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Thank you for requesting this informational report. We hope you will find it to be both interesting and useful.

Top 12 Business Mistakes

Over the years the statement I have heard most frequently from both contractors and sub-contractors is, "I'm not making any money!" There are numerous possible reasons why they are not as profitable as they hope to be, and their frustration deepens because they are unable to pinpoint the profit-draining culprits. Issues may lie in sales and marketing, customer service, operations, finance, management or the workforce. From past experience, I have found the solution to this problem isn't a simple one. But, if addressed in a systematic manner, the problem can be resolved and cash flow and profit will once again thrive.

In this report I will share with you what I think are the top twelve issues that prevent trades people from earning the money they deserve.

1. Sporadic Marketing Effort

Many trades people experience peaks and valleys in sales, due largely to inconsistent marketing efforts. Most rely on referrals from past clients to obtain new jobs, achieving unpredictable results. One way to overcome this situation is to implement a balanced marketing approach.

To promote regular referrals from your existing customers, you need to touch base with them on a regular basis, such as monthly or, at the very least, quarterly. To encourage continuous referrals from referral sources such as your subs, local realtors, engineers and interior designers, be sure to touch them repeatedly as well. To attract new customers directly, job site signs and targeted direct mail are very effective. Lastly, don't forget to also network with relevant business or trade associations, and to use public relations and your Web site to gain business.

2. Inconsistent Sales Process

Many contractors don't have a consistent sales process that starts with the initial contact from the prospect and follows through to the signed contract. To be successful in sales, one needs a repeatable and measurable process — a course of action that involves managing your prospect's information (building a database), conducting a customary sales conversation (discussing customer needs, budget, project time-frame, and the benefits/value of doing business with your firm), and performing regular follow-up. If you don't have a good system in

place for managing prospects, I would suggest beginning to create one. Basic customer management software can be purchased on the Internet or at your local office supply store, and you can find many very good sales books and sales coaches online as well.

3. Poor Customer Service

All the time and effort you put into sales and marketing will be wasted if you don't provide great customer service. Please remember that, on average, sixty to seventy percent of your business should come from referrals. If your customers (as well as your referral sources) aren't thrilled with your workmanship and customer service, they will not refer you. Period. Thus, you will have a very difficult time growing — and possibly even maintaining — your business. To prevent that from happening, you want to hire good people, use reputable subs and quality materials, and resolve all customer issues in a timely fashion. Remember, you are only as good as your last job.

4. Incorrect Estimating

Too many times, I have seen contractors and subs lose money due to bad estimating. If you estimate a job too low, you will lose money, and if you estimate too high, you will not get the job (opportunity lost). Thus, it is crucial that your job estimates are correct. Estimates can be done either manually (according to time and materials or square-foot pricing) or via estimating software. I feel it is usually better to use some sort of estimating software when bidding jobs. There is a bit of a learning curve, but once you have mastered the software, you can create estimates very quickly (saving time), easily track where you went wrong in your estimate (was it labor hours, materials or subs' costs?), and, with no trouble, make the necessary changes so your next bid will be much more accurate.

If your gross profit on a recent job was less than projected and you cannot easily put your finger on why, then I suggest you begin searching for a simple, yet effective estimating software program. You can begin by asking other contractors what they use and/or searching the Web. The sooner you begin this process, the closer you will be to consistent gross profitability.

5. Low Gross Margin

Another drain on net profit is a low gross margin — attributed to high cost of goods sold (COGS). The better remodelers have a ratio of 70/25/5, which means 70% of sales is related to COGS (labor, materials and subs), 25% is attributed to overhead and the remaining 5% to net profit. (If you're a sub, you may see a very similar split).

So, how do you achieve a 70% COGS? Well, first you need to be sure you are marking-up your labor, material and subs appropriately. Generally, I recommend that you have labor marked-up 100% (a 50% margin), subs marked-up 50% (a 33% margin) and materials marked-up 25% (a 20% margin). If you can achieve these margins, your gross profit should fall in line.

If currently your COGS is higher than 70%, I would first look at your mark-ups to assure they are aligned with mine. I would also look at your estimating to see if you are under-bidding your jobs — this is why good job costing is so important.

And lastly, I would look at your operations to see if there are areas needing improvement. You may need to work with your crews to make them more efficient, ask your subs to tighten-up their bids, and keep an eye out for any excessive materials spending. If you address these three things, I am confident you can achieve — and even possibly exceed — a 30% gross profit.

6. Inadequate Job Costing

Proper job costing is one of the most important keys to assuring solid gross profit. Without good job costing capabilities, it is very difficult to track if you are estimating and managing your COGS properly. This is why I am discussing topics four, five and six together. As a business owner, you need to be able to tie all costs – labor, materials and subs – to a job. Good job costing will allow you to find out if you are estimating correctly and not under-bidding, to determine which projects are the most and the least profitable, and to reveal which employees are the most and the least productive. All-in-all, not only is good job costing important to a healthy gross margin, but it is also critical to the organization's growth and direction.

If you do not have good job costing capabilities, I would suggest correcting this sooner than later. If you do not own software that can do this easily, I recommend purchasing one that can. There are a number of good products on the market that are tailored to the remodeling and trades industries. Secondly, if your current bookkeeper isn't strong at job costing, I suggest getting him/her better trained or even possibly bringing in a bookkeeper who is.

7. Poor Workmanship

Bad workmanship can harm a contractor's reputation. If not addressed promptly, it can make it very, very hard to grow or even maintain a contracting business. Poor quality work can hurt your business in two ways. First, it increases your cost of labor on the job, thus lowering your gross margin. Second, and more importantly, it diminishes your chances of getting referrals from your customer as well as using them as a reference, consequently hampering your sales and marketing efforts.

If you are facing work quality issues, I suggest getting to the root of them. These problems could be related to limited employee skills (where training may be helpful), lack of good management and direction, or improper tools and materials. Once you have determined the cause(s) of your quality issues, do your best to address them right away to prevent them from doing further damage.

8. Low Productivity

Happy employees are motivated employees and essential to your business' success. When employees are happy with their circumstances, they are more productive, thus improving your gross margin. They attract other good people to your company, thereby lowering your hiring costs. And, they create a strong advantage that your competition will be unable to imitate. If you want your organization to excel, you must create an environment that allows your people to be their best.

If you are experiencing poor morale, there are several things you can do to improve the situation, such as good strategic planning, sharing your company vision, strong company communications, promoting a positive attitude, praising employees' performance, goal-setting, empowerment, quarterly employee assessments, clear job descriptions, yearly employee reviews, ongoing training, team-building, and instituting an employee bonus program.

9. Inefficient Operations

Like poor quality workmanship and low productivity, ineffective operations can damage a contracting business, lowering gross margin and increasing overhead. If you want to maintain and grow your company, your operations (people, processes, equipment and subs) need to be efficient as well as have the ability to handle additional capacity.

If you are encountering quality and/or productivity issues, take a close look at your operations because these three areas are interrelated. I suggest reviewing your project management system for holes and bottlenecks. Look into installing a project management software program if you are not already using one. With the software selection on the market today, you can easily find a package that fits your organization's needs. You might also want to ask a fellow contractor what he or she is using.

Secondly, take a close look at your company's tools and equipment to ensure you have enough in-house to meet your current and future production needs. If you don't, you may need to upgrade your existing equipment and/or purchase additional pieces.

10. High Cost of Goods Sold

Cost-of-goods-sold (COGS) are costs that are directly related to the completion of a job and include your labor, materials and sub-contractors. Generally speaking, your COGS should be no more than 70% of the selling price of a project. If your COGS is higher, you may be under-pricing your work (margins are too low), under-estimating your in-house labor hours and material and sub-contractor costs, or your people may be working very inefficiently.

If your COGS is high, I suggest tracking the costs related to labor hours, materials and subcontractors to determine which of these areas are the cause and then correct them as soon as possible. To monitor employee job labor hours, I advise implementing a daily time sheet system; to track job-related materials, I advise collecting all job-related materials receipts; and to trace subcontractor costs, I recommend requiring an invoice before payment.

11. Overhead Creep

Once you have addressed the COGS, you should look at your overhead burden. Overhead is common in business but tends to creep up from year-to-year if not monitored regularly. Typically, your overhead should be no more than 20% to 25% of your sales. If it is higher than this, I recommend looking at ways to reduce it.

Once you have trimmed the fat, I suggest that you create a budget for the upcoming year. By regularly monitoring expenses against your budget, you will prevent over-spending.

12. Declining Cash Flow

In business, cash flow is king. Yes, sales and profitability are very important, but no matter how much you sell, if you aren't collecting at a faster rate than you are spending, you will surely put yourself out of business. I have seen many good quality contractors close shop due to this issue. So, how do you prevent this?

Here are a few suggestions:

First, take a look at your client contract. Your payment schedule should be spaced out evenly with more money collected at the front-end of the contract than the back-end. If this isn't the case, then you will need to modify it.

Two, you should be collecting money at the start of and not the completion of a segment of a project. If you are not, I suggest changing this in your agreement as well. Also, you should bill as well as collect promptly, and collect in person whenever possible.

Three, when it comes to paying bills, pay them in thirty days, unless an early payment discount is offered. Also, if your payroll is disbursed weekly, consider paying it bi-weekly. This will save both time and money.

13. (Bonus) Inflated Owner's Salary

I have included this additional profit drainer to my top twelve list because I see it so many times. Owners often blame the company for not having enough money to support themselves when in fact the business actually is providing for them very well. The issue really is that the owner is taking too much out of the company.

The rule of thumb is that the owner should take no more than 10% of sales as a salary, or five to ten thousand dollars more than their highest paid field employee. The maximum salary should be \$125,000 to \$150,000 — the average trades CEO salary.

If your company is struggling with profitability and, as the owner, you are taking more than suggested, you may want to look at ways to cut back on your living expenses.

If you are serious about implementing a business process that will help you achieve outstanding results, we suggest that you contact us to discuss how we can help you quickly and easily realize the success you deserve – we offer a free one-hour telephone consultation. Please call (508) 480-0010 or email klister@ParadigmStrategies.com to discuss our services in more detail.

I hope this report has given you some “food for thought”. I appreciate your interest in our work and wish you much success in your future business endeavors.

Best Regards,

Kevin Lister

About The Author



Kevin Lister, founder and president of Paradigm Strategies, the business advising firm to the trades, is a leader in the field of business performance improvement. He possesses nearly 20 years experience in business management and consulting, effectively operating his own ventures and assisting others with realizing business success.

With an entrepreneurial spirit and a business owner's point of view, Kevin brings hands-on expertise to helping building contractors, sub-contractors, and suppliers. Kevin has deep knowledge and understanding of the trades, based on fifteen years in the construction industry, a family history of owning trades businesses, and a genuine interest and enjoyment in helping blue collar enterprises.

Kevin possesses a Masters of Business Administration (MBA) from Olin Graduate School of Business at Babson College and a Bachelor of Science in marketing from Bentley College. He teaches management and marketing for the University of Phoenix Online.

Kevin is a member of several professional and business organizations, including the Institute of Management Consultants (IMC), the Associated Subcontractors of Massachusetts (ASM), the Builders' Association of Greater Boston (BAGB) and the Boston Chapter of the National Association of the Remodeling Industry (NARI).

Kevin has been awarded the Certified Remodeler Associate (CRA) designation from NARI. He has also been named to the board of directors of the Eastern Massachusetts Chapter of NARI.

About Paradigm Strategies

Paradigm Strategies is one of the country's leading business consulting firms to the construction, automotive and motorcycle industries. Our clients include contractors, sub-contractors, auto repair shops, small auto dealerships, motorcycle repair shops, and motorcycle dealerships, as well as suppliers to these trades.

We are dedicated to helping small to mid-sized companies become more successful by improving sales, cash flow, profitability, productivity and competitiveness. With an understanding that each business is unique, we take an individualized approach when counseling our clients.

To every client relationship, we bring new ways of thinking, new ideas and a straight forward approach that ensure and consistently deliver positive changes and significant results. Based on your needs, business goals and an internal assessment of the issues that are inhibiting growth and success, we develop a customized, strategic program plan that provides you with focus and momentum, and enables you to create the future you envision for your company.