

# **How to Survive and Prosper As A Contractor**

**Monroe Porter**

**PROOF Management Consultants**

**[www.proofman.com](http://www.proofman.com)**

# 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**
  - High 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

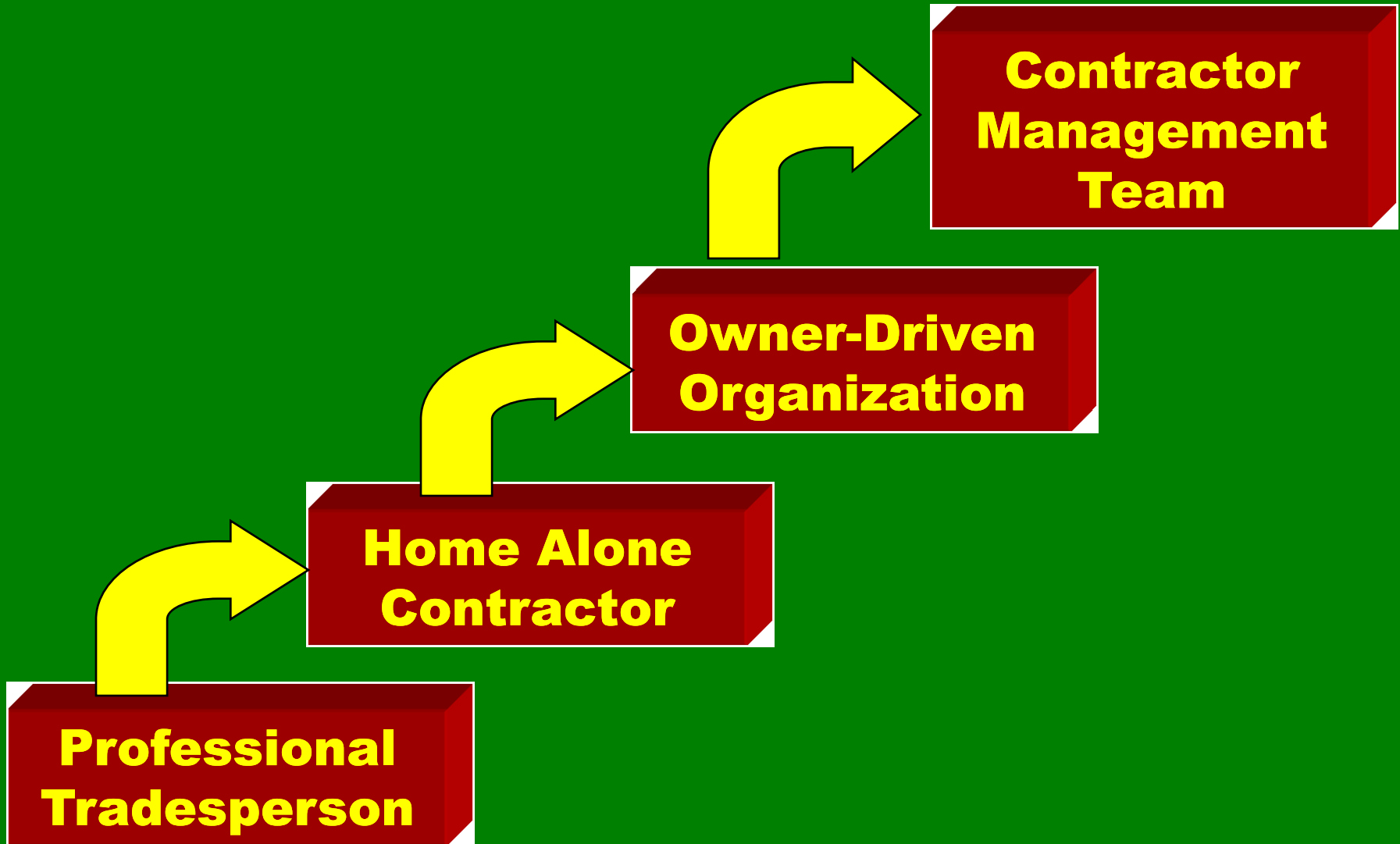
Wonder

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

7,000 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

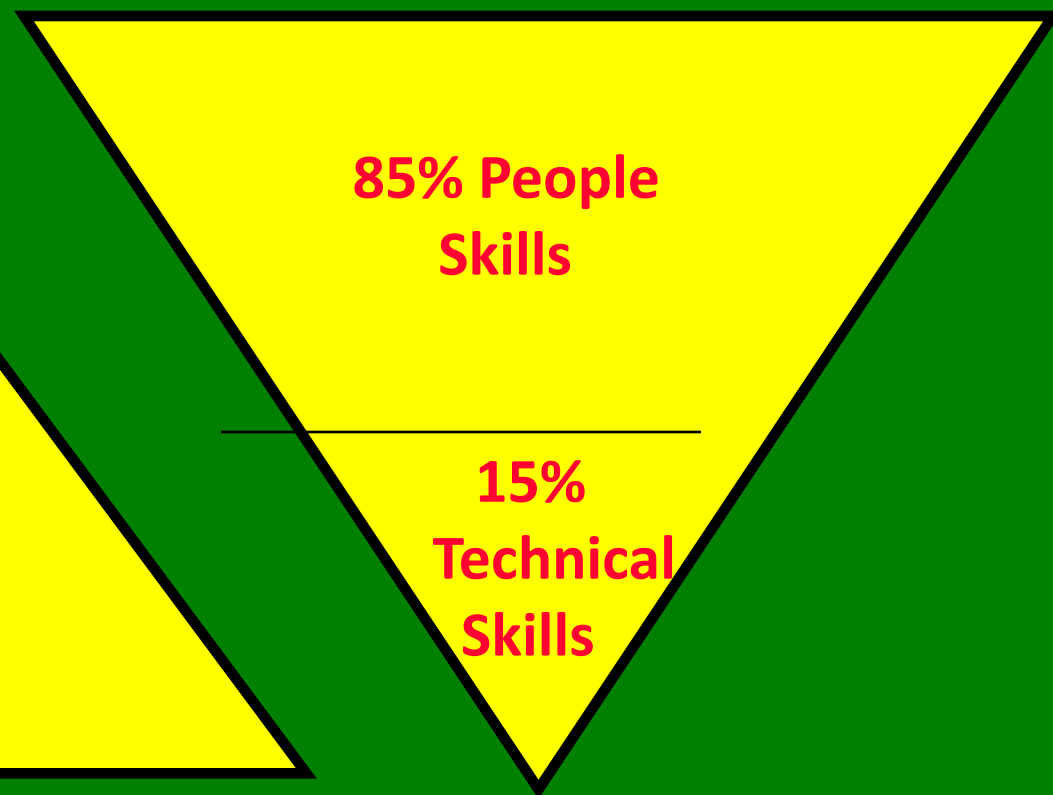
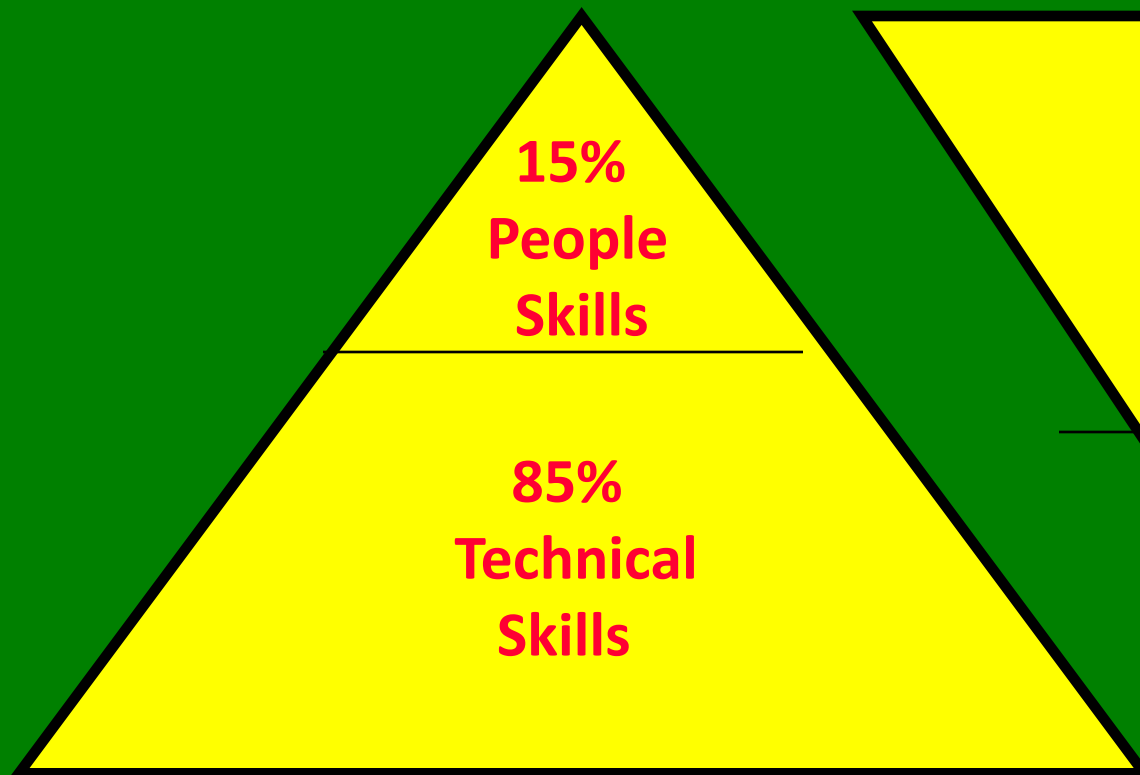
*Productivity is an issue of working longer, not faster or harder.*

# 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



*Just Do It*

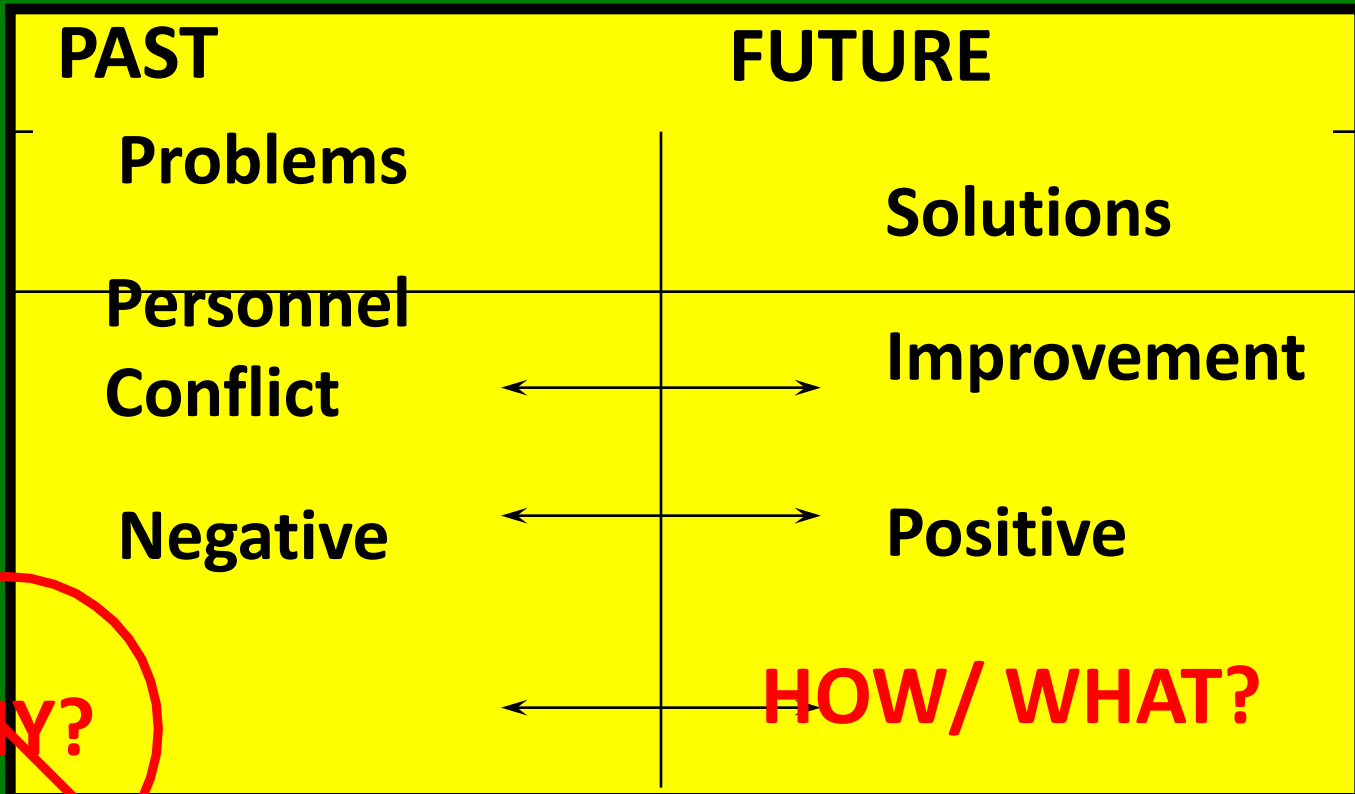
# Effective On-The-Job Coaching (cont.)

- 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



~~WHY?~~

# 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.

PROOF Management

PROSULT Networking Groups

800-864-0284

[www.proofman.com](http://www.proofman.com)