

Lake County Contractors Association Professional Practice Report

APRIL, 2002

Seven Deadly Mistakes That Will Kill Your Construction Business

By Henry Goudreau, C.S.L.

As a successful contractor, consultant and teacher to the construction industry, I am constantly asked "What is the biggest problem for the owner of a construction business?"

Usually, the questioner wants a simple answer, such as under-capitalization, competition, marketplace, or hiring the wrong people.

The real answer lies in the owner and the decision-making process. While all businesses have their own challenges to overcome, all successful businesspeople have learned how to "manage" (not "run") their businesses. They begin the same way we begin any construction job, by laying solid groundwork.

This means concentrating on and establishing key financial and time management guidelines. Then, as their business grows, they are prepared to focus on the big picture.

You may like to think that your sheer guts, energy, drive; ambition and construction know-how will bring success, and they probably will - for a while. But the time does come when all that guts, energy, drive, ambition and construction know-how will have to be organized, given direction, planned, strategized, and held to objectives and goals.

Recognizing and addressing "The Seven Deadly Mistakes" before you get into trouble is part of that process.

Mistake 1: Not Understanding Your True Costs

Many contractors spend so much time getting work, putting out fires and handling administrative tasks that they neglect coming to terms with their true costs. Even worse, many admit they don't even know how to

calculate them. Instead, they'll use someone else's labor rate, unit price or markup.

Cost analysis is not a turnkey operation and what works for others may or may not work for you. You must take the time and learn how to properly calculate your costs.

Mistake 2: Not Understanding Your True Overhead Costs

Avoiding this mistake takes a lot of work and a lot of time. I know since I use to spend countless hours calculating and tracking overhead. If you are not careful, it's the silent killer of your business, the one you become aware of when it's too late.

Learn your overhead. Take the time to know what it costs to run your business. Doing so can be a real eye opener. Every contractor who has worked through this financial exercise has benefited many times over.

Once you understand and become acutely aware of how every dollar and penny is spent, you can make appropriate decisions on where you can cut overhead costs. Keep your overhead small and watch your profits grow.

Mistake 3: Failure to Work for the Right Profit

Do you know with absolute certainty, right this minute, if you're profitable? Or do you call your accountant and ask if you've had a good year? Do you know how much profit you should be making?

I've come across too many contractors who work very hard all year for a measly 1% or 2% profit margin...and they think this is the norm.

Plan your profit margin. Look at each job before you bid it. Do you need more profit because the job entails higher risks? If so, add it into the bid. Sell value, not low price. You'll be able to provide a better product and service your customers properly if you've covered yourself properly.

Mistake 4: Failure to Structure Your Company Organization

There is only so much of you to go around. If you feel as though you're working for your business and your business isn't working for you, you're right.

Too many contractors just won't delegate authority, insisting on being involved in every little day-to-day transaction. Break out of the trap! Hire the right people, give them the responsibility and authority to do their jobs, and get out of the way.

As the head of your business, you should be concentrating on building the business. That means planning, creating strategies, establishing viable goals, and making sure your organization can cope with change and growth.

Mistake 5: Failing to Understand Your Capabilities

Everything has limits: You do, and so does your company. Here is a short list of "don'ts."

- Don't take on more work than you can handle.
- Don't take on a project that's too big for you.
- Don't overextend yourself financially.
- Don't demand more from your employees than can be reasonably expected.
- Don't take unnecessary risks.
- Don't venture into areas that you don't have knowledge or solid experience in.

The list goes on, but I think you understand what I mean. The construction graveyard is littered with contractors who failed to recognize and understand their true capabilities.

Mistake 6: Failure to Firmly Anchor Your Business in a Niche

The most profitable work I've ever done is niche work: specific areas that provide great work, great pricing, and great profits. Market yourself aggressively to one or more target audiences and you'll be happier (and more profitable) in the long run.

Mistake 7: Failure to Continue Your Marketing in a Downtrend

Sales are down! Profits are down! The economy is down! Cut marketing!

Give me a break. Why would you cut marketing? It doesn't make sense. Everything you've ever spent or done to give your company a brand name or recognition gets flushed down the drain when you stop marketing.

You never stop marketing unless you want to be forgotten. You sell your new fancy car or boat, but you never stop marketing. It's the lifeblood of your company. Find other areas you can cut, but don't cut marketing. It is the one thing that can get you and your business through the rough times.

The Bigger Picture

It takes more than long hours, guts, drive, energy, and luck to run a successful contracting firm. It takes finely honed business skills that any contractor can learn.

Take control of your business and your future today. Focus on the bigger picture.

Henry Goudreau is based in Sarasota, Florida and speaks at conventions, conferences, and for corporate clients on business development. He can be reached at (941) 377-1254, or www.hgassociates.com. (website)