

# THE More Profitable Contractor™

PROFIT-BUILDING INFORMATION FOR CONTRACTORS

## Production: Seven Ways to Ensure Success

By Gary Lewis and Lloyd Franke

Production for a contractor means getting the job done on time and within budget. Production is where the “rubber meets the road” as they say.

Almost anyone can put in a bid, buy a job, and send workers to a site. But to satisfy the customer and make a profit takes skill. On-time and on-budget sounds simple to the outsider, but many potential obstacles can make this difficult to achieve, such as:

- Field personnel accountability and communication tools
- Unforeseen issues beyond the original contract scope (change orders)
- Weather, traffic, procurement, or site related problems
- Availability of skilled labor
- Coordination and management of multiple trades on site
- Coordination and management of multiple jobs working at the same time
- Cash flow (getting paid in a timely manner to keep the job going)

Are successful companies simply lucky? Do good jobs find them? Is it the people they have working for them? What *are* the secrets to success?

The answer is “all of the above, and more”. Much of the secret lies in the big picture before job production starts. Many problems with production stem from weaknesses in other areas of the company. To be successful, management must look at the overall business as a system.

- The system is driven by top management’s vision and values and a solid plan for achieving that vision.
- Results are achieved by people doing their jobs in a systematic, efficient manner (following a process, not just doing what they think should be done).
- Results are measured with factual data; gathered, analyzed, and used to improve future performance.

Following are seven key steps to improve production performance and ensure success:

### **1. Know your Mission...and stick to it:** *(What you do, for whom, where...)*

Many small contractors take any job they can get just to keep their workers busy and make some quick money. This short term thinking usually isn’t profitable over the long term—and it may not even be profitable in the short-term! If a job doesn’t fit your “sweet spot”, workers won’t be experienced or efficient doing it. Know when to turn jobs down; trying to be all things to all people only results in doing a mediocre or poor job.

### **2. Communicate your vision and how each person can help achieve it:** *(Get all employees going in the same direction—toward your corporate vision and goals)*

If everyone understands what the company does and how each employee’s role fits into the overall plan, it’s amazing how synergy appears and people become engaged rather than “just doing the job.” The old story of the masons laying bricks comes to mind: when two were asked what they did for a living, the first replied: “I just lay bricks. It’s pretty boring.” The second had

## Q & A with Heidi Brandt

*Editor's Note: Heidi Brandt is President and CEO of HMB Contractors, Inc., a 40-person Milwaukee-based demolition, excavation, and environmental earthworks company.*

Several years ago you began looking for different construction management software, didn't you?

Yes. We were using Peachtree, but I was looking for more when it came to controlling my business. I wanted budget reports on a project, for example. And I wanted detailed job cost information. I wanted to "see" our business better, in other words.

And you chose Intuit Master Builder?

We installed Master Builder in March 2002.

Has Master Builder let you do those things you wanted to do?

Definitely, and more! I can look at a project now and know exactly where we are in comparison to the budget. I can average our equipment costs over three years, which makes our estimates more accurate. And I can see detailed job cost information, which again we build into our budgets, making them better.

Have you received other benefits from Master Builder?

I know our bidding is much more accurate. And it's going to get even better.

Why's that?

We're installing Quest, which is estimating software that integrates with Master Builder. We can go from takeoff to bid to budget to billings all electronically, without having to re-enter data.

So Master Builder has been a good investment?

I'd say it's a great investment. Not only are we more profitable now as a company, I can breathe a bit more.

What do you mean 'breathe a bit more'?

The reports are awesome, and we can tweak them to give us the exact information that we want. This allows me to delegate more tasks, and has freed my time considerably. I now feel that I can work more on my business rather than having to work so much in the business.

## Production Profit Builders— What Documents Should You Use?

By Leslie C. Shiner, MBA

Because communication is crucial to a successful construction company, most contractors rely heavily on good documentation. The question then becomes which documents to use? Listed here are key production- and job-related documents contractors should use to stay organized—and become more profitable.

### Change Orders

All notices of project changes, including scope of work, costs, and schedule changes. Change orders should be tracked from their inception in the field to final completion as an approved, completed change order.

### Correspondence

Proposals and contracts, of course, but also all letters, memos, and faxes between contractor and client, owner, bank, subcontractor, engineer, architect, planning commission, and any other key player in a project.

### Project Hot List

A Hot List shows time-sensitive and other deadline-driven items and documents that must be completed or acted upon.

### Punch List

A "to do" list complete with deadline dates for all elements needed to close a job. Creating a process to close out a job, including completing all punch list items, will help you receive the final job payment in a timely fashion.

### Requests for Information (RFI)/ Requests for Proposal (RFP)

Keep all RFI's sent to architects, engineers, vendors, etc., along with necessary attachments. Track both requests and answers, and keep them together throughout the job. Keep all RFP's sent to subcontractors, vendors, and others as part of a job.

### Subcontracts

Be sure to include specific scope of work, timing, required performance standards, and compensation agreements. Create rules in the office to make sure that you have a signed contract in place, with all documents (including a valid W9, and expiration dates of workers' compensation and liability insurance) before any payments are made to your subcontractors.

### Transmittals

This is the cover sheet listing all documents being sent (mailed, faxed, or sent via email) and the individual to whom the documents were sent. Usually, it requires a signature from the receiving party verifying that the documents were delivered.

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a different outlook: “I’m building a cathedral!” Which attitude do you think might be better for your workforce—and company?

### **3. Take care of your people:** (*Human Resources*)

If people are complaining about pay, benefits, working conditions, and so on, they will not be focused on doing a good job. If, however, they feel they are being treated fairly, most will take responsibility to do a good job so they can continue to work for a company they admire.

### **4. Continuously improve your key processes:** (*Production is a process*)

What are the key processes in your business? For most they are:

Estimating: Do a thorough job in this step and surprises will be limited

Contracts: Include your own addendum with terms to protect your rights

Purchasing: Do you have the right materials and equipment at the right time and place?

Work procedures on the job: Are they effective? efficient? safe?

Field communications: Reporting time and progress; Change orders; Problems;

Accounting: Job cost tracking

How effective and efficient are these processes? Where can you make improvements?

### **5. Measure results:** (*Establish measures to monitor performance*)

Many contractors live payroll to payroll and measure success if they can get a few weeks ahead. But there’s much more to review:

- Are you meeting or exceeding customer expectations? How do you know? Review jobs to determine what went right, and wrong, and then make improvements.
- Do you understand cash flow and watch it closely? (This is a major reason contractors fail!)
- What employee performance and effectiveness indicator are monitored? On-going training is important.
- How is the company doing in meeting strategic goals, ethical standards, and community citizenship?

### **6. Give incentives when possible:** (*Reward good performance*)

Sharing rewards with the team for a job well done helps to answer the question “What’s in it for me?” With proper performance measures in place (see point 5), management can realistically assess how well the company did on each job. Rewards and celebration are justified when the team brings it in on-time and on—or under—budget.

### **7. Work ON the business, not just IN it:** (*Be the owner, not an employee*)

Make excellence a goal. Let everyone know how important it is. Train others to do much of the day-to-day production to free up time to focus on important/non-urgent tasks (e.g., planning, seeing customers, preventing problems, etc.). If you are always putting out fires, you don’t have time to prevent them.

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## **Reducing Workers’ Comp: Part 1**

By Michael Rosetti

Workers’ Compensation insurance has become a nightmare for many contractors because of the sharp rate increase. This is particularly true in California, where rates have doubled, tripled, or gone even higher. (Some contractors are actually leaving California solely because of too-high workers’ comp payments.)

I believe there are four main reasons for these sharp increases:

- \* Skyrocketing medical costs
- \* Higher legal fees
- \* Increased fraud within the system
- \* California’s 1995 deregulation of Workers’ Comp

If you can maintain a good safety record, you can save significant dollars through a Workers’ Comp experience modifier. I’ve seen companies that have had an excellent safety history and have achieved an experience modification of 60. This means that they only pay 60% of their policy amount.

Particularly in California, there aren’t many insurance companies left who cover workers’ comp; trying to find a low rate is difficult, if not impossible. But there are things you can do regardless of the state in which you do business to lower your workers’ comp payments and claims:

*Hold job safety classes.*

Fewer accidents mean fewer claims. For job safety information, consult your local construction-related trade group or visit the Web sites for the Occupational Safety & Health Administration ([www.osha.gov/doc/topics.html](http://www.osha.gov/doc/topics.html)) and the Construction Safety Council ([www.buildsafe.org](http://www.buildsafe.org)).

*Reduce dangerous items on the job site.*

Don’t go overboard with this, of course (you still want to meet all project schedules). But review your job sites. Anticipate if possible potential problems or other accidents-waiting-to-happen.

*Utilize an Urgent Care Center to pay for small incidents yourself.*

Many carriers will allow you to pay for small incidents and not have them go against your workers’ compensation policy. For example, a simple tetanus shot or eye flush may not have to be reported. Check with your insurance company to determine the latitude you have with this.

*Confirm that the amount of payroll on the final policy audit is correct.*

Most insurance companies base workers’ comp on a contractor’s payroll amount. If you reported a higher payroll figure than what your payroll actually is, you’re probably paying too much workers’ comp. Review for accuracy any audit from your carrier; they can make mistakes, and when they are unsure of a particular number or categorization, they will select the highest rate.

*Adapted from Michael Rosetti’s book Contractor’s Guide to Saving Insurance Dollars published by Profit Press, Inc. Visit [www.ProfitPress.com](http://www.ProfitPress.com)*

## **CASH FLOW TIP: Consider Daily Timecards**

It's basic human nature for employees to underestimate time missed and overstate time spent on the job. This is especially true for construction employees. Also, when weekly timecards are required, employees almost always do these just before they're due, and thus rely on their memory for the previous week's work. By processing payroll daily instead of weekly, you could easily save an average of one hour per week for every field employee. This savings for all field employees over the course of one year can be very significant!

Using daily rather than weekly timecards also will allow you to spot production delays or bottlenecks and reduce employee inconsistencies or fraud sooner.

*This savings for all field employees over the course of one year can be very significant!*

## Next Issue Preview

The next issue of *The More Profitable Contractor* will be published in August 2005. It will focus on Key Business Relationships—with customers, subs/generals, vendors, and community groups. Watch for it!

## Need Assistance?

We can help! Contact us today by phone or via email with your question or business challenge. There's no obligation on your part—only the opportunity to grow your business!