# How to Survive and Prosper As A Contractor

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# About PROOF Management

- Established 1972
- PROOF speakers have made over 4000 presentations
- PROOF has spoken to or worked with over 250,000 construction people
- PROOF offers
  - Seminars
    - Sales & Marketing, Financial & Business
  - Consulting
  - Networking groups

# Economy & Economic Realities

- **Fall 2007 banking & housing bust**
- **2009-2010 new commercial construction slows**
- **US Economy Realities**
  - Hi**gh debt…government rarely responds until broken**
  - **Unemployment…however finding workers difficult**
  - Aging population with  rising health care costs
  - Aging population  & underfunded retirement
- **World Economy Realities**
  - European debt and economic challenges
  - Emerging economies growing..Asia, India
  - **World trade account balances by CIA..China #1, US #196, Canada #191**

# Introduction

- Entrepreneur disease….we can do anything
- Core competencies drive business success
- Maintenance & install have very different competency factors
  - Only common denominators are customers & green industry materials..trees, lawn, plants…

# Business Skills for Contracting Success

PRODUCTION:

Doing the work

SALES & MARKETING:

Getting the work

FINANCIAL:

Making money at it

# Entrepreneurial Choices

- Business is cyclical-comes with owning a business
- NFIB business life statistics
  - 39% profitable, 30% breakeven, 30% lose money, 1 % undetermined
- Our customers are ok
  - No impact on maintenance
  - 2011 install sales back on track

**Business is not gone-just different**

# Small Business Realities

- You can control your own destiny
- Most new jobs are created by small business
- You must look internally, not externally
  - Understand what you can and cannot control
- Get your financial house in order
  - If necessary, downsize to a profitable level
- Make money to grow
  - Eliminate unprofitable work
  - Growth is not profit friendly

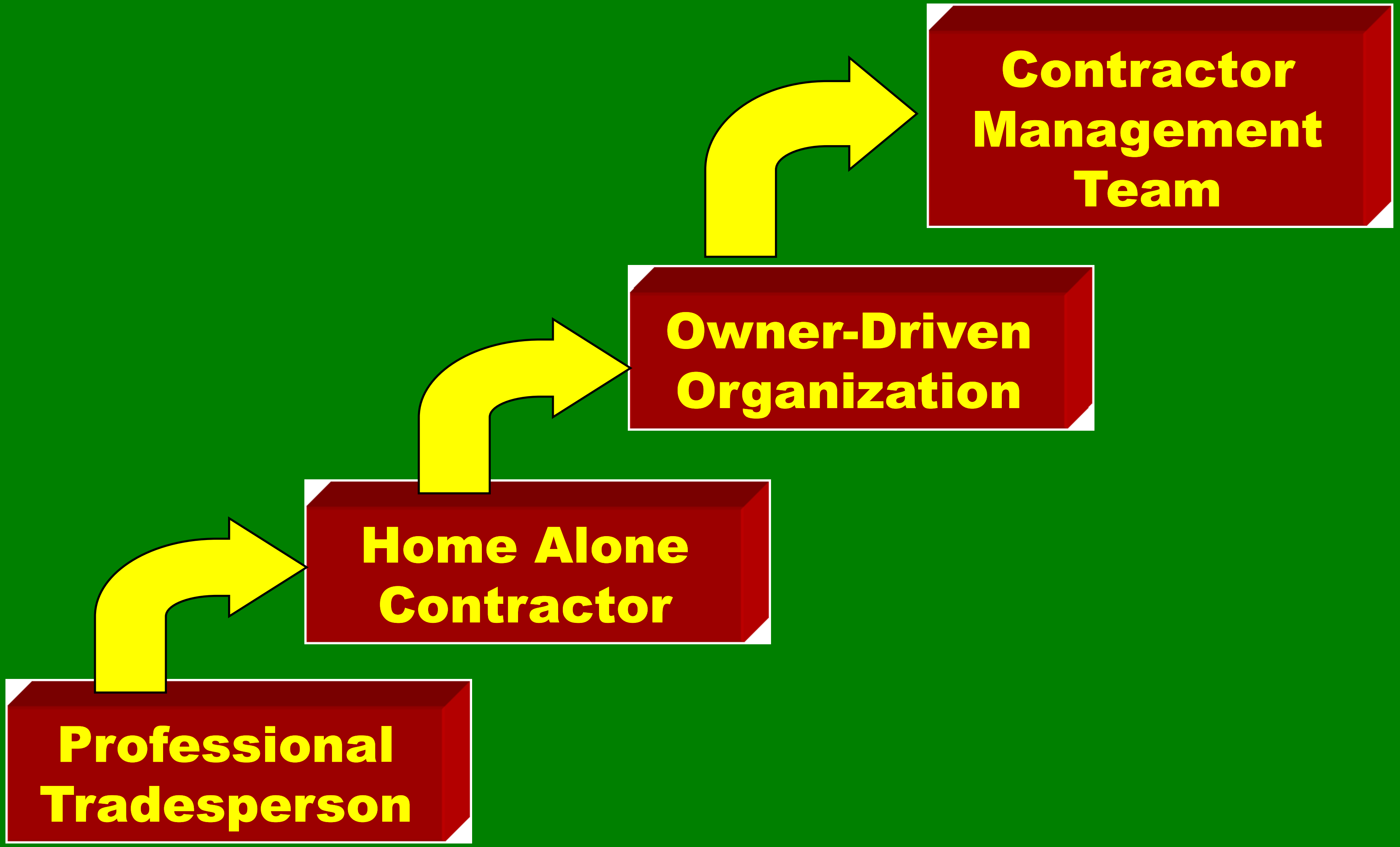
# Avoid the Magic Bullet Disease

- Keep it simple & practice the basics
- Understand your strengths and weaknesses
- Successful people get done what is important
- Focus on your core business; diversification takes time

# Business Cycles

Wonder
Blunder
Thunder
Plunder

# Business Structure and Efficiency



# Starts with Financial-Force Monthly Financial Meeting

- Force meeting each and every month
  - Bookkeepers see balance checkbook as complete
- Review profit & loss statement and balance sheet monthly & YTD compared to previous year
- Closing and bidding ratios
- Backlog
- Production rates on jobs

# Sample Statement & Cost Categories

**Direct Costs**

- **Material**
- **Field Labor**
- **Subcontracting**
- **Special Job Costs**

**Overhead**

- **Fixed**
- **Variable**

# Financial and Overhead Realities

- Don’t let cost cutting pains stop you
- Avoid nibbling
- Backward delegate
- If necessary, force cuts downward through labor & management
- Have realistic financial expectations
- Owner salary is largest cost

# Maintaining Margins & Bidding Suicide

**Sample Company = $2,000,000 sales, $600,000 overhead to breakeven or 30%, average job size $10,000**

**10,000 Job Sale**

**<u>7,000</u> Cost of Goods**

**3,000 Gross Profit**

**200 jobs x 3000 = 600,000 GP**

# 10% Price Cut Impact

9,000 New Job Price with 10% Price Cut

7,000 Cost of Goods

2,000 New Gross Profit

300 jobs x $2000 = 600,000 GP

Will you sell 50% more jobs in a recession?

# Overhead and Hours

As sales drop, cutting overhead is a must. This chart helps explain the impact of a company with $240,000 in overhead & 20,000 field hours or about 10 people.

| # of Employees | Total Billable Hours | Fixed Overhead | Fixed Overhead Cost per Hour |
|---|---|---|---|
| 10 | 20,000 | $240,000 | $12.00 |
| 9 | 18,000 | $240,000 | $13.33 |
| 8 | 16,000 | $240,000 | $15.00 |
| 7 | 14,000 | $240,000 | $17.14 |
| 6 | 12,000 | $240,000 | $20.00 |
| 5 | 10,000 | $240,000 | $24.00 |
| 4 | 8,000 | $240,000 | $30.00 |

# Cash Flow

- Cash flow may actually improve as sales and receivables decrease.
  - Too much cash can postpone actions that should be undertaken-don’t wait for the pain
- Understand 100% tax depreciation impacts
- Understand prepayments, dividends, & allowances

# Sales & Market Cost Control

- Control & monitor advertising
  - Track & calculate cost by lead source
  - Use trucks, job sign & point of sale to grow brand
  - Invest marketing dollars towards lead generation
- Sell, don't estimate
- Leverage relationships
- Market to existing customers

# Understand Lead Costs

- Track closing ratio by type of lead
- Know your cost per lead
- Treat estimators and salespeople as a profit center
- Residential - be the neighborhood contractor
- Commercial - leverage service and on-going relationships

# Calculating Sales Cost

| Sales Goal | # of Job @$ 3750 | Closing Ratio % | # of Leads Needed | 50 Weeks Per Year | Estimates Required Per Week | Estimating Hours Per Week at 2 Hours per Estimate | Lost Sales per Year |
|---|---|---|---|---|---|---|---|
| 750,000 | 200 | 10% | 2000 | 50 | 40 | 80 | 6,750,000 |
| 750,000 | 200 | 20% | 1000 | 50 | 20 | 40 | 3,000,000 |
| 750,000 | 200 | 30% | 667 | 50 | 13.3 | 26.6 | 1,750,000 |
| 750,000 | 200 | 40% | 500 | 50 | 10 | 20 | 1,125,000 |
| 750,000 | 200 | 50% | 400 | 50 | 8 | 16 | 750,000 |
| 750,000 | 200 | 60% | 333 | 50 | 6.7 | 13.4 | 500,000 |
| 750,000 | 200 | 70% | 286 | 50 | 5.7 | 11.4 | 321,428 |
| 750,000 | 200 | 80% | 250 | 50 | 5 | 10 | 187,500 |
| 750,000 | 200 | 90% | 222 | 50 | 4.4 | 8.8 | 83,333 |
| 750,000 | 200 | 100% | 200 | 50 | 4 | 8 | 0 |

# Key Drivers of Maintenance

- Customer retention
- Routing density
- Small & manageable crews
- Ability to manage small jobs
- Efficient administrative functions
- Equipment maintenance
- Cost effective lead development
- Ability to sell full line services
- Maintaining owner value

# Key Focuses

- Treat each day as a job
- Don’t be afraid to raise prices
- Advertise to grow density, not just sales
- Own neighborhoods
- Delegate admin & dispatching to office
- If you sell monthly, know your costs
  - False premise is monthly helps winter cash flow
- Determine total revenue by customer
- Re-sell yearly maintenance, particularly commercial
- Beware of dependency of large accounts

# Install Drivers

- Control design & sales costs
- Avoid the “designer disease”
- Managing options & types of work
- Develop strong communication & sales skills
- Price hourly not per unit
- Estimate accurately & strategize job costing
- Develop strong foremen & avoid “babysitting”

# Leadership is Not Optional

- Upper management and ownership’s job is to provide leadership
- Don’t “catastrophize”
- Don’t be in denial
- Make a plan, communicate it
- Leadership is “influencing others to accomplish organizational goals”

# Productivity

The Rules of Productivity

- Plan.
- Measure and set “benchmarks”.
- Evaluate craft vs. non-craft time.

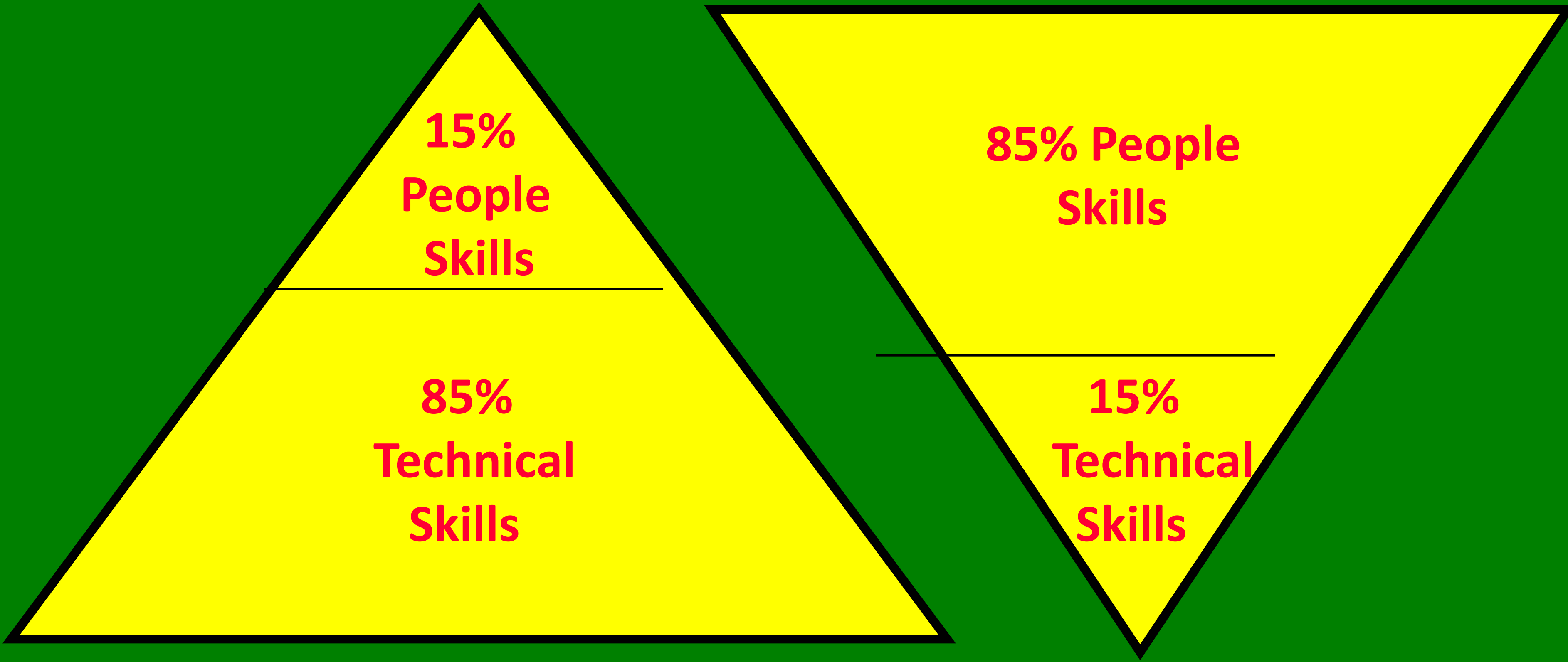
# A Productivity Example, Let's do the math

- A real life productivity example for the drywall industry:
- 35 boards a day x 5 minutes each
- 175 minutes (180)
- 3 hours of craft time
- 5 hours of non-craft time
- 10% more productivity is
  - 3.5 boards or 17.5 minutes

*Productivity is an issue of working longer, not faster or harder.*

# Understanding Management Transition

Technical Vs. People



# Philosophies on Recruitment

- Recruit work ethic & teach skill.
- Use third-party qualifiers.
- Ask for employee referrals.
- Develop mentors.
- Training

# Effective On-The-Job Coaching (cont.)

- Coach, Don’t Criticize
- Pre-Job vs. Post-Job Training
- Coaching Guidelines
  - Tell them what to do.
  - Show them what to do.
  - Let them try it.
  - Observe the results.
  - Praise or Redirect

# Common Mistakes of Problem Solving

Problems-Causes Symptoms-Results

| PAST | FUTURE |
|---|---|
| Problems | Solutions |
| Personnel Conflict | Improvement |
| Negative | Positive |
| ~~WHY?~~ | HOW/ WHAT? |

# Basics of Motivating People

Factors that influence

- Environment
- Individual differences
- Self interest
- Behavior vs. personality

Traditional methods

- Money
- Fear
- Recognition

# Dealing with Personalities

Our goal is to manage behavior, not try to change people.

- The Mavericks
- The Mules
- The Plodders
- The Racehorses

# Thanks

- Thanks for your attendance.
- If you would like to talk to the speaker, he would be more than happy to meet with you.

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