

A person wearing a red and blue plaid shirt is looking down at a smartphone held in their hands. The background is blurred, suggesting an indoor setting. The overall tone is slightly somber or focused.

G U I D E T O

EPIC FAILURE

**Tips and Techniques to Ensure Headaches,
Heartburn, and Having to Close Up Shop**

The Hard Facts of What Happens When Contractors Fail

We see a common trend in contracting businesses these days. Small- to medium-sized contracting businesses are getting too big for their britches, failing at a significantly faster rate than larger firms.

In fact, a staggering 22 percent of contractors with payrolls of less than \$30,000 in 2003 were no longer operating in 2004 -- a failure rate outpacing contractors with payrolls of \$350,000 or more by nearly 10 times¹.

It's downright scary. A decade later, 31.9 percent of contractors closed up shop² and it still isn't looking optimistic. (Here's looking at you, recession!)

The good news is this: the small- to medium-sized contracting businesses we're referring to are in control of their future. The issues plaguing them can, for the most part, be solved. More than solved, these issues can be avoided so that business -- and profits -- can grow, uninhibited, from the start. But it requires overcoming some significant internal challenges first.

¹ Will, Abbe, and Kermit Baker. "The Performance of Remodeling Contractors in an Era of Industry Growth and Specialization." *Publication of the Joint Center for Housing Studies*. Harvard University, 1 Dec. 2007. Web.

² Guajardo, Leslie. "It's a Good Time to Recall Why Contractors Fail." *It's a Good Time to Recall Why Contractors Fail*. Texas Contractor Magazine, Feb. 2012. Web.

8 Ways to Set Your Business Up for Failure

Check out the most common reasons owners of failed contracting businesses cite when asked why they were forced to go out of business.

Reason #1:

FAIL to implement business systems from the outset.

The use of systems is quite possibly the largest difference between contractors who flourish and those who fail.

When we talk about business systems, we're referring to the documented procedures and processes that allow your business to run in the most efficient manner possible, without your constant attention. Systems can be set up for nearly every aspect of your business -- from accounting to estimating; scheduling to ordering; onboarding to customer service, and much more.

Often seen as a "back-office" function with a severe lack of urgency, systems are ignored. But systems should be in place from the beginning in order to:

- provide consistency and efficiency
- free up staff to spend time on more valuable things
- enable your business to scale

The consistency, efficiency, and free time provided by systems are really what facilitate scalability. By implementing proper systems from the get go, you set the foundation upon which your business can grow. When tasks like onboarding, estimating, payroll, and scheduling are systematized, it makes them easily replicable for anyone to implement -- and leaves you, the business owner, to focus on big picture strategy.

Reason #2:

FAIL to price your services appropriately.

Really, this stems from an even larger issue: contractors don't understand the cost of doing business.

Because they don't understand what it *truly* costs to run a business, contractors are notorious for doing a poor job of estimating and employing haphazard methods for scheduling. A common mistake made by new contractors is to simply apply the same mark up onto every project, assuming it will bring in an even level of profits. Another fallible method: Trial and error. It can work at the start -- but once seasoned, profitable costing requires measuring what it takes to get the job done.

And for the love of business, avoid the “WAG” method (that’s “wild-ass guess” method for those not familiar) and approach your pricing strategically³! It could literally make or break your business. Keep track of the cost of systems, processes, overhead, and other expenses for each project and apply that knowledge to future proposals. Superior project management is imperative here -- take note of average change orders, schedule disruptors, backlogs -- every detail that impacts cost.

Part of proper pricing comes by eliminating what Melanie Hodgdon, co-author of *A Simple Guide to Turning a Profit as a Contractor*, calls “hopeful thinking.”⁴ She asserts that hopeful thinking can “ruin you” as a contractor. This hope leads to things like:

- Not understanding the true cost of labor. *And therefore not turning the profit you think you are on the mark-up.*
- Disregarding overhead. *See above.*
- Thinking you can “make it up on the next job.” *Accepting change orders with no charge and thinking it’ll all be made up later.*

Rather than putting pressure on future jobs, it’s wise to know your costs -- including overhead -- from the start and price accordingly.

Reason #3: FAIL to break free from “I-can-do-it-all” syndrome.

Contractors get into the business because they love the work and they’re good at it. When they start their own business, they often find it tough to make the transition from contractor to business owner. Instead of working *on* the business, owners end up working *in* the business.

When business owners attempt to run a company, make sure all systems are operating smoothly, keep an eye on the future and strategize, *and* stay on the front lines doing the work... it results in two things: a fast pass to burn out and a tendency to let things fall through the cracks. Consider this: Shawn McCadden of Remodel My Biz found that when business owners added up the hours worked between running the business and working *in* it, most “admit they earn less per hour than most of their employees. Some, even less than their carpenters.”⁵

Simply put, contractors need to see themselves as business owners. Business owners lead. They direct. They delegate. Consider the aspects of your business you simply cannot devote the adequate amount of focus to and outsource or hire for those tasks.

³ McCadden, Shawn. “Don’t Put Your Business At Risk By Guessing At What Markup To Use.” *The Design/Builder’s Blog*, 12 Apr. 2012. Web.

⁴ Hodgdon, Melanie. “Four Ways That Hopeful Thinking Can Ruin You.” *Remodeling*. N.p., 06 June 2014. Web.

⁵ McCadden, Shawn. “7 Reasons Most Contractors Will Never Retire On Their Own Earnings.” *The Design/Builder’s Blog*, 5 Aug. 2014. Web.

Reason #4:

FAIL to spend time building a well-structured business plan.

Following leads and jumping into business to start the revenue stream is important, but shouldn't trump the time required to build a forward-looking, well-structured business plan. Like any business, your plan should cover the following:

- *Your mission:* Why are you starting this business? It's far too easy to lose sight of your mission when you're in the thick of things.
- *Your target market:* Who are you looking to serve? This will help you structure your marketing and price your services.
- *Finances:* What are your financial goals? What metrics need to be in place to determine success?
- *Marketing:* How will you market and grow your business? Advertising? Referrals? Pay for leads? Think big picture.
- *Operations:* Remember those systems we referenced in #1? This is where you sort them out from the beginning. How will legal functions take place? How will hiring and payroll run? What will enable the sales team to do their job efficiently and effectively?
- *Growth:* What are your goals from the start and how will all of the above help you reach them?

This is a rough start of what your business (and marketing) plan should include. Putting time into considering each of these from the start will aid your scalability down the line. Business plans should be considered *working documents*. Review on a regular basis and expect revisions. Business owners with no plan in place have nothing to turn to when things get off track.

Reason #5:

FAIL to differentiate yourself from the competition.

You've seen the stats. With small- to medium-sized contractors failing at nearly 10 times the rate of larger firms, you don't want to follow in the footsteps of the failures around you.

It was Albert Einstein who so famously defined insanity as "doing the same thing over and over again and expecting different results." Take the same approach -- and make the same mistakes -- as the other companies and you're setting yourself up for failure.

Consider your competitive edge -- and go after it. Keep it simple and do it extremely well. It could be a service with a small twist; customer support far superior to your competitors'; on-the-spot, professional quoting -- you name it.

When you're essentially providing the same core services as your competitors, the lack of a competitive edge can easily make you invisible in the eyes of your consumers and oftentimes leads you to compete solely on price.

**Reason #6:
FAIL to capitalize on flexibility.**

If you're thinking, "of course we fail faster and harder than large firms -- they have so many resources at their disposal!" well, you're right. They do. But you have something they certainly don't: flexibility.

A firm made up of 100 employees is going to have a heck of a time turning on a dime compared to a company with 15 employees.

Consider flexibility as it applies to your services, your marketing, and your systems -- if something isn't working, revise and try again. Capitalize on the fact that you're smaller and therefore more nimble.

**Reason #7:
FAIL to prioritize the customer experience.**

Winning a bid is much more than just that. From the initial touch point with the customer to the very last detail, contractors who don't consider the customer experience fail to impress.

How is that initial contact made? How timely and professionally are proposals provided? How are customers kept in contact with during the actual project process? How are invoices and bills handled? How is follow-up handled? This is just the start.

It's imperative that business owners step into the shoes of the customer and walk through the process to understand how the customer can best experience it -- and that each of your employees does, as well. General customer service is no longer a differentiator when it comes to customer experience -- good customer service is simply expected.

Successful contractors who want to capitalize on repeat customers and referrals know that going above and beyond to make the client's experience absolutely spectacular will end up directly impacting future revenues and profits.

**Reason #8:
FAIL to adapt to the labor shortage.**

In a small- to medium-sized business, having everyone on board is incredibly important to serving your business' growth. Inexperienced or unmotivated employees can cause even the best of business owners to fail.

With today's severe labor shortage, it's up to contractors to seek employment from a different viewpoint: hiring for attitude, not for skill. As Peter Carbonara wrote for *Fast Company*, "What people know is less important than who they are."⁶

Seek out the right personality and attitude then put in the time to train for skill. With proper systems in place, onboarding and training employees shouldn't require an inordinate amount of time on the business owner's part, and can enable a workplace of like-minded, motivated employees who will help your business grow and succeed.

3 Key Priorities for Avoiding Epic Failure

While the odds have historically been slightly against the smaller players, there's no reason they can't be turned around. It starts with proactively preventing and/or resolving the issues keeping you, the business owner, up at night.

Priority #1: Get Some Systems in Place

Systems provide consistency and efficiency, and free up your skilled staff (think: sales) to spend more time on the things that actually result in profit. Solid systems understood throughout the business free you up to focus on big picture items, and facilitate growth in the long run. In fact, consider this: solid systems are required for smoothly running your business and increasing profits even if you intend to stay small.

Priority #2: Measure the True Cost of Doing Business and Price Accordingly

No more "wild-ass guessing." If you've been in business for a while, you have the data and experience to make smarter estimates and turn larger profits. Don't forget to factor in overhead.

Priority #3: Focus On Being a Business Owner First

When doing the hands-on work is what you love, this can by far be the toughest. In some cases, contractors who start their own businesses might consider handing over the management reins to someone who *does* enjoy planning, strategizing, hiring, and focusing on the customer experience and overall direction of the business.

⁶ Carbonara, Peter. "Hire For Attitude, Train For Skill." *Fast Company*. N.p., 31 Aug. 1996. Web.