- Make sure field supervisors complete job walk inspections with customers including photos and interim punch-lists before crews move off to other jobs.
- Set company standards for crew rules including equipment maintenance, tool management, truck or bin inventory, job hours, start and finish times, lunch and break time standards, smoking, music, dogs, clean-up, etc.
- Never allow foreman to authorize overtime unless it's in the job budget and approved by their supervisor before noon the same day.
- Never let the foreman leave jobsites to go to the hardware store or supply house. If required, send a journeyman.
- Every field supervisor and foreman must submit a two-week look-ahead schedule every Friday to be reviewed with the project manager.
- Require all foreman and superintendents to attend a company weekly field scorecard meeting where everyone reviews their individual job results together to focus on hitting production labor goals.

5. Stop doing business with the wrong customers on the wrong projects against the wrong competitors!

Contractors often continue to keep bidding and winning contracts with the same customers and project types even if there are better opportunities to make higher margins available. Admit it - working with bad customers or projects causes your bottom-line to shrink!

- Develop a target list by determining which customer targets and project types will give you the best opportunity to win more work at higher margins.

- Start a customer and project type tracking spreadsheet grid showing which customers give you more work, who you don't want to work for, who doesn't ask you to cut your bid, who treats you fairly, who has good supervision, who pays, who grinds you on change orders, and which have the best long-term potential to build relationships with.
- Keep track of your 'Bid-Hit-Win' ratio to determine which customers and projects you have the most success with.
- Start a program to go after customers you want to build loyal relationships with.
- As a result, fire your worst customers and stop bidding to customers and jobs you don't want versus to anyone who asks.
- Set a standard weekly meeting to determine which jobs to bid or not based on the profit potential.

6. Stop running your business alone!

Your company is restricted by what the owner and key people can do themselves. When you're overloaded, you can't do more, you don't have time to work on improving your company, and money continues to leak out of your organization in every area. Admit it - you can't grow your company without a strong management team stacked with great people accountable and responsible to help you manage your business and achieve the high margin results you want. With only you at the helm making all the decisions and without a strong management team helping you, your business:

- Isn't worth anything to an outside investor or potential buyer.
- Can't grow, seek new customers, or find better projects.
- Can't fix your profit leaks, improve much, or ever seem to get ahead.
- Will stay stuck at the same level making low margins.
- Will keep you overworked, stressed-out, and underpaid.

Only you can decide to do something about reaching your profit potential. Where and when will you start?





Maximize Your Mark-Up!

By George Hedley

Many contractors struggle with finances and accounting by not knowing or tracking their numbers as they should. Most work too hard doing quality work and building great projects. But, are unsure of their financial condition, final costs or bottom-line results until their accountant or bookkeeper tells them months after the work is completed when it's too late to make adjustments. Another common concern is that a majority of construction business owners don't study, track or know how their estimated job bids versus the final job costs came in at project completion. To make things worse, too many don't know what their overhead and profit mark-up should or needs to be.

As a contractor business coach, one of the first things I review are my client's 'Income Statement' - Profit & Loss or 'P & L.' Your P & L is your report card or scorecard of your performance as the business owner. After review, almost without exception, I observe that many invoices and job costs are not tracked or charged correctly to the right codes or accounts in their P & L. Therefore, how they bid and estimate projects don't match how things are job costed.

I remember a recent conversation with a new contractor client that went like this: His year-end P & L statement showed their annual overhead mark-up was 10% and net profit mark-up was 5%. When asked what mark-up he typically used on their bids, he replied: "we always use 20% total mark-up for overhead and profit." I then asked him why he didn't make 10% net profit mark-up instead of the 5% showing on his P & L.

He told me he was happy with the 5% net profit even though he bid to make 10% net. Really? You are happy losing 5% somewhere during the process! He wasn't sure where the 5% profit shrinkage went, but he thought his estimated cost didn't include everything it really costs to complete the jobs. As we talk and I dug deeper, I discovered the lost 5% covered and paid for all the items he forgot or didn't include in his estimates. All of these items were paid from their overhead account, and therefore didn't get charged to the appropriate jobs. These 'overhead' forgotten costs included company equipment, fuel, permits, delivery charges, overtime, call-backs and supervision.

Another example of a contractor who didn't know or track their numbers had included company equipment in the bid budgets, but the bookkeeper didn't charge jobs for any equipment costs. In other words, company equipment was free! Therefore, after job completion, the project manager asked for and was paid regular bonuses as the final project costs always appeared to be under budget.

What are your financial problems and issues?

Getting projects bid, estimated, bid, awarded and built take a huge amount of effort. To manage your finances and money only takes a few concentrated hours per week if you have good financial software and an accounting staff who understands the importance of knowing and tracking your numbers. But to make it happen, the owner or general manager must make it a priority to get your numbers to match and be right!

Which of these financial issues, accounting problems, estimating errors, or job costing mistakes do you have?

- ✓ Bid estimates don't match how or where things are charged to jobs by the accounting department on your P & L.

- ✓ Accounting pays invoices, payroll and job costs to the wrong accounts or cost codes because they don't know where job costs versus overhead costs should be charged.
- ✓ Estimates don't match your project budgets or accounting system causing things to get charged to the wrong cost codes or accounts.
- ✓ Estimators pad bid estimates to cover things they don't include, are not sure of actual costs, or not sure where or if it is covered.
- ✓ Estimators don't know your real annual overhead cost and therefore don't charge the right mark-up to cover your annual overhead.
- ✓ Underestimating labor hours required to complete work tasks.
- ✓ Labor rates used in bid estimates are not the actual costs required to cover all labor burden expenses including taxes, health insurance, liability and workers compensation insurance, paid vacation, holidays, bonus pay, pension and profit-sharing contributions, down-time, shop time, or pay when there's no work.
- ✓ Estimated job labor hours don't include any extra time to cover overtime, weather delays, call-backs, punch-list or extra move-ins required.
- ✓ Bid estimates include costs for company owned trucks and equipment, and then accounting doesn't charge for any equipment to jobs thus making overhead absorb all of your company equipment costs in your P & L statements. This causes your final job cost to be less than the actual cost. This therefore incorrectly allows project managers and superintendents to think they saved money.
- ✓ Small tools, cell phones, tablets, pickup trucks, fuel, mobilization, safety equipment and training time are not covered in your bid estimate and therefore charged to overhead versus job costs.
- ✓ Bidding general conditions, project management and supervision as a percentage add-on to estimates and bids versus calculating the estimated actual cost per job.
- ✓ Charging too little on change orders and cost-plus labor and equipment rates.
- ✓ Charging the same overhead and profit markup on every job.
- ✓ Not really knowing what your actual annual overhead expenses are and what percentage mark-up you need and must use to cover all of your annual overhead costs.
- ✓ Not really knowing what your actual annual profit goal dollar amount is and what percentage mark-up you need and must use to achieve your annual net profit goal.

Bid Using Variable Mark-Up Distribution!

To maximize your markup, start by selecting the top financial issues from the above list to fix or get right. If you aren't sure of your financial condition, get some help or meet with your accountant. Remember your goal is to make money. Making money starts with knowing and tracking your numbers and using accurate job costs to bid and calculate costs. Your bid must match how you job cost and how your Income Statement is laid out and presented. And the owner / president of your company, not the accounting manager, must know and be responsible for accurate numbers that always generate a profit!

Next, I suggest you take a hard look at how you mark-up project labor, materials and subcontractors. You can use the same mark-up for every job. Or use the better strategy explained below uses different mark-ups based on job size. As you know, competition tends to reduce their total markup in order to win bigger contracts. And larger jobs attract larger competitors to bid against. You also know the larger the contractor, their overhead percentage generally gets smaller as job size and volume increases. According to surveys, the typical annual overhead markup for a \$5,000,000 to \$10,000,000 contractor runs from 15% to 20% or more. And the typical annual overhead mark-up for a \$25,000,000 to \$35,000,000 contractor may only run 8% to 10%. (Don't use these mark-ups!)

In the following Acme Contractors example, the estimated annual overhead expenses will cost \$1,500,000. Acme set a goal of 33% return on overhead for an annual net profit goal of \$500,000. Therefore, they want to earn an annual overhead and profit of \$2,000,000, or 25% total mark-up on \$8,000,000 of job cost.

<u>Acme Contractors Example</u>	<u>P & L Statement</u>	<u>Margin</u>	<u>Mark-Up</u>
Annual Job Costs	\$ 8,000,000		
Annual Overhead Expenses	\$ 1,500,000	15%	18.75%
Annual Profit Goal	\$ 500,000	5%	6.25%
Total Annual Sales	\$10,000,000	20%	25.00%

As jobs get smaller and smaller, mark-up will increase to handle all the time, effort, supervision, and overhead small jobs take compared to larger projects. As jobs get larger, your overhead will shrink as a percentage of job cost, and you'll likely need to reduce your total mark-up to be competitive with larger contractors to win the bigger size work. The key is to balance sales with the anticipated number of smaller and larger projects using a 'Job Size Mark-Up Distribution Plan.' As you reduce mark-up on bigger jobs, you'll need to make sure your increase mark-up on smaller projects to generate the total sales and overall mark-up required to meet your annual overhead and profit goal.

Take a look at the following example of how a \$10,000,000 construction company developed a variable mark-up by job size strategy to meet their annual goals.

JOB SIZE MARK-UP DISTRIBUTION PLAN					
Average Job Size	# Jobs	Gross Profit MARGIN %	OH + P MARK-UP %	Total Gross Profit	Total SALES
\$ 1,000,000	1	13.0%	15.0%	\$ 130,435	\$ 1,000,000
\$ 500,000	6	16.7%	20.0%	\$ 500,000	\$ 3,000,000
\$ 250,000	10	20.0%	25.0%	\$ 500,000	\$ 2,500,000
\$ 100,000	18	23.1%	30.0%	\$ 415,385	\$ 1,800,000
\$ 75,000	18	28.6%	40.0%	\$ 385,714	\$ 1,350,000
\$ 50,000	10	33.3%	50.0%	\$ 166,667	\$ 500,000
\$ 25,000	10	39.4%	65.0%	\$ 98,485	\$ 250,000
TOTAL PROJECTED	73	21.1%	26.8%	\$2,196,685	\$ 10,400,000
REQUIRED TO HIT GOAL	70	20.0%	25.0%	\$2,000,000	\$ 10,000,000

Caution! When using this strategy, don't get tempted to go out and win lots of big jobs at lower markup. Or you may end up busy and broke! And do **NOT** use these examples to determine your mark-up!





Do You Maximize Your Profit Potential?

by George Hedley

Do you think you're making the most money you can in your construction business every day? If you'd like to make a small bet with me, I'll give you a chance to make a little profit. Let me look at how you manage and run your construction business for a few days, and I'll bet I can find at least \$10,000 to \$20,000 you've lost, wasted or didn't charge for on your current jobs. If I don't find anything, I owe you a steak dinner. But whatever I find, I get to keep half. OK? When can I start?

When I get called in as a business coach or consultant to help contractors improve their business, I often start by interviewing their people, visiting their jobsites, and reviewing how they do business and charge for their services. What I generally find are many ways to help them increase their net profit and reduce job margin fade. You are probably losing more money than you think in places you don't pay much attention to. Most construction business owners and managers are so busy getting their jobs finished they don't sweat the small stuff or stop and take time to analyze their standard business practices. I have a saying I like to say: 'You can't get rich with your head in a ditch!' When your head is down working hard in your business, you often don't realize the opportunities for improvement.

One of the last details you want to be bothered with every day are small financial matters, policies, counting nickels, or looking for dimes. But most construction companies only make a small totally unacceptable low two to four percent net profit margin after paying for all their job costs, equipment, materials, supervision, overhead, and fixed expenses. The little things you don't think about or focus on can add up to an additional one, two, or even five percent or more profit at the end of the year. This additional amount can be the difference between struggling and building a great business.

I speak at many construction conferences every year. I always get contractors coming up to me who boast and profess they make a lot more than three percent. Then I ask them: 'If you are so profitable, why are you always broke, needing your next check to make payroll, in debt, have no savings account, no real assets, and here at this conference looking for answers on how to make a profit? Then to make them feel great about their real profit margin, I ask these tough and probing questions:

1. What's your net profit goal for the year?
2. What is your annual overhead budget versus actual expense?
3. What's your average overhead and profit mark-up you bid at?
4. What's the final mark-up you make on completed contracts?
5. What's your breakeven sales revenue at the mark-up you use?
6. What's your actual labor cost and burden rate for each of your field employees?
7. What's your annual and hourly cost for every piece of equipment you own?
8. Which project types and customers do you make the most money on?
9. Which superintendent or foreman makes you the most money?
10. How do you determine your change order mark-up rate?

Who's minding your store?

Ninety percent of your competitors have no clue or answers to any of these basic business questions. Do you? Most often, answers to these important questions and financial business decisions are left up to a bookkeeper who doesn't really know how a contractor can maximize their bottom-line if managed properly. It's hard to

make enough profit in the construction business for the risk you take. The competition won't let you. They don't know what it costs to build their jobs. So they bid work cheap to keep their crews busy and to create cash-flow to cover their boat and pickup truck payments. How can you compete with this? It's impossible unless you pay close attention to your financials, manage your costs and watch the little things that add up to big dollars over time.

You don't make money building things or doing great work. You make money by knowing what it actually costs to run your company and what to charge for labor, equipment, materials, subcontractors, overhead and profit. So, here's a list of things to boost your bottom-line profit margin.

Ten Tips To Maximize Your Profit Potential

1. Accurate Labor Burden Rate

Most construction companies don't use accurate labor rates when calculating their crew bid rates. Every year tax, unemployment, social security, and workers compensation rates change. Plus, as your employees get older and their family situations change, their health insurance rates also change. Don't forget to factor in the overtime used versus anticipated in your bids. And remember to include paid vacation time, holiday pay, training, safety expenses, uniforms, small tools, cell phone, and unbillable down-time costs. Good estimating starts with accurate labor rates so have your accounting manager figure out exactly what the accurate rate is for every field employee. You'll find that your labor burden rate can vary from 25% to 90%, or more for each employee, depending on your benefits, health insurance, holidays, vacation, and many other factors. When using accurate labor rates, your bottom-line will improve.

2. Calculate Equipment Costs

Contractors like to buy and own lots of equipment just in case they might need it. You've heard the term: 'Yellow Fever!' Many contractors seem to be addicted to yellow metal! When you own equipment, you feel big and powerful, plus you can brag how much you own too. Additionally, many contractors don't know what their annual equipment costs are and have these costs included in their overhead expense. BUT - are you getting a return on investment or making enough money on your equipment to make it worth your while?

Calculate the exact cost for every piece of construction equipment you own factored by the annual utilization to determine the right rate to charge. For each piece of equipment, add the purchase price, interest, depreciation, maintenance, gas and oil, service, tires, repairs, insurance, storage rent, and mobilization costs you really spend over the life of the equipment. Divide this total cost by the total number of hours you hope to bill, utilize and job charge for the equipment over that duration. This is your real cost of ownership per hour not including overhead and profit. Next compare this cost with the cost of renting it on a job by job basis. Get rid of all the equipment that doesn't pencil and actually costs you more money to own than you'll get back from your jobs. Use the money you save and go buy some rental property which will actually go up in value!

3. Maximize Change Order Pricing

How do you calculate your change order costs and markup? Do you always use the same labor and equipment rates for every job? After calculating your company's accurate labor and equipment rates, determine what rates you want to charge on each job based on what the allowable or highest standard or fair and competitive rate is in your area will tolerate. Your proposed change order rates will vary based on the job contract, conditions, terms, customer, supervision, difficulty, or other factors. Present your proposed rates to your customer at the job start-up to make sure you are on the same page before you begin any extra work.

Are small tools and equipment free or do you charge for them in your change orders? To maximize your change order pricing, always include these additional items required to perform extra field work including: supervision,

foremen, crew truck, general conditions, small power tools, ladders and lifts, small equipment, temporary facilities, power box and cords, generators, toilets, storage bins, rental equipment, liability insurance, and administrative time. Some contracts clearly state the allowable change order mark-up rates while others don't. Why not try 15% or 20% for overhead and then 15% for your profit markup instead of the traditional 15% total? Don't forget to add up all extra costs, then subtotal it, then add your overhead rate, then subtotal it again and then markup the total for the final charge. This double markup will increase your bottom-line on changes by 1 to 3%. Also look at your last ten jobs to see what your project managers are giving away. This can add up to lots of cash at the end of the year as well.

4. Watch Overhead Costs

First and foremost, you must know what it costs to keep your doors open without any work under construction. This is your break-even minimum you must cover before you make a profit. Make it a priority to sit down with your professional accounting manager and get a handle on this most important annual amount. Then trim the fat. Look at every overhead check you signed last year. Where are you wasting money? Look especially at your insurance costs, expense account items, office supplies, subscriptions, phone bills, postage, shipping costs, employee expense accounts, utilities, cell phone bills, computer and internet costs, copy machine costs, accounting and legal services, and your own credit card charges.

When I took a hard look at our overhead costs a few years ago, I found people were abusing the 'company' accounts and ordering more things than we needed. Consider outsourcing payroll services, craft training, project scheduling, marketing services, safety programs and equipment maintenance. By outsourcing, you'll free your staff to take care of the important things that make you money.

5. Shop Material Prices

I'm sure you're busy running your company, keeping customers happy and your crews busy. This doesn't allow you enough time to get enough material quotes on each item needed or for every job when bidding projects. You get stuck using the same suppliers on most jobs. Guess what, when this happens, your prices creep up over time. And when you need more material on jobs, you just call your good old friend at the supplier or distributor and get more material shipped out without taking the time to get another price from a different supplier.

6. Never Run Out Of Tools, Equipment Or Material

Another profit loser occurs when your crew runs out of material, tools or supplies at the last minute during the day. Then the foreman heads to the store to buy things he forgot to order in advance. When foreman allows their jobs to not have what's needed onsite in advance, your crew stops working at full speed. Plus, the crew stops working while the foreman goes off to the store. Require your foremen to prepare a weekly 'look-ahead' schedule clearly listing out all the tools, materials, and equipment they will need for the entire week on their jobsites. And never allow the foreman or superintendent to leave their jobsites to go to the store or wholesale house. How much money do you think you're losing every year on these big factors affecting your bottom-line?

8. Hit Your General Conditions Budget

On almost every job, contractors run over on their general conditions budgets. Ask your estimator the last time they checked the actual cost of temporary facilities, fencing, trailers, toilets, water, security, or power. They tend to use old numbers on estimates because they're too busy bidding new work. Just temporary toilet facilities can vary by \$100 to \$300 per month depending on how many times per week they are serviced. Also look at how many bids you got on services such as fencing, power, water, trailers and final clean-up. Too busy to inspect? Give up your next vacation and you'll probably cover what you lost on general conditions on your last two jobs!

9. Rank Your Team

Do you know which estimator, project manager, superintendent and foremen makes you the most money? Rank each key management team member by work performed, gross dollars and net dollars earned, actual profit versus bid profit, call-backs, punch-list items, and customer satisfaction. Also rank them by who hits their project labor, material, equipment, and general conditions budgets. Focus on how better players make it happen and what low ranked players don't do well. Give poor players a chance to improve by providing mentoring and training, or get rid of them. Instead of spending all your time fixing weak people, spend time with your best team players who make you the most money.

10. Aggressively Manage Money

Most contractors run a lot of money through their checking account every year. What are you earning on your bank balance? By meeting with your banker, you can design a program to earn interest or invest your bank balance on a daily basis. There are many ways to invest your cash on short term investment programs full-service banks offer. For every \$1,000,000 in sales volume, you should be able to generate from \$20,000 to \$40,000 in interest or investment income annually. This will take about five minutes a day. Not a bad return on your accounting manager's time!

In conclusion, if you won't take me up on the bet I offered at the beginning of this article, why not spend the next eight hours and take a look at how tight you manage your business. I'll bet you'll find at least \$10,000 to \$50,000 extra you can make over the next few months. Happy hunting!





5 Factors To Improve Construction Project Performance

by George Hedley

Every contractor's 'impossible dream' is to build every project perfect as planned. Completing projects perfectly would generate the following results:

1. On-budget & on-schedule completion
2. Meet all contract requirements, targets & goals
3. Safe with no accidents
4. Quality workmanship without call backs or punch-list items
5. Pro-active two-way communication
6. Proper documentation
7. No conflicts, issues or disputes
8. Prompt and complete payment
9. Satisfied customer
10. Repeat customer with referrals

In order to accomplish this impossible dream, everything would have to go perfectly as planned. But you know this isn't a reality in the ever-changing world of building construction projects. There are too many variables and things that can and will go wrong on every job. Potential problems range from material deliveries to the weather, from complete accurate plans to crew workloads, and from field conflicts to getting paid. In fact, construction is one of the most difficult processes to control including any other manufacturing operation or assembly procedure. There are just too many variables contractors can't control.

Systems & strategies improve project results!

How can you improve your construction project performance and eliminate potential issues and variables which occur on your projects? Successful construction companies work hard and enforce standard systems and controls to lower risk factors, eliminate potential problems, reduce the chances for things to go wrong, and improve their odds to achieve expected results. Some examples of systems and strategies which improve project results include: pre-job planning meetings, weekly job cost production scorecards, tool and equipment checklists, regular training sessions, pre-drywall installation inspection reports, and detailed subcontracts with inclusions and exclusions clearly identified.

Why systems?

Written, implemented, trained, monitored, tracked, and enforced systems often seem like a pain in the you know what. But they improve the odds of success. When you let each foreman decide how to install materials based on their own experience, you risk the reality that your installations will not all be performed the same way. Some will take longer and some faster. Some will require more labor and materials while other methods will require less. How can you make sure the end result will be accurate and on-budget if you let everyone decide how they install things versus a standard companywide system?

In order to improve your field and project performance, what systems will reduce your chances to eliminate problems, errors, rework, call-backs, or over-budget completion? The following is a proven process to improve your project performance based on working closely with hundreds of general contractors and specialty contractors.

Construction Project Success System

1. Pre-Construction Planning System

- a. Contract
 - Read, understand & follow the executed contract.
 - Develop contract requirement & notice chart.
- b. Hold Turn-Over Pre-Construction Hand-Off Meeting:
 - Attendees: General Manager, Sales, Estimator, Project Manager (PM), General Superintendent (GS), Superintendent (S) & Foreman (F).
 - Prior to meeting: PM, S & F visit jobsite and review plans, develop a construction plan, draft preliminary schedule and estimate crew hour budget.
 - Review scope, inclusions, exclusions & contract terms.
 - Set project goals including budget & crew production goals.
 - Establish project schedule, deadlines & milestones.
 - Review proposed subcontractors & suppliers.
 - Draft project mobilization, staging & phasing plan.
 - Create project timecard, cost codes & change order rates.
- c. Hold Customer Pre-Job Start-Up Meeting Onsite:
 - Train your customers to follow the contract.
 - Review contract terms, payment procedures, approvals, deadlines, milestones & change order rates.

2. Project Management System

- a. Procurement:
 - Award & execute all subcontracts and materials within 2 to 3 weeks of job start.
 - Order & commit within 2 to 3 weeks of job start.
 - Confirm all material deliveries 4 weeks and 2 weeks prior to required.
 - Deliver all materials to jobsite minimum 1 week prior to required.
- b. Schedule:
 - Develop, confirm, commit, track & communicate project schedule to customers, subcontractors & suppliers.
 - Provide regular updates as schedule changes.
- c. Project Management
 - Be pro-active & communicate with S & F daily and with customer weekly.
 - PM visit jobs weekly to perform detailed job-walk with S & F to review:
 - Contract conformance.
 - Job cost scorecard and updated budget.
 - Crew labor & equipment production hours & updated job cost scorecard report - budget vs. actual.
 - Look-ahead schedule.
 - Quality workmanship & punch-list.
 - Safety.
- d. Submittals & Shop Drawings:
 - Create list of required submittals within first week of job start.
 - Include requirements and deadlines in all subcontracts and purchase orders.
 - Obtain, review & obtain all approvals within 3 to 4 weeks of job start.
- e. Project Paperwork & Documentation:

- Maintain & document weekly all approvals, change orders, request for information, notices, claims, approved plans & specifications.
- f. Change Order Management:
 - Get change order rates approved at customer pre-job start-up meeting.
 - Document & manage all extra or change order work and approvals aggressively.
 - Manage & keep change orders current - price & submit within 7 days.
 - Maintain proposed and executed change order logs.
 - Document all project issues, changes, notices, notices, delays, time extensions, etc. within 2 days.
 - Perform no extra or free work without prior written approval.
 - No verbal agreements.
- g. Progress Payments:
 - Prepare & submit project payment requests on-time with all required paperwork.
- h. Timecards & Invoices:
 - PM approve all timecards daily & invoices weekly with correct cost codes.
 - PM review with S or F for accuracy.
- i. Job Cost Updates:
 - PM prepare updated job cost reports and calculate accurate estimated cost to complete monthly. Review with manager.
 - PM prepare completed job cost report & review with GM.
 -
- j. Project Meetings:
 - Hold customer pre-job start-up meeting onsite within 2 weeks of start.
 - Hold customer meetings onsite weekly.
 - Hold or attend all subcontractor job start-up meeting onsite.
 - Hold or attend weekly jobsite meeting with subcontractors required on job within next 30 days.
 - Hold crew meetings:
 - Daily crew huddle.
 - Crew weekly job review.
 - Crew weekly safety meeting.

3. Field & Crew Production Performance System

- a. Pre-Mobilization Jobsite Review:
 - Prior to mobilization, GS, PM or S meet with customer to review site access, staging area, storage area, security, workspace requirements, trash, safety, temporary power, water, restrooms, parking, job rules, etc.
 - GS, PM or S visit jobsite 2 - 4 days prior to all move-ins to verify job is ready.
- b. Supervision - Pro-active project supervisors provide & perform:
 - Daily written job reports with photos.
 - Approve & turn-in all crew timecards coded to accurate cost codes, and work quantities completed daily.
 - Turn in company equipment and rental equipment sheets weekly.
 - Prepare updated 2 to 4 week look-ahead schedule.
 - Weekly quality, clean-up and punch-list inspection report. All identified items to be completed weekly.
 - Weekly safety job-walk inspection report.
 - Contact customer, subcontractors & suppliers 3 weeks before they're needed on job.

- Hold job-walk with GS-S-F & customer prior to moving off job at each phase and get agreement on any outstanding items.
 - Prepare final punch-list 2 weeks prior to completion and complete all outstanding items prior to final job-walk with customer.
 - S & F never leave jobsite without lead or foreman in charge.
 - S & F never to go to hardware store or supply house. Send crew member if required.
 - Enforce company standards, policies, rules, attire and safety with crew and subcontractors.
- c. Look-Ahead Schedule:
- S or F prepare 2 - 4 week look-ahead schedule weekly & submit to PM Friday.
 - PM, GS, S & F meet weekly onsite to review look-ahead schedule.
 - Look-ahead schedule to include crew labor, subcontractors, materials, supplies, tools, equipment, inspections and milestones
- d. Overtime:
- No overtime allowed without prior authorized approval and within estimated budget allowed.
- e. Change Order & Extra Work:
- No change order, extra work or free work allowed without prior authorized approval.
- f. Punch-list:
- S or F prepare weekly project punch-list, clean-up & safety inspection report - turn in Friday and complete all items weekly.

4. Job Cost Scorecard Crew Production Tracking System

- a. Accounting to produce weekly updated project crew production scorecards with actual crew hours versus budgeted hours.
- b. PM review job cost labor & equipment production scorecards weekly with GS, S & F to develop plan to complete projects on-budget.
- c. Hold weekly all S & F meeting to review all project scorecards, production performance results and areas for improvement.

5. Close-Out & Completion System

- a. Supervisor and Foreman hold a job-walk with customer prior to leaving jobsite at each phase.
- b. PM, S or F hold final job-walk with customer & subcontractors prior to completion.
- c. Estimator & PM review final job cost versus estimate & update cost estimating history library.

In order to produce optimum results on your construction projects, you must have a system that guarantees performance 95% of the time. Review the 5 factors outlined above and decide which of them will improve your project results. These factors came out of holding numerous coaching sessions and company meetings with contractors and their project managers, superintendents and foreman. After determining your project performance system, use your list as a template to develop your winning playbook and detailed job descriptions for your team. To jumpstart your implementation, email Blueprint@HardhatPresentations.com to get samples of successful contractors' strategies and systems.





Field Crew Scorecard Job Cost Tracking System

by George Hedley

From a financial perspective, a perfect construction project, is when the estimated labor and equipment hours equal the completed project job cost hours. When the final labor and equipment costs come in under the estimated budget, it results in cost savings. But is that accomplishment a result of a great foreman or superintendent, or was it because the estimate wasn't accurate, or too conservative or padded? And when a job finishes over budget, was it caused by a bad bid estimate, or a bad customer, field issues and conditions, mistakes, too much overtime, inexperienced crew, too many move-ins, significant call-back and rework, poor crew planning, or poor supervision and project management?

Every contractor's 'impossible dream' is to build every project perfect as planned. Completing projects perfectly would generate the following results:

1. On-budget labor and equipment
2. On-schedule completion
3. Meet all contract requirements, targets & goals
4. Safe with no accidents
5. Quality workmanship without call backs or punch-list items
6. Pro-active two-way communication
7. Proper documentation & change order approvals
8. No conflicts, issues, delays or disputes
9. Prompt and complete payment
10. Satisfied repeat customer with referrals

In order to accomplish your impossible dream, everything would have to go perfectly as planned. But you know this isn't a reality in the ever-changing world of construction. There are too many variables contractors can't control plus things which will go wrong on every job. Potential problems range from late material deliveries to the weather, from complete accurate plans to crew workloads, and from field conflicts to getting paid. In fact, construction is one of the most difficult processes to control including any other manufacturing operation or assembly procedure.

Most Contractors Are In The Labor & Equipment Business!

As I work with construction companies as their business coach, the number one common problem is inaccurate estimates which translates into less profit. This happens as a result of labor and equipment costs varying significantly from their bid estimates to final costs. And therefore, their final mark-up and margin vary greatly from what they hoped to make. Generally, their profit margin shrinks and goes down causing them to make a lot less money every year than they expected. Why does this continue to happen? For most contractors, labor and equipment hours control their bottom-line. But they don't invest in systems, tracking reports, and software focused on controlling these important costs. I see too many construction business owners spending their time and money on buying new excavators or vehicles versus implementing in fully integrated job cost tracking systems and software that will actually guarantee they'll make more money.


Systems, Strategies & Scorecards Improve Project Results!

How can you improve your construction project performance and eliminate potential issues and variables which occur on your jobs? Successful construction companies work hard to enforce standard systems and controls to lower risk factors, eliminate potential problems, reduce the chances for things to go wrong, and improve their

odds to achieve expected results. Written, implemented, trained, monitored, tracked, and enforced systems often seem like a pain in the you know what. But they improve the odds of success. When you let each foreman decide how to run their jobs without knowing the budget doesn't work. And when they don't get an update during the project where they are or how they're doing, how can they plan to achieve the completion goal or make any required adjustments to bring their job in on budget?

What's Required To Hit Your Estimated Labor & Equipment Crew Hour Project Budgets?

1. **Accurate Estimates** - Labor and equipment hours must be based on actual job cost history and hours utilized on completed jobs tracked by cost code and activity. This requires investing in fully integrated estimating, accounting and timecard software which tracks labor and equipment hours, and job costs by job number, activity, and cost code. The estimator and project manager sit down to determine which construction trades, activities and phases they want to track in order to create accurate estimate templates, detailed job cost tacking scorecards systems, and simple timecards.
2. **Hold Turn-Over Pre-Construction Hand-Off Meeting** - Before each project starts, the estimator, project manager, superintendent and foreman meet to review the new job. Prior to the meeting, the project manager, superintendent and foreman visit the jobsite, review the plans and scope of work, draft a preliminary schedule with projected crew manpower loading, and estimate the proposed crew hour budget. During the meeting, the team reviews the complete bid, labor and equipment hours estimated, contract, scope of work, schedule, proposed subcontractors and suppliers, budget, terms, etc. They then set the project labor and equipment production budget and goals; and develop the crew production tracking scorecard. The team also establishes the schedule, deadlines and milestones; reviews the proposed subcontractors and suppliers; drafts a project mobilization checklist, staging and phasing plan; and creates the project timecard, activity cost codes, and change order rates.
3. **Establish Job Budget** – The team finalizes, confirms and approves the project budget including crew labor and equipment hours for each activity cost code before each job starts. Make sure the project superintendent and crew foreman fully understand and agree on the job budget including the hours estimated for each activity, allowable overtime, number of move-ins planned, inclusions, exclusions, and scope of work.
4. **Electronic Timecards** - No paper timecards! You must utilize fully integrated estimating and accounting software and time tracking software to track and update your job cost and crew hours on a daily and weekly basis. Foremen must submit their crew labor and company equipment hours daily using electronic tablets or cell phones apps with specific hours for each employee and equipment used with the right job number and activity cost codes.
5. **Job Cost Field Crew Production Scorecards** - In order to stay on budget, field foremen need to know their crew labor and equipment hour targets and goals, the hours used to date, and updated crew production scorecards on a regular basis. **Weekly Job Detailed Crew Scorecard Reports** must include updated budgeted hours versus actual crew hours used to date. This requires someone be assigned to create these simple one-page weekly job detailed scorecard reports every Monday morning and distributed to the project managers for review. The project manager then shares and reviews these job cost labor & equipment production scorecards weekly at jobsite scorecard meetings with the general superintendent, job superintendent, and foreman to access progress and develop or modify plans to complete projects on-budget.

WEEKLY JOB Detailed Crew SCORECARD Report - 1 Job											
Job Name:		JOB #:		PM:		SUPT:		FORE:			
WEEK ENDING:				CREW LABOR HOURS							
CONCRETE FOOTINGS								TO DATE	TO DATE		TO DATE
COST CODE	WORK TASK	Estimated Quantity	UNIT	TOTAL BUDGET CREW HOURS	UNIT	QUANTITY INSTALLED TO DATE	ESTIMATED ACTUAL % COMPLETE	BUDGET CREW HOURS TO DATE	CREW HOURS ACTUALLY USED	HOURS REMAINING To FINISH JOB	+ OVER + <UNDER> BUDGET HOURS
32002	LAYOUT	40,000	SF	160	Hours	20,000	50%	80	100	60	20
32005	EXCAVATE	300	CY	200	Hours	300	100%	200	160	40	(40)
32010	FORM	1,200	LF	400	Hours	400	33%	133	160	240	27
32015	SET EMBEDS	150	EA	150	Hours	75	50%	75	100	50	25
32020	POUR	300	CY	80	Hours	-	0%	-	-	80	-
32050	CLEANUP	40,000	SF	40	Hours	-	0%	-	-	40	-
TOTAL				1,030	Hours		47%	488	520	510	32

- Onsite Jobsite Scorecard Meeting** - Every week, the project manager, superintendent and foreman meet at each construction project jobsite to review the labor and equipment production hour **Weekly Job Detailed Crew Scorecard Report**, and work together to determine what's required to keep the job on or under budget.
- Look-Ahead Schedule** - Each foreman and job superintendent prepare and turn-in a weekly 2 to 4 week look-ahead schedule depicting what work is scheduled over the next few weeks. This schedule is reviewed with the project manager at the onsite jobsite scorecard meeting weekly. Look-ahead schedules include all labor, equipment, tools, materials, supplies, and subcontractors required for the next several weeks. This process eliminates last minute needs, material shortages, or lack of supplies which can delay projects and cause crew inefficiencies.
- Field Production All Job Crew Scorecard Report Review Meeting** – In order to assure every crew hits their labor and equipment hour budgets, you must hold mandatory weekly or bi-weekly all superintendent and foremen scorecard meetings to review the **All Job Summary Crew Scorecard Report**. Competition and peer pressure build teamwork and focuses the foremen to want to hit their goals and succeed. The meeting agenda includes a review of crew production scorecards and their RESULTS accomplished - project labor and equipment hour performance plus schedule updates, safety issues, quality and punch-list updates, call-backs, upcoming activities and needs, job issues, areas for improvement, and training topics.

WEEKLY (Or Bi-Weekly) ALL JOB SUMMARY Crew SCOREBOARD Report											
WEEK ENDING:				CREW LABOR HOURS							
Job Name:	PM	SUPT	FOREMAN	TOTAL BUDGET CREW HOURS	UNIT	ESTIMATED ACTUAL % COMPLETE	BUDGET CREW HOURS TO DATE	CREW HOURS ACTUALLY USED	HOURS REMAINING To FINISH JOB	+ OVER + <UNDER> BUDGET HOURS	
Mission Plaza	Dan	Bill	Dave	2,000	Hours	50%	1,000	900	1,100	(100)	
Main Street Center	Dan	Joe	Jose	8,000	Hours	60%	4,800	5,500	2,500	700	
ABC Service Job	Dan	Ace	Wil	5,000	Hours	30%	1,500	1,350	3,650	(150)	
Acme Warehouse Job	Bob	Bill	Arnie	4,000	Hours	50%	2,000	2,250	1,750	250	
Jones Center Job	Bob	Dan	Cal	3,500	Hours	20%	700	1,000	2,500	300	
Smith School Job	Bob	Fred	Hal	6,000	Hours	25%	1,500	1,400	4,600	(100)	
TOTAL				28,500	Hours		11,500	12,400		900	

9. **Pro-Active Field Supervision Systems** - Must-do construction strategies to finish jobs on-budget.
- Visit all projects 2 days before scheduling or mobilizing crews to start work and verify it's ready.
 - Verify or modify change order rates and number of mobilizations included in project budgets.
 - Field foreman or superintendent prepare:
 - Daily written electronic job reports with photos.
 - Weekly quality, clean-up and punch-list inspection report.
 - Weekly safety job-walk inspection report and correct all issues weekly.
 - Notify all subcontractors to correct and complete all issues with 1 week.
 - Meet with customer's field representative prior to moving off jobs at each phase to get agreement on any outstanding items or punch-list to avoid call-backs and back-charges.
 - No change order, extra work or free work allowed without prior authorized approval.
 - Superintendent or foreman never leave jobsite without a lead or foreman in charge, and never to go to hardware store or supply house - send crew member if required.
 - No overtime allowed without prior authorized approval & within budgeted allowance.

In order finish on-budget and produce optimum results on construction projects, you must have a system that guarantees performance 95% of the time. Review the factors outlined above and decide which of them will improve your project results. These factors came from participating in numerous coaching sessions and company meetings with contractors and their project managers, superintendents & foreman.





20 Business Tools To Boost Your Bottom Line!

By George Hedley

I got a phone call the other day from Bill, a business owner who performs concrete slab placing and finishing. His company is a subcontractor to concrete subcontractors and general contractors. He supplies the labor and equipment only (no materials) to pour and finish concrete on new slabs for buildings under construction. He sells his services by the square foot of concrete poured and finished. His customers are very cost conscious and decide if and when they want to do the finishing with their own crews, or hire Bill's company on a job by job basis. Getting awarded a job is very competitive and price driven as Bill has several competitors who offer the exact same services as he does. The price difference between his company and competitors only varies by one or two cents a square foot. This leaves no room for error or much chance to make a reasonable profit. And now as the economy in his market is tougher, his problem of trying to win jobs by being the lowest priced provider plus making enough money are larger than normal.

I asked Bill what else his crew could do to offer more services to increase his prices. He couldn't think of anything he wasn't already doing. Then I asked him how he could do business differently to improve his bottom-line. No answer again. I suggested he might consider offering more services or getting into a more difficult type of construction contracting like heavy foundations, parking structures, full building concrete tilt-up construction, or architectural decorative concrete where customers will pay more for expertise and quality. He struggled with the idea as he wasn't sure his crew could handle more difficult work. And he didn't know how to price anything except providing labor and equipment to install flat slabs.

Without options, I then asked if he could increase his sales volume or reduce his overhead? He said his steady customers were slow and he was as lean as he could get without going out of business. He was bidding cheaper to keep his crew busy and his doors open. In my opinion, he was stuck and didn't know what to do next.

Are You Stuck?

Doing the same old thing for years and expecting it to get better? Not willing to try new things, methods, or ideas? Too busy working to manage your business? And when the economy slows down, you don't have a clue how to keep it all going?

Remember when you've gotten your car stuck in the snow. What did you do? You first try getting out of the rut by gunning the engines faster. But it doesn't work. You're still stuck and now in an even deeper hole. Just like in business, trying the same things, working harder yourself at a faster pace won't get you going again in a positive direction. When you try new techniques, tools, ideas, tactics, and strategies you eventually get out of the hole and get back up to speed quickly. When your hole is getting deeper, what choice do you have but to try some new tools. Here are twenty business tools to help you boost your bottom-line in any economy. Take the time to implement them and you will make more money.



Tool # 1 - Buy Low & Still Sell High!

Most construction business owners focus lots of energy trying to cut costs by being more efficient, working faster, buying cheaper, not wasting any money, keeping their crews busy, or doing all the pricing and ordering themselves. Spending all your time focused on cutting costs won't improve your bottom-line unless you keep some of savings for yourself. Most contractors add up their material costs, and mark them up at the same rate.

What should you do when you get a 10% better price on material, or a lower bid from a subcontractor? By always passing along the entire costs savings generated by your hard work or negotiating skills, you're actually hurting your bottom-line. By using the lower cost in your estimate, and then adding a 20% mark-up for overhead and profit, the actual gross profit and final selling price and is lower than if the materials or subcontract had been ordered at the original higher price. Look at these examples:

	<u>Original Quote</u>	<u>Lower Quote</u>	<u>Sell Higher</u>
Material Price	\$ 1,000	\$ 900	\$ 900
OH & P Markup	<u>20%</u>	<u>20%</u>	<u>33%</u>
Gross Profit	\$ 200	\$ 180	\$ 300
Sales Price	\$ 1,200	\$ 1,080	\$ 1,200
Gross Margin	16.7%	16.7%	25%

Review the 3 examples.

- The 'Original Quote' mark-up example shows the result of getting a material price of \$1,000 and then selling it at \$1,200.
- The next 'Lower Quote' example shows what happens when you work hard to get a lower price and then pass all of the savings on to your customer.
- The 'Sell Higher' example shows what happens when you get a lower price for material and then still sell the item at the market value or what the customer is willing to pay for the work.

Should you always offer your customer the lowest price on every bid and purchase on the job? On the 'Sell Higher' example, you purchased material or subcontracted work for \$900 and still sold it for \$1,200. Your gross margin increased from 16.7% to 25%. A huge difference in your bottom-line!

What If You Buy In Bulk?

When I was remodeling our home, the contract with the electrician included an allowance for the number of light switches and power outlets we anticipated. When the walls were framed, I walked the job with him and located where we wanted the switches, lights, and outlets. He told me the final number was larger than the amount he had included in his contract. No problem for me. I still wanted them. He then told me he had already bought the switches and outlets included in the contract at a quantity discount and he would now have to charge me more per extra outlet because he couldn't get the same price from his supplier.

I was thinking, on every house built there are lots of switches and power outlets. If I was an electrician, I would buy them by the case, pallet or car load to get the best price I could and store them in my warehouse. The selling price would still be the same but I would make more money by buying them at a lower price in bulk. What can you buy in bulk to save money? Wealthy drywall contractors buy their drywall and metal studs by the train car load. The same for standard sizes of rebar, masonry, lumber, irrigation pipe, copper wire, and all the other materials subcontractors and contractors need on every job. When you buy small job amounts from wholesale houses, you pay 5 to 20% more for materials. Want to boost your bottom-line? Look at your annual purchases and start buying items you use over and over in bulk. This tool should make you at least 2% to 5% on your bottom-line. Also look at charging real rates for your equipment, even if it is paid for. Why should you give customers your equipment cheap or for free? Even banks charge for the use of their money!

Should You Always Pass Your Lowest Cost Along?

There are many instances when you work hard to get a lower price. Should your customer always get the full benefit of your efforts? What about on change orders? Should your change order cost include the cheapest price you bought the materials for, or what the market price is for the item? Should you always pass your contractor

discounts along to your customers? By presenting a lump sum or a cost-plus price for changes using the market versus the cheapest price for materials, you can increase your gross margins significantly.

Think about how you price work and sell your services. Bidding with the cheapest price you pay for materials for is not always the best approach to make more money. Want to make more money? Decide how you will estimate your jobs based on what your customer is buying. It is not always about being the lowest price contractor to get work or keep your customers happy.



Tool # 2. - Double Every Discount!

Always, always, always take every discount offered to your company by material suppliers and subcontractors. When they offer a 3% or 5% discount for prompt pay, take it! For example, if you purchase \$10,000 of material for an order or job and are offered a 5% discount from your supplier for full payment by the 10th of the next month, you will pay \$500 less than what you estimated and sold the job at. If materials add up to 40% of your total job costs for the year and you get discounts on all material purchases, you'll increase your bottom-line by 2%. This is big!

Start By Getting A Line Of Credit!

Professional business owners must have a bank line of credit to help them make money and grow their business. I recommend a bank line equal to two months of sales volume for most service companies. If you don't have a bank business credit line, get one. Most banks charge an interest rate of prime plus one or two percent on borrowed funds.

Ask For Discounts!

Another bottom-line booster tool is to always ask your subcontractors and suppliers for discounts when you pay them fast, for early payment, or quicker than normal. Often, they want or need to get paid faster than the contract or standard terms require. Offer to pay early in exchange for a 5% discount off the full amount owed.

Amount Owed	\$40,000
Discount for prompt pay	<u>5%</u>
Amount Saved	\$ 2,000
Cost Of Money = \$2,000 for 30 days @ 5% =	- <u>\$ 10</u>
Net Amount Saved	\$ 1,990

Do The Discount Math!

In the example above, when you pay a subcontractor or supplier \$40,000 before you get paid by your customer, and they give you a 5% discount, you save \$2,000 and get to keep it. On most orders, contracts, or jobs, you'll likely get paid by your customer within 30 days. To calculate what you actually made on an early payment, figure the cost of money. If you use your bank line of credit to borrow the \$40,000 to take advantage of a 5% subcontractor discount, and you pay a 7.5% interest rate to your bank for borrowed funds, your cost of money on borrowing the \$40,000 for 30 days is only \$250. Wow! You just made almost \$2,000 on your banker's money. Do this twenty times in a year and boost your bottom-line by another \$40,000.



Tool # 3 - Be Low & Then Offer More To Make More!

I got a call the other day from a concrete finishing and placing company owner. His company acts as a subcontractor to general contractors. He supplies labor and equipment only to pour and finish concrete slabs and sells his services by the square foot of concrete finished. His customers are very cost conscious and decide if and when they want to do the finishing themselves, or use his company's services on a job by job basis. Getting awarded contracts is very competitive as he has several competitors who offer the exact same services within one or two cents a square foot of each other. This leaves no room for error and little chance to make a reasonable profit.

I asked him what else his crew could do to offer more services to increase his price. Stubbornly, he couldn't think of anything he wasn't already doing. Then I asked him how he could do business differently to improve his bottom-line. No answer again. I suggested he consider offering more services and getting into a more difficult type of construction contracting like tilt-up construction, heavy foundations, or decorative concrete where customers will pay more for expertise and quality. He struggled with the idea as he wasn't sure his crew could handle difficult work. Plus he didn't know how to price anything except flat slab labor. I then asked if he could increase his sales volume or reduce his overhead? He said he was as lean as he could get without going out of business and he was bidding cheaper to keep his crew busy and his doors open.

Are You Stuck?

One of the ways to increase your bottom-line in a competitive market is to look for sharp new tools to improve productivity, save money, and reduce costs. Doing the same old things and expecting it to get better without trying new people, subcontractors, vendors, methods, or ideas won't work today. Remember when you've gotten your car stuck in the snow. What did you do? You first try getting out of the rut by gunning the engines faster, but it doesn't work. You're still stuck and in a deeper hole. Just like in business, trying the same things and working harder and faster won't get you going again in a positive direction. When your hole is getting deeper, you have to try some new tools. When you try new techniques, tools, ideas, tactics, and strategies, you'll get out of your hole and back up to speed.

Be Low To Get A Meeting!

On private construction work, the goal of every bid is to get a meeting with the decision maker. This way you can sit down and negotiate the final price and scope of work. Unless your customer is only getting a proposal from your company, you'll most likely have lots of competition. The best way to get a meeting with potential customers is to be the preferred builder, supplier, subcontractor, or contractor of choice. Another way is to have a strong personal trusted relationship with them. But if you don't have an "in" with the customer on the specific job you're bidding, and all else is equal, your customer will want to meet with the low bidder first. So, the next best way to get a meeting is to be the lowest bidder.

Your original bid proposal should be for the bare minimum required by the bid documents. No more. If in doubt, leave it out and don't include additional items, gaps in the plans, improperly specified materials or methods, or upgrades from the minimum things needed to get the job done. If you have a less expensive ways to supply or install items, include the lower cost items in your proposal as an inclusion. For example, if the painting specification calls for 3 coats of paint, state that you have included 2 coats of paint on all surfaces. Or if you know the job should require door closers on exit doors, but the plans don't call for them, don't include them in your bid or mention them as exclusions in your proposal.

Remember your goal is to be low bid so you'll get a meeting with the customer. If you clarify all these issues in your written proposal, the customer will send your ideas out to your competitors to get apples-to-apples pricing. This standard tactic eliminates the need to meet with you. When you get the bid review meeting, you can

discuss project problems, conflicts, alternates, substitutions, and exclusions face-to-face. This tactic will keep your pricing lower, and will help you get that important meeting with the decision maker to review your proposal.

Don't Ask For More - Don't Get More!

At the meeting, discuss every option to upgrade the project, improve the quality of materials, add-on additional items, or present prices for things required to fill the gaps and complete the work. To boost your bottom-line, offer these upgrades and additional items at lump sum prices including markup double your standard rate. As you present each additional item to your customer, carefully watch their face, expressions, body language, and reactions to the pricing you present. Look for clues if you'll be able to get extra money or when you might have to include them to be awarded the contract. I use the slogan, 'don't ask, don't get!' Your meeting goal is to get a commitment for the contract and get the work at a higher total markup percentage than you used on your base bid. If you can get an additional 15% markup on and additional 10% of work, this will increase your total bottom-line by 1.5%. Over the period of a year this bottom-line booster tool will add up to big bucks.



Tool # 4 - Buy In Bulk!

When I was remodeling our home, the contract with the electrician included an allowance for the number of light switches and power outlets we anticipated. When the walls were framed, I walked the job with him and located where we wanted the switches, lights, and plugs. He told me the final number was larger than the amount he had included in the contract. No problem for me. I still wanted them. He then told me he had already bought the exact number of switches and outlets included in the contract at a quantity discount. And now he would have to charge me more per extra outlet because he couldn't get the same price from his supplier.

I was thinking, on every house built there are lots of switches and power outlets. If I was an electrical contractor, I would buy them by the case, pallet or car load to get the best price I could and then store them in my warehouse. The selling price would still be the same but I would make more money by buying them at a lower price in bulk.

Buy More To Make More!

What can you buy in bulk to save money? Wealthy drywall contractors buy their drywall and metal studs by the train car load. The same for rebar, lumber, irrigation pipe, copper pipe, and all the other materials subcontractors and contractors need on every construction job. When you buy small amounts from wholesale suppliers, you pay 5 to 20% more for materials. Want to boost your bottom-line? Look at your annual purchases and start buying items you use over and over in bulk. This tool should make you at least 2% to 5% on your bottom-line.



Tool # 5 - Get Another Quote! - Buy Right To Build Profits!

Many contractors have the same person estimate projects plus act as the project manager. This is what I call a 'combo' estimator/project manager. As a result, combos often get busy pricing too many jobs or running too many projects at one time. When an important or urgent issue comes up on a project, they usually take care of putting out the fire rather than working on the bid at hand. Therefore, estimating new projects, bidding, and taking time to secure additional subcontractor or material quotes gets put to the back-burner.

Too Busy To Make More Money?

When project managers are overworked running projects, they don't spend adequate time to securing enough price quotes from more than the familiar same few suppliers and subcontractors they're used to doing business with. As a result, contractors tend to buy materials from and award purchase orders and contracts to the same providers year after year without getting additional quotes from new or different suppliers or subcontractors. I hear excuses like: 'we use companies we know, like and trust.' There are generally lots of other choices who you can know, like and trust, if you take the time to get to know them.

Get Another Quote!

To stay competitive, contractors must continually seek new suppliers and subcontractors to do business with. When you have companies competing for your business, the price you pay will go down by a few percentage points. And in today's competitive marketplace, a few percent point advantage on bids can significantly increase your revenue and profit. What suppliers or subcontractors have you been using exclusively for a long time without checking their prices? Why haven't you taken the time or made it a priority to get other quotes? I bet you're using the excuse you want to use the same companies over and over again to avoid problems. While the real reason is you're too busy to hassle or take the time and effort required to find additional providers to submit quotes on projects. After all, your regulars likely give you a few tickets to the football game every year too. Are you positive they're giving you the best possible price on every project or every item you buy?

Keep 'Em Honest!

I know trust and customer relationships are important, but you'll get the same service at a better price if you keep them honest. Go to Home Depot or shop the internet to look at what retail buyers pay for the same products you use on a regular basis. Call three other suppliers and get quotes on items you buy all the time. A few phone calls and meetings with different suppliers and subcontractors will boost your bottom-line, even if you decide to stay with your old faithful you've used for years and trust.

To insure you stay competitive with pricing, incentivize your estimators to get as many quotes as possible. Over time, if you get a minimum of four to five quotes per trade or supplier, your overall price will significantly go down, and you'll get awarded more jobs. To keep focused on staying competitive, consider paying estimators a \$100 bonus when they get at least four quotes on every trade on major project bids. This small incentive will keep everyone focused on what it takes to win more work.

Get A Line Of Credit & Take Every Discount!

Another way to stay competitive in your construction business is to seek discount opportunities with subcontractors and suppliers. Start a policy to ask for and always, always, always take every discount offered to your company. When negotiating the purchase or subcontract terms, make it a point to ask for three to five percent discount for prompt pay or no retention withheld. If you don't ask, you won't get! Professional business owners must have a bank line of credit to help them take these discounts, make more money and grow their bottom-line. I recommend a bank line equal to two months of sales volume for most construction companies. If you don't have a bank business credit line, get one. Most banks charge an interest rate of prime plus one or two percent on borrowed funds.

When offered a discount for prompt pay from subcontractors or suppliers, always take it! For example, if you purchase \$10,000 of material for a job and get a 5% discount for full payment by the 10th of the next month, you'll pay \$500 less than what you bid and sold the job for. If materials add up to 40% of your total job costs for the year and you get discounts on all material purchases, you'll increase your bottom-line by 2%. This is big! Always ask subcontractors and suppliers for discounts for early payment quicker than normal. Often they want or need to get paid faster than the contract or standard terms require. Offer to pay early in exchange for a 3% or 5% discount off the full amount owed.

Amount Owed to Vendor	\$40,000
Discount For Early Pay	<u>5%</u>
Amount Saved	\$ 2,000
Cost Of Borrowed Money for 30 days @ 5% =	- \$ 166
Net Amount Saved	\$ 1,834

It's Just Math!

When you pay a supplier or subcontractor \$40,000 before you get paid by your customer and get a 5% discount, you save \$2,000 and get to keep it. On most jobs, you'll likely get paid back by your customer within 30 days. To calculate what you actually made on an early payment, figure the cost of money. If you use your bank line of credit to borrow the \$40,000 to take advantage of a 5% subcontractor discount, and you pay a 5% interest rate to your bank for borrowed funds, your cost of money on borrowing the \$40,000 for 30 days is only \$166. Wow! You just made \$1,834 on your banker's money. Do this twenty times in a year and boost your bottom-line by another \$36,680.

To make more money, buying right from the right suppliers and subcontractors must be a priority. Implement these simple tools to make more profit.



Tool # 6 - Mark-Up Your Mark-Up!

When pricing jobs or orders, bidding work, or calculating the cost of additional items the customer wants; most businesses leave lots of money on the table by using one total markup rate for every situation. When you blend your overhead and profit into one total markup like 25%, you're not marking up your fixed cost of doing business (your overhead). See the example below:

Direct Costs	\$ 100,000
OH & P Markup @ 25%	<u>\$ 25,000</u>
Total Bid Price	\$ 125,000
Gross Profit Margin	20.00%

Smart and profitable business owners understand the power of marking up the entire cost and every part of doing work on an order or project. Overhead costs are a major part of every company. So, mark-up your overhead costs to boost your bottom-line as well. Using the same total markup for overhead and profit of 25%, look at the better way to markup your products or services:

Direct Costs	\$ 100,000
Overhead Markup @ 15%	<u>\$ 15,000</u>
Sub-Total	\$ 115,000
Profit Markup @ 10%	<u>\$ 11,500</u>
Total Bid Price	\$ 126,500
Gross Profit Margin	20.94%

In the second example, you made an additional \$1,500 or nearly 1% more gross profit. For every \$1,000,000 of total sales volume for the year where you markup your markup, your bottom-line would increase by \$9,400. Not bad for a little bit of extra math.



Tool # 7 – Trash Your Old Tools & Buy New Ones!

Installation, manufacturing, or field crew labor is very efficient when they have the right tools and they work efficiently all the time. When is the last time you performed a tool inventory to determine which tools should be thrown out and replaced? On the jobsite or in your shop, your crews often work with broken, bandaged, damaged, and old tools. Why? Because they don't want to ask their boss for new ones. Plus, the boss doesn't want to hear excuses or about an employee who has broken a tool. So employees continue to use poor worn out tools and equipment and keep their mouths shut.

Bad Tools = Bad Bottom-Lines!

How much money are old, broken, outdated, or inefficient tools costing you? If you've got 10 people on your installation or manufacturing crew, and each person loses 5 minutes per hour working with bad equipment, you're losing the equivalent of 6.7 total hours per day. Over a year this can add up to 1,700 hours of lost time. If you average \$25.00 / hour per crew member, this totals \$42,500 annually down the drain.

Employees	10
Time Lost / Hour	5 Minutes
Time Lost / Day	6.7 Hours
Annual Time Lost	1,700 Hours
Cost Per Hour	\$ 25
Annual Lost Time Due To Bad Tools	\$42,500

Invest in a pro-active tool management program and I bet your employee efficiency will go up by double what you are losing. Instead of losing \$42,500, you'll probably make an additional \$85,000. How? Your employees will be proud to work for a company that cares about quality and is at the cutting edge of tools and techniques. Visit trade shows every year looking for new tools, equipment, and techniques that will make your crews more efficient and boost your bottom-line.



Tool # 8 - Estimators Are NOT Your Best Salespeople!

One of the biggest goals of salespeople and estimators is to win profitable jobs at their price. Many sales people think their primary job is to stay in touch with lots of customers and be there when they want to order something. Estimators are NUMBERS people and NOT SALES people. Most cost estimators think their primary responsibility is to price work. Estimators don't like to sell! And therefore, they figure their job is complete when they email, fax or deliver bids to potential customers. Customers don't usually buy numbers printed on a piece of paper, unless the total price is significantly lower than other bidders. When the prices are about the same, customers make decisions on who to hire or order from based on trust and how and what people and companies will perform and do for them.

People, Not Paper, Sells!

You can't present what your company will do for customers on a bid form. It must be done in person by someone responsible for selling, asking for the order, and closing the deal. Remember, most estimators are NOT sales people! If the best sales person is you, your sales person, or the estimator in your company, they need to be trained on developing customer relationships, overcoming price objections, effective selling skills, negotiating tools, and winning presentation techniques. They need to be taught and understand they're in 'show' business and how the bid or quote is presented is often just as important as the price. If you can improve

your bid or proposal success ratio by as little as 15% to 20%, your top-line sales volume will go up and you can boost your bottom-line easily by as much as 100%. For example:

	Currently	Improved
Bid - Hit - Win Success Ratio	<u>6 to 1</u>	<u>5 to 1</u>
# Bids or Proposals / Year	100	100
# Contracts Or Orders Awarded	16.6	20
Average Contract Size	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Total Annual Sales	\$ 833,000	\$1,000,000
Direct Or Job Costs @ 70%	\$ 583,000	\$ 700,000
Annual Overhead	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Net Profit	\$ 50,000	\$ 100,000

By only improving your bid / proposal success ratio a small amount, your bottom-line improved 100%. What can you do to improve your bid - hit - win proposal success ratio?



Tool # 9 - Should You Empty Your Yard!

It amazes me the number of construction company owners who are married to their equipment and can't seem to untie the knot they have with machines. There must be something enticing about owning a lot of yellow iron, a few cranes, backhoes, or lots of trucks to make you feel warm and fuzzy or big and macho. To me, owning equipment is declining asset only necessary if it makes financial sense and you can get a positive return on your investment.

What Does It Cost To Own A Truck?

When you figure what it really costs to own a heavy-duty pickup truck to send out to your construction jobsites, it makes you think twice before investing your money into another vehicle. If you figure a typical construction pickup only lasts around 4 years until you have to replace it, you can determine what it will really costs to own. After adding the purchase price, interest payments, insurance, gas, oil, tires, maintenance, and loss of value over the life of a pickup, you'll discover it costs over \$88,000 to own and maintain a pickup over four years. That works out to almost \$2,000 per month. In addition, you'll need a down payment to buy the truck, which ties up your working capital and makes it harder to grow your company. Plus, you're responsible for the maintenance and upkeep.

Is Owning A Pick-up Truck A Good Investment?

Can you generate enough revenue to pay for your pick-up? Good business people want to make a return on their investments. On equipment, you should make at least 15% return which would equal an additional \$350 per month to own your truck and get a return. Therefore, your truck costs you around \$2,300 per month not including a markup for overhead and profit. Depending on how much markup you add to your job costs, the total final cost to own your pickup will exceed \$2,500 to \$3,000 per month.

Next go online and shop for a pickup truck to rent by the month. You will find quotes from \$1,150 to \$1,350 per month. You obviously have to add insurance, gas and oil to your budget, but not tires or maintenance. Renting a truck requires no down payment either. And when you don't need it, you can turn it back in for a few weeks or months when you are slow. So, what's the best way to go for your company?

Own Or Rent Larger Construction Equipment?

Most contractors need certain types of equipment to do their work like skip-loaders, forklifts, generators, or scissor lifts. Should you own or rent? When times were busy, you could keep these pieces of equipment busy and make money on them. When work is spotty or sporadic, you can't keep them working enough to pay for themselves. It all boils down to the math. Let's say you need a large piece of specialty equipment to perform your type of work:

Equipment Cost Over 5 Years

Purchase Price	\$ 100,000
Financing Cost	\$ 20,000
Insurance 5 Years	\$ 20,000
Maintenance & Tires 5 Years	\$ 20,000
Repair Items	\$ 5,000
Gas & Oil 5 Yrs	<u>\$ 35,000</u>
Total Cost Over 5 Years	\$ 200,000
Return On Investment @ 15%	\$ 30,000
Overhead & Profit Mark-Up @ 20%	<u>\$ 46,000</u>
Total Cost Of Ownership 5 Years	\$ 276,000

The total cost of this equipment will cost you \$276,000 to own for 5 years or \$55,200 per year. Don't forget the cost of putting a down payment on the purchase, getting a return on your investment, and how that will affect your cash-flow. Now determine if you can make it worthwhile to own, maintain, store, deliver, service, secure, insure, finance, and deal with the hassle of ownership and trying to find jobs to keep it busy. The deciding factor is how many hours you can use it on the jobsite.

$$\text{Equipment Cost / Year} = \$55,200$$

<u>Billable Hours Per Year</u>	<u>Cost Per Hour</u>	<u>ROI</u>	<u>Rental Rate?</u>
2,000 hours	\$ 27.60	\$ _____	\$ _____
1,500 hours	\$ 36.80	\$ _____	\$ _____
1,000 hours	\$ 55.20	\$ _____	\$ _____
500 hours	\$110.40	\$ _____	\$ _____

By doing the math, it's easy to determine if you should own or rent equipment. If you can keep it working enough billable hours per year to make money and cost you less than renting, it makes sense to own equipment. Call the local rental companies to compare your cost of ownership to their rental rates. I'm sure you'll discover which equipment you should or shouldn't own. Sell the unprofitable underutilized equipment, take the cash and boost your bottom-line by investing it in a strong management team or assets like real estate that grow in value every year.

Also think about what equipment you can own that doesn't require a lot of maintenance where you can get a big return on your investment. Used job office trailers only cost \$5,000 to \$7,500 to buy. And you can rent them to your projects at \$350 to \$450 per month. That is more than a 75% annual return on your money. Take a hard look at your equipment program. Get rid of your underutilized equipment. Do the math and boost your bottom-line.



Tool # 10 - Finish Faster Quicker!

I was visiting one of our construction jobsites a few years ago in mid-August. We were building a large 75,000 square foot concrete tilt-up industrial building. I was discussing the schedule with our project superintendent and concrete foreman. I asked when they were planning on tilting up or erecting the concrete wall panels. They told me they had scheduled the crane to lift the panels in mid-November. I was thinking: 'Three more months! That seems a bit too long!' I asked them how they arrived at mid-November. They said they decided that November was a doable date and easy to make so they would be ready for the crane.

I then asked them if they could move the date up a few weeks. They hesitated and shook their heads 'no' in protest. Then I offered them both a \$1,000 incentive if they tilted-up all the walls by October 31st. Guess what? They both changed their tune in a hurry and said they could figure out a way to get it done and guarantee they would erect the walls two weeks earlier. Not a bad investment: a \$2,000 bet versus 20 men working for 2 weeks (\$40,000 minimum plus on-site costs). The end of the story is they actually tilted-up the walls on October 26th. I gave the superintendent and foreman \$1,000 each and every crew member a day off with pay. My net gain was over \$50,000 after all of the costs were determined. Plus our customer was happy with our early finish for the project.

Offer Something To Get Something!

What games and incentives can you offer to entice your crews and employees to work faster and boost your bottom-line? Faster work equal more money in your pocket. Try different incentives like competitions between crews, games to beat the budget, challenges to finish ahead of schedule, hardware store coupons for no defects or repairs, catered barbequed lunches for meeting milestones, dinner gift cards for crews who hit important targets, winter jackets for no accidents, or anything else that will keep work fun, exciting, interesting, and competitive.

Make it your priority to tell your people how difficult it is to actually make a profit. Explain that these little bottom-line boosters can make a big difference. Your job is to make a priority to focus on the positive factors you can influence instead of complaining about the economy or your competition.



Tool # 11 - Clean Out The Dead Wood!

Golfers who pad their handicap to gain a competitive advantage are often called sandbaggers. They keep their handicap artificially high so they get a few extra strokes from their opponents when playing match play. The term 'sandbagger' comes from the concept of filling your golf bag with some sand so it's heavier than normal, causing you to get tired and not play up to your potential. In order to keep their handicaps comfortably higher than they should be, sandbaggers do little things like missing short putts on purpose when they don't need to make a putt to win a hole. And then when they need to win an important match, they take the sand out of their bag and play their best. Not an honest way to compete.

Construction business owners, project managers, and field supervisors have lots of things to do every day to keep their ball rolling towards the target. They often get overloaded and don't take enough time to do everything perfectly as they know they should. After a while, they get in the habit of doing things the easy or fastest way, and take short cuts to get things done. This reduces their bottom-line net results. Think of the little things in your business you know you should do to play your best game every day. When you don't follow sound business principles, added costs, small problems or costly mistakes add up and significantly weigh you down. This drags your bottom-line lower than it could be.

Stop Doing What You've Always Done!

For example, when you keep poor employees on your payroll too long or continually use the same supplier without getting other bids, you're saving time but costing you money. When you continue working for bad customers rather than seeking new ones, or not taking the time to focus on collecting your receivables faster, you're saving time and losing small amounts of money that add up significantly over the long haul. When you do extra work without signed change orders or only offer what is on the plans and specifications to get awarded jobs, you're saving time while not maximizing your bottom-line.

Whether you're too busy, stressed-out, or overloaded, you have many options and choices available to do a better job and make more money. Here is another tool to help you get out of the rough, back on the fairway, make more putts, and play up to your full potential all the time. This will help you get the unnecessary sand out of your bag and increase your company bank account.

Look For The Dead Wood!

Who on your crew or staff causes you the most grief, doesn't do a good job, or has a bad attitude? These poor performers are infiltrating everyone on your team and bringing them down. Poor performers should be cleaned out, fired, and removed fast. Think of employees as trees in the forest. When they die, run out of life, or stop growing, they become dead wood. Dead wood gets in the way, is a fire hazard, and causes you to trip or fall as you move forward. When you let the dead wood remain, you tolerate poor performance. When you don't remove or clean out dead wood, other employees have to put up with them, work around them, cover for them, and make excuses for them. Additionally, your good employees lose respect for a boss who won't do what's right in a timely manner and accepts less than the best from his people.

I know you're too busy to get rid of your dead wood employees and find some new people to do a better job. I know you think you can't find any good help. But, by doing nothing and walking by poor performers, you're avoiding tough decisions and losing more money than you can imagine. One dead tree can reduce your crew efficiency by as much as 25%. Make a list of your employees and rate them on the skills you need them to have to be efficient and proficient in their duties. Also rate their attitude, teamwork, enthusiasm, and aptitude. And rate them on their desire to take on more accountability, responsibility, and leadership. Through this process, you'll discover your valuable employees, those who can improve, and those who shouldn't work for you. Who knows? You might also find that a few 'old-timers' or relatives are not on your 'keep' list.

Cut Out YOUR Dead Wood!

It's not your fault that as many as ten to twenty percent of your employees might not be the right fit suited to work for you or your company. You shouldn't feel bad about realizing that not everyone you hired was the right employee to work for your company. You did your best hiring them. But some people eventually didn't fit the required job description or aspire to excellence in your company's environment. In other words, a few of your employees are working at the wrong place. It is not good for them or you, and they need to move on and find a place where they'll contribute in a positive way. Feel good about cleaning out the dead wood. It's good for you, your employees, and those who'll be leaving your company. So, get out your axe and trim out the dead wood. Then make it your priority to find positive people who'll make your company a better place.

Ever been accused of being a sandbagger? Golfers who pad their handicap are often called sandbaggers. They keep their handicap artificially high so they get a few extra strokes from their opponents when playing matches. The term 'sandbagger' comes from the concept of filling your golf bag with some sand so it's heavier than normal, causing you to get tired and not play up to your potential. In order to keep their handicaps comfortably higher than they should be, sandbaggers do little things like missing short putts on purpose when they don't need to sink them to win a hole.

Business owners and managers have lots of things to do everyday to keep their ball rolling towards the target. They often get overloaded and don't take enough time to do everything perfectly as they know they should. After awhile, they get in the habit of doing things the easy or fastest way and take short cuts to get things done. This reduces their bottom-line net results. Think of the little things in your business you know you should do to play your best game everyday. When you don't follow sound business principles, added costs, small problems or costly mistakes add up and significantly weigh you down. This drags your bottom-line lower than it could be.

For example, when you keep poor employees on your payroll too long or continually use the same supplier without getting other bids, you are saving time but costing you money. When you continue working for bad customers rather than seeking new ones or not taking the time to focus on collecting your receivables fast, you're saving time and losing small amounts of money that add up significantly. When you do extra work without signed change orders or only offer what is on the plans and specifications to get awarded jobs, you are saving time while not maximizing your bottom-line.

Whether you're too busy, stressed-out, or overloaded, you have many options and choices available to do a better job or make more money. Here are more tools to help you get out of the rough, back on the fairway, make more putts, and play up to your full potential. Make a point to try a few of them. This will help you get the unnecessary sand out of your bag and increase your bank account.

Get Rid Of The Bad Apples?

Who on your crew or staff causes you the most grief, doesn't do a good job, or has a bad attitude? These poor performers are infiltrating everyone on your team and bringing them down. Poor performers should be cleaned out, fired, and removed fast. Think of employees as trees in the forest. When they die, run out of life, or stop growing, they become dead wood. Dead wood gets in the way, is a fire hazard, and causes you to trip or fall as you move forward. When you let the dead wood remain, you tolerate bad performance. When you don't remove or clean out dead wood, other employees have to put up with them, work around them, cover for them, and make excuses for them. Additionally, your good employees lose respect for a boss who won't do what's right in a timely manner and accepts less than the best from his people.

I know you're too busy to get rid of the dead wood employees and find some new people to do a better job. I know you can't find any good help. But by doing nothing and walking by poor performers, you're avoiding tough decisions and losing more money than you can imagine. One bad apple can reduce your crew efficiency by as much as 25%. Make a list of your employees and rate them from 1 to 5 on the skills you need them to have to be efficient and proficient in their duties. Also rate their attitude and aptitude.

Rate & Rank Your People!

Rate people on their desire to take on more accountability, responsibility, and leadership. Through this process, you'll discover your valuable employees, those who can improve, and those who shouldn't work for you.

<u>Employee Rating Scale</u>	<u>Skill #1</u>	<u>Skill #2</u>	<u>Skill #3</u>	<u>Attitude</u>	<u>Aptitude</u>	<u>Total</u>
Joe	5	4	5	1	1	16
Dave	3	3	3	5	4	18
Sue	4	3	4	4	4	19

After analyzing these results, while Joe has great skills, he has a lousy attitude and needs to find work elsewhere. And most likely he is holding Dave and Sue from reaching their peak performance levels.

It's not your fault ten to twenty percent of your employees are not suited to work in your company. You shouldn't feel bad about finally realizing the fact that not everyone you hired was the right employee to work

for you. You did your best hiring them. But some people eventually didn't fit the required job description or aspire to excellence in your company's environment. In other words, a few of your employees are working at the wrong place. It is not good for them nor you. And they need to move on and find a place where they'll contribute in a positive way. Feel good about cleaning out the dead wood. It's good for you, your employees, and those who'll be leaving your company. So, get out your axe and cut out the dead wood. Then make it your priority to find positive people who'll make your company a better place.



Tool # 12 - Go The Extra Mile To Get More!

When you offer or provide the minimum required by the contract, specifications, scope, or plans, you can't expect to make more money than the minimum allowed by your competition. I know you think you're better than your competition. Providing good quality work and service is expected and will get you on lots of bid lists with lots of competition. But in reality, your competition wouldn't be allowed on the bid lists unless customers believe they can do the job just as well as your company. When all else is equal, the only differentiating factor is a lower price. Now what? You have to offer more or provide something different than your competition to get more work at higher prices. People won't pay more for your services or products unless they get more than the minimum required.

When would you pay more for a box of 16 penny nails? First you don't really care who makes the nails. After all, they're just nails. You most likely wouldn't pay more unless there's something else offered to entice you to buy more or pay more for the same box of nails you can get at any hardware store.

Go The Extra Mile!

What else can you do or offer to set yourself apart from your competition and be different? Can you add more services, provide more value, be faster, offer a better guarantee, provide higher quality, give longer warranties, be more convenient, provide better supervision, be cleaner, provide more technical expertise, offer engineering services, include more items of work, guarantee a completion date, provide a discount for faster pay, or reduce risk.

I recently spoke at a conference of art dealers. The successful dealers were those who went the extra mile for their customers. These 'best in class' dealers did more than sell paintings. They also provided free delivery, they rearranged the furniture at their customer's homes to enhance the new artwork, and then they professionally hung the paintings at no extra charge. Wow! They go the extra mile. And as a result, customers refer these dealers to all their friends and family. What extra added value do you provide? Think more than you're doing now. Likely, you are NOT doing enough to get a higher price. What can you do to be different than your competition? The more you do, the more you'll make. The less you do, the less you'll make. Provide the minimum and get the minimum.



Tool # 13 - Maximize Your Mark-Up With Variable Rates!

I often get asked how much contractors should mark-up their work to make a profit. Construction company owners are looking for the magic percentage that'll guarantee a profit on every job. But mark-up is tricky. It's a function of what you need to cover your fixed overhead costs plus a profit margin combined with what the market will bear. Smart business owners realize all jobs are not equal and mark-up should vary with every job. When you use the same mark-up for every bid, you are not maximizing your profit potential or helping your company make more money.

Markup Smaller Bigger!

First determine how much total annual mark-up for overhead you need to cover all of your fixed general and administrative expenses for the year. For example, if your total annual overhead is \$500,000 and your total job costs are expected to be \$5,000,000, you need an overhead mark-up of 10% to recover your overhead costs. Next determine how much total annual profit you want to make for the risk you take. If you want to make \$250,000 annual pre-tax net profit, your net profit mark-up must average 5% using the above example. Now you have a minimum mark-up of 10% for overhead and a total profit mark-up goal of 5% for a total of 15% overhead and profit.

In the above example, the key is to average 15% total overhead and profit mark-up over the year. To maximize your bottom-line, consider using a variable mark-up system. You recognize the fact that smaller jobs often take the same time, energy, overhead, and supervision as bigger jobs do. Therefore, you need to charge more on smaller jobs for overhead and profit to cover the added cost of managing them plus a larger profit margin to get a return on your time and energy. I recommend you create a "Variable Mark-Up Chart" similar to the example below for your company to use when marking up jobs of variable sizes.

(DO NOT USE THESE MARK-UP PERCENTAGES – THEY ARE JUST EXAMPLES!)

VARIABLE MARK-UP BY JOB SIZE - CHART

<u>Job Costs</u>	<u>OH + P Bid Mark-Up</u>	<u>Projected # Jobs</u>	<u>Total OH + P Mark-Up</u>
\$ 0 to \$ 50,000	30%	20	\$ 150,000
\$ 50,000 to \$ 100,000	20%	15	\$ 225,000
\$ 100,001 to \$ 200,000	15%	10	\$ 225,000
\$ 200,001 to \$ 400,000	10%	5	\$ 150,000
Total OH & P Bid Mark-Up	15% Average	50	\$ 750,000

By having an annual goal of 15% total OH + P mark-up to realize your total goal of \$750,000, you can make decisions about the number of jobs and at what rate you need to mark them up to meet your annual goals.

Mark-Up Your Mark-Up!

Another way to improve your mark-up strategy is to breakout your overhead and profit mark-up as separate calculations. When pricing jobs and calculating the cost of change orders; most contractors leave money on the table by only using one total mark-up rate. When you blend your overhead and profit into one total OH + P mark-up like 25%, you're not marking up your fixed cost of doing business (your overhead) before you add your profit. See the example below:

Job Costs	\$ 100,000
OH & P Mark-Up @ 25%	<u>\$ 25,000</u>
Total Bid Price	\$ 125,000
Gross Profit Margin	20.00%

Smart profitable business owners understand the power of marking up the entire cost of doing work on a project including overhead first. So, mark-up your overhead costs first to boost your bottom-line. Using the same total mark-up for overhead and profit of 25%, look at the better way to mark-up your jobs:

Job Costs	\$ 100,000
Overhead Mark-Up @ 15%	<u>\$ 15,000</u>
Sub-Total	\$ 115,000
Profit Mark-Up @ 10%	<u>\$ 11,500</u>
Total Bid Price	\$ 126,500
Gross Profit Margin	20.94%

In the second example, you made an additional \$1,500 or nearly 1% more gross profit. For every \$1,000,000 of total sales volume for the year where you mark-up your mark-up, your bottom-line would increase by \$9,400. Not bad for a little bit of extra math.



Tool # 14 - Fire The Deadbeat Customers!

Do you have a customer you wish you never did business with? Do you have customers who don't pay their bills in a timely manner or chisel you down and try to get you to take less than you're owed? Do you have customers who are very difficult to deal with or don't provide proper supervision on their projects? Do you have customers you wish you never heard of? What are you doing about firing these "dead beat" customers who take all your time, drain your energy, ruin your life, and suck money out of your business? Start by making a list of all of your present and past customers and rank them.

Customer Ranking Chart

Total Annual Revenue Total Profit Average Order Size ROE Factor PIA Factor

Customer 1
Customer 2
Customer 3

ROE is 'Return On Energy.'

PIA is 'Pain In the _ _ _.'

No, not what you're thinking! - PIA is '**Pain in the Assets!**'

These are customers who cost you the most time, energy, and money.

Next decide if the lowest ranked or deadbeat customers are worth the ROE and PIA factor to continue to do business with. Every year take a hard look at the customers you spend time working for. I recommend you fire at least 10% to 15% of your customers annually. This forces you to go out and find new customers who'll respect and treat you as professionals and allow you to make a good return.



Tool # 15 - Collect Your Cash!

You work too hard and your business is far too risky to not get paid in a timely manner per your contract agreed upon terms. Many business owners don't like to call customers and ask for money or when they can expect to get paid. They delegate it to their bookkeeper and let her do what she can. And to make it worse, business owners don't like to meet with their accounting staff on a regular basis to review outstanding receivables. Besides, they are too busy working to take time to care about collecting money. And they don't want to harass their dear customers who demand perfect quality and great service, and then don't pay their bills as promised. Are these really good customers? Or are you afraid to take a stand and upset them while they upset your life?

You're in business to make money. The only way you can make any money is if you collect it. When you ignore your accounts receivables and let your customers take advantage of you, it's an indication of your weak business principles, character, and confidence. What are you afraid of? Why aren't you a squeaky wheel demanding to get paid when your money is due? Are you afraid of upsetting or losing bad customers?

Bad Customers Are Criminals!

Every day customers who don't pay promptly cost you lots of money. You're stressed about making payroll or covering expenses. This causes you to make bad decisions and discount your invoices to get paid early. Not getting paid promptly also creates a cash-flow problem. This cash crunch keeps you from hiring and training better employees, buying the latest tools and equipment, marketing to potential profitable customers, and giving incentives to your employees to increase productivity. It also takes away the opportunity to invest your cash and receive interest on you checking account balance. Without realizing it, your customers are stealing from you.

The effects of slow pay from customers hurts your bottom-line in more ways that you can imagine. To boost your bottom-line, you must make it a priority to focus on prompt pay and collect your cash. Read the contract payment terms you sign and force your customers to follow them. Setup an accounts receivable tracking system and meet with your accounting manager weekly to review it. Make those collection calls to the decision maker and inform them of the contract terms. And don't be afraid to enforce the contract by giving proper notice, stopping work, placing a lien on projects, or filing lawsuits when justified. As a general contractor for over thirty years, I have observed that companies tend to pay quicker when asked for their money firmly and regularly. And those who sit and wait for the check to arrive in the mail get paid last.



Tool # 16 - Focus On Money Making!

Increasing your bottom-line is a tough task. Many of your competitors price their products, services, and contracts too low. This doesn't allow you to charge enough for the service and quality you want to provide. Your employees aren't always as efficient as you hope for or want them to be. The weather and other things out of your control get in your way and slow you down or hurt productivity. Poor communications, promises, incomplete plans, and bad specifications often stop your progress. And then, trying to get paid is not an easy task either.

Every dollar counts. Every penny wasted is precious and can add up to thousands of dollars at the end of the year. So what are you to do? Maximizing your profit must be a top priority right along with getting your projects completed. By taking a little time focusing on increasing your net profit will boost your bottom-line and allow you to make a lot more money. When you're too busy working, don't forget to take enough time to

focus on your finances and business strategies which will make you more money. Implement these tips and tools to grow your bank balance.

Make Making Money Your Priority!

When I ask small business owners specific questions about their finances, many respond they don't really know much about their numbers. They let their wife or bookkeeper worry about the money details and their job is to get the work done. To me this is an oxymoron! Work all day stressing and struggling trying to get things done, but don't really care or know much about how much money they're making. The main purpose for owning and managing a company is to make a profit and increase its' net worth. In order to make this happen, you should also focus on your numbers as part of your everyday activities to stay on track and get the results you want.

Annual Sales	\$3,000,000
Monthly Revenue	\$ 250,000
Average Bank Balance	\$ 125,000
Invest Bank Balance In Money Market / Savings	<u>3%</u>
Annual Net Income By Investing Bank Balance	\$ 3,750
Average Monthly Material & Products Accounts Payables	\$ 50,000
Discount Offered By Suppliers For Prompt Pay	2.5%
Average Monthly Discounts	<u>\$ 1,250</u>
Annual Net Savings By Taking Discounts	\$ 15,000

A simple way to multiply your money and increase your net profit at the end of the year is to manage your cash aggressively. It doesn't take much time, but it can return a nice sum of money for your efforts. If your company is generating \$3,000,000 in annual sales, you will average \$250,000 in monthly revenue. Most likely you collect your money throughout the month but only pay your bills twice a month. This means, on average, you should have a bank balance of around \$125,000 at all times. If you average \$50,000 monthly in materials and are offered a 2.5% discount for quick payment, this will generate an extra \$15,000 net profit annually. And if you invest your cash balances in interest bearing accounts or bank investment programs, you should be able to make another \$3,000 to \$5,000 every year. Not bad for a few minutes a week of time focused on managing your money.

Make an appointment with your business banker and discuss the many options and programs they have to maximize the return on your bank balance. Ask them about "sweep accounts", "overnights", "money market accounts" and "T-bills". A good banker wants you to make as much money as you can. After the meeting, decide how your company will invest their money and then delegate the task to your accounting manager. Track your monthly progress and watch your money multiply.



Tool # 17 - Accurate General Conditions

Estimating accurate general conditions or indirect soft costs for projects can be a simple task when the estimator is accountable to get it right. Most estimators use unit prices which are never checked against the actual final job direct costs. For example, creating a budget for temporary toilets seems easy. An 8 month job should cost 8 times \$100 per month = \$800. But when the field superintendent sees there are 40 men on the job, more than one toilet and more than one servicing a week is required. This might increase the actual job cost by as much as \$200 per month. These extra costs will add up to lots of lost cash.

Accuracy Is The Goal!

The estimator's job is to calculate an accurate cost estimate of what it will cost to build each project. After every job, they must look at the actual final job costs and see if they miscalculated or under funded any items. Before they price out the next job, they should get with the project manager or field superintendent to determine what will be required to run the project they are currently bidding. Take a hard look to determine if you are charging the right price for:

- Project manager, superintendent, and their vehicles
- Project photos, sign, as-built drawings, etc.
- Temporary facilities, trailers, toilets, sanitation, etc.
- Temporary utilities, electricity, power poles, water, phones, etc.
- Temporary fencing, gates, barricades, site lighting, heating, etc.
- Safety, first aid, shoring, access roads, security guards, etc.
- Water quality control, dust control, etc.
- Trash, cleanup, window washing, final punch-list, etc.



Tool # 18 - Stop Doing Extra Work For Free!

If you had ten dollars for every extra or additional work item your company, managers, project manager, employees, field superintendent, or foreman did without a clear understanding of who will pay for the additional work, could you have retired several years ago? Contractors know they should get it in writing via a signed change order before extra work is performed. But they don't do it until after the fact in many cases.

When your customer asks for extra work, why is it so hard to put it in writing and get written approval? Everyone knows most contracts require signatures on change orders prior to starting extra work. But when you postpone getting a formal approval for extra work until days, weeks or months after the event occurred, you have no leverage. And when you have no leverage, your customer is in a great position to negotiate the final price with you, change their mind, or decide the work wasn't really extra and should have been included in the original contract.

Put It In Writing!

Present a complete cost breakdown for every proposed change order your customer requests in advance of starting the work. Use a standardized format and cost template to make sure you include everything the additional work actually costs. Every time extra work is performed, the followings costs occur:

- Management to process the paperwork
- Supervision to supervise the work
- Accounting to pay for the work
- General condition costs as the job will take longer
 - o Trailer & toilets
 - o Power & power poles
 - o Utilities
 - o Truck
 - o Equipment
 - o Small tools, ladders, etc.
 - o Small items: nuts, bolts, hardware, etc.
 - o Temporary protection, barricades, etc.
- Liability insurance

- Overhead & Profit

Don't short-change your company by not asking for everything you deserve. I see most change order requests presented as labor, materials, and subcontractor costs plus a markup without extra costs for the many items listed above. If your company does \$3,000,000 in annual sales of which \$300,000 is performed as change orders or on a cost-plus basis, not charging for everything you spend can cost you as much as \$30,000 or more per year in lost revenue for things that you actually had to pay for.



Tool # 19 - Two Heads Are Better Than One!

Does it often seem like you can't get key employees to accept more responsibility? You try to get people to take on more accountability, but they keep asking you to help make every decision for them. And when you tell them to make a decision, they never seem to get it right! Now what?

Years ago, as a progressive leader of a successful growing construction company, I wanted my project managers and superintendents to accept more responsibility and make more decisions on their own without having to check with me first. As a result, I decided to delegate as much of the work to them as possible including writing subcontracts, ordering materials, signing contracts, and approving change order requests. Time went on and my review and detailed inspection of their work and decisions became less and less as I trusted them more and more.

Eventually worst scenarios happened which caused us major financial setbacks. In one case, a long-time customer pressured a project manager to agree to some contract clauses that seemed innocent. Little clauses like 'this contract includes all requirements of the City to obtain a final inspection.' Months later, when the project was nearing completion, the customer held us to this clause which added lots of additional items into our scope of work we never had intended to perform or had in our cost estimate. Upon my review, it was obvious the project manager had agreed to contract terms he didn't fully understand.

Don't Over Trust!

This caused me to take a hard look at how we do business. I discovered many other problems existed with our 'trusting' responsibility system we were using. Some project managers were not getting the complete scope of work included in subcontracts they were writing thus causing cost overruns via change orders on their projects. Some managers were not properly reviewing employee timecards and keeping track of all vacation time they were taking. Some managers were approving expense accounts without reviewing all reimbursable invoices in detail. The payroll department wasn't always charging costs accurately to the right jobs or cost codes in every case. And I found some people were stealing from the company using creative accounting tactics. Oh well, so much for trusting your long-term employees 100%.

It is my opinion people over time can feel entitled to a little extra, the longer they work for your company, if you give them the chance to take advantage of the situation. Little things like leaving early without docking their own pay, asking a supplier for a some material for their home remodel, filling their car with gas using the company credit card, and lots of other small things that can add up to big bucks.

Put A Protection System In Place!

In order to remedy the situation, we re-implemented our written company policies we weren't enforcing. We also made it clear there would be no exceptions for anyone regardless of their tenure, relationships, or position

in the company. These newly enforced rules required two people (for example: myself as President or a management team member and the project manager) to review and approve every decision involving:

- All contract terms and conditions
- All subcontract pricing, awards, terms and conditions
- All checks issued
- All change orders
- All expense account approvals
- All employee reimbursable items
- All overtime pay or requests
- All vacation or time-off requests
- All payroll preparation
- All sick time approvals
- All project payables
- All job purchases
- All bids & estimates
- All financial obligations, payments, or monetary transactions
- All expense account approvals
- All credit card statements

It Takes 2!

When someone has to review and approve important matters with the person in charge of making these decisions, your company will avoid mistakes, omissions, and indiscretions that can occur. Two heads are better than one. Reviewing decisions with another responsible manager requires a second set of eyes to ask how these decisions were made. When a subcontract is awarded, we now have the project manager review all the bids, inclusions and exclusions from all the bidders, and then decide which company is the best choice for the job. He then reviews his decision with the President, the estimator or another project manager who initials both the spreadsheet and draft subcontract. Then the contract award is made and contract is executed. By adding this one simple review simple step, you can be assured your projects will have less cost overruns and issues to deal with during the project.

To get people to make more decisions and take on more responsibility, give them a system that allows them to do most of the deciding themselves. And when you want to get a second opinion or have someone review their decisions, make sure you have a system in place that requires a review. A little investment in time will guarantee you'll make less mistakes and more money.



Tool # 20 - Motivate With Money!

I get asked about employee incentive and profit-sharing programs with every contractor I coach. Construction business owners seem to be looking for the magic bullet that will motivate their people to work harder and produce more. Some hope that providing a financial incentive will improve their bottom-line. Others hope more money will make people work harder or faster. And other business owners feel they should give away some of their profit to earn employee loyalty and respect. Whatever your decision regarding incentive compensation, the results will vary based on how your program is designed, implemented, and managed.

Which Type Of Bonus Or Incentive Works Best?

Incentive compensation, profit sharing, or bonuses can be broken down into two types:

- **Arbitrary** compensation bonuses are **GIFTS** based on what the boss feels is the right amount to pay for good work, reward for a positive attitude, or a thank-you for a job well done. It is often based on what the boss thinks is expected to keep employees happy.
- **Earned** incentive compensation is based on a specific formula that rewards for actual **RESULTS** based on tasks, accomplishments, production, profit earned or milestones you want to measure.

Arbitrary compensation does NOT encourage employees to do their jobs faster, better or with less cost. Often, it's expected as a part of the overall employee compensation package because other companies do it or employees feel entitled to something at year end. Arbitrary extra pay is no more than a **gift** of generosity from the employer as it is not earned or required. It's a nice gesture and will keep some employees from looking for jobs elsewhere until after they get their year-end bonus check. While gifts might build a small amount of employee loyalty, they won't have much effect on finishing jobs faster, ahead of budget, or improving your bottom-line profit.

Earned incentive compensation based on achieving specific targets and measurable results will produce positive bottom-line improvement from employees. If people know what's expected, see regular weekly results, get feedback as to their ongoing performance, and are compensated for hitting their targets, they will hit them on a more regular basis. For example, sales people who get paid on a sliding scale for increasing profit margins typically sell higher price contracts than those with the same commission percentage regardless of margins. Field tradesmen who are paid by the piece of work they install usually work faster than hourly workers who don't have clear goals or production targets to shoot for. Field crew foreman who know crew hour targets before they start work, are responsible for hitting total crew hours, receive weekly feedback, and are compensated for achieving or improving crew hours; typically spend less crew hours than those who are told to try and do their best without any knowledge or feedback as to their results. And project managers who get a percentage of the gross or net profit on jobs they manage, push their foreman and superintendents harder, and generally try harder to save more money and negotiate harder with subcontractors and suppliers.

Motivation Without Measurement Doesn't Work!

When employees don't know the exact results expected and don't have a reason to achieve them, why should they want to go the extra mile? When the boss sets clear milestones for managers and employees to hit, your company will make more money. For example, if you want an 8-month project finished in 7 months, a generous bonus for the crew or superintendent will keep the team focused on achieving the goal and motivate them to hit the early completion target. Without a financial incentive, the target is a nice idea but of no benefit to the crew to finish early or work harder.

Years ago, our workers compensation insurance rating was suffering due to field employee claims for careless jobsite injuries. We implemented a ‘Safety Bucks’ program to motivate the crews to work closely together and watch out for unsafe workers or conditions. Each worker received \$1 per day if the entire crew had no accidents. If anyone on the crew had an accident, no one received the safety bucks for the entire project. We paid this cash bonus out quarterly. This measurable incentive system instantly focused everyone on all of our field crews to make safety a priority and make sure there were no unsafe conditions existed on jobsites. This program really worked as it kept everyone focused on the target and the team worked together to avoid unsafe conditions. Plus, I always enjoyed giving out bags of bucks to my field crews for no accidents!

What Can You Measure To Improve Results?

Examples of measurable clear targets can include:

- Total man-hours to complete a job
- Hours without an accident
- Project milestones completed by a date certain
- Customer referrals
- Project punch-list or close-out completion
- Improving your bid-hit ratio
- Customer satisfaction
- Project profit
- Project completion and sign-off by customer
- Change order profit
- Estimating accuracy
- New customers signed-up
- Average job size increase

Bonuses and incentives without targets are like playing a football without end zones or scoreboards. By setting the exact results you want your employees to achieve and measuring results, you can design an incentive compensation program that will reap rewards. And making the most money you can is fun if you make it a measurable priority. Too often managers get so busy they don’t have time to do the little things like setting and tracking productivity to boost their bottom-line.



Implement These Tools & See You At The Bank!

Want Help Implementing Tools In Your Company?

Email: Blueprint@HardhatBizcoach to set a time with to talk with George Hedley.