

20 BUSINESS TOOLS



TO BOOST YOUR BOTTOM-LINE!

BY
GEORGE HEDLEY

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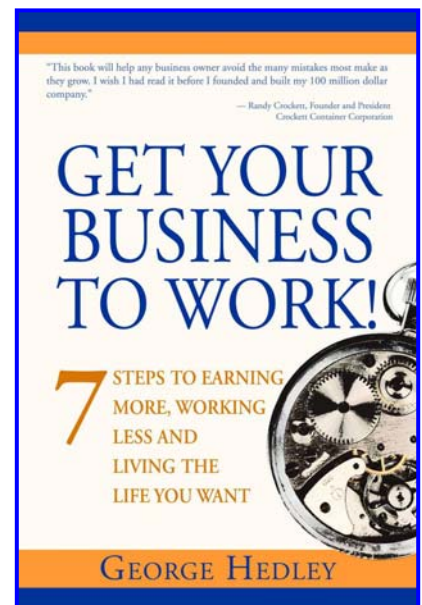
Visit: www.getyourbusinesstowork.com

To Contact George Hedley

Email: gh@hardhatpresentations.com

For More Information

Visit: www.hardhatpresentations.com



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**George Hedley CSP
Certified Professional Speaker**

HARDHAT Presentations

Phone

800-851-8553

Email George

gh@hardhatpresentations.com

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I got a phone call the other day from Bill, a business owner who performs concrete slab placing and finishing. His company is a subcontractor to concrete subcontractors and general contractors. He supplies the labor and equipment only (no materials) to pour and finish concrete on new slabs for buildings under construction. He sells his services by the square foot of concrete poured and finished. His customers are very cost conscious and decide if and when they want to do the finishing with their own crews, or hire Bill's company on a job by job basis. Getting awarded a job is very competitive and price driven as Bill has several competitors who offer the exact same services as he does. The price difference between his company and competitors only varies by one or two cents a square foot. This leaves no room for error or much chance to make a reasonable profit. And now as the economy in his market is tougher, his problem of trying to win jobs by being the low priced provider plus making enough money are larger than normal.

I asked Bill what else his crew could do to offer more services to increase his prices. He couldn't think of anything he wasn't already doing. Then I asked him how he could do business differently to improve his bottom-line. No answer again. I suggested he might consider offering more services or getting into a more difficult type of construction contracting like heavy foundations, parking structures, full building concrete tilt-up construction, or architectural decorative concrete where customers will pay more for expertise and quality. He struggled with the idea as he wasn't sure his crew could handle more difficult work. And he didn't know how to price anything except providing labor and equipment to install flat slabs.

Without options, I then asked if he could increase his sales volume or reduce his overhead? He said his steady customers were slow and he was as lean as he could get without going out of business. He was bidding cheaper to keep his crew busy and his doors open. In my opinion, he was stuck and didn't know what to do next.

ARE YOU STUCK?

Doing the same old thing for years and expecting it to get better? Not willing to try new things, methods, or ideas? Too busy working to manage you business? And when the economy slows down, you don't have a clue how to keep it all going?

Remember when you've gotten your car stuck in the snow. What did you do? You first try getting out of the rut by gunning the engines faster. But it doesn't work. You're still stuck and

now in an even deeper hole. Just like in business, trying the same things, working harder yourself at a faster pace won't get you going again in a positive direction. When you try new techniques, tools, ideas, tactics, and strategies you eventually get out of the hole and get back up to speed quickly. When your hole is getting deeper, what choice do you have but to try some new tools. Here are twenty business tools to help you boost your bottom-line in any economy. Take the time to implement them and you will make more money.

1. BUY LOW & STILL SELL HIGH!

Most business owners focus 90% of their energy trying to cut their costs by being more efficient, working faster, buying cheaper, not wasting any money, keeping their employees or crews busy, or doing all the pricing and ordering themselves. Spending all your time focused on cutting your costs won't improve your bottom-line much. Most business owners add up their material costs and mark them up at the same rate for every job or order. For example, when you get a 10% better price on material or a lower bid from a supplier or subcontractor, and then add your standard 20% mark-up for overhead and profit, the actual gross profit and final selling price and is lower than if the materials or subcontract had been ordered at the original higher price. Look at these examples:

	<u>Original</u>	<u>Lower Quote</u>	<u>Sell Higher</u>
Material Price	\$ 1,000	\$ 900	\$ 900
OH & P Markup	<u>20%</u>	<u>20%</u>	<u>33%</u>
Gross Profit	\$ 200	\$ 180	\$ 300
Sales Price	\$ 1,200	\$ 1,080	\$ 1,200
Gross Margin	16.7%	16.7%	25%

Review the three examples above. The 'Original' mark-up example shows the result of getting a material price of \$1,000 and then selling it at \$1,200. The next 'Lower Quote' example shows what happens when you work hard to get a lower price on items and then pass all of the savings on to your customer. The 'Sell Higher' example show what happens when you get a lower price for material and then still sell the item at the market value or what the customer is willing to pay for the work or item. Should you always offer your customer the lowest prices?

SELL FOR MORE!

On the 'Sell Higher' example, you purchased material or subcontracted work for \$900 and still sold it for \$1,200. Your gross margin increases from 16.7% to 25%. A huge difference in your bottom-line! There are many instances when you work hard to get a lower price from your suppliers. Should your customer always get the full benefit of your efforts? What about on extra items, add-ons, or change orders? Should you present them as cost plus *or* as lump sum prices? Using a lump sum method at a higher selling price will increase your gross

margins. Think about how you price your materials or work and sell your services. On a cost plus markup basis, you're actually going backwards the lower your sales price goes. Are you starting to realize how important selling and presentation skills play a major role in boosting your bottom-line!

2. DOUBLE EVERY DISCOUNT!

Always, always, always take every discount offered to your company by material suppliers and subcontractors. When they offer a 3% or 5% discount for prompt pay, take it! For example, if you purchase \$10,000 of material for an order or job and are offered a 5% discount from your supplier for full payment by the 10th of the next month, you will pay \$500 less than what you estimated and sold the job at. If materials add up to 40% of your total job costs for the year and you get discounts on all material purchases, you'll increase your bottom-line by 2%. This is big!

Professional business owners must have a bank line of credit to help them make money and grow their business. I recommend a bank line equal to two months of sales volume for most service companies. If you don't have a bank business credit line, get one. Most banks charge an interest rate of prime plus one or two percent on borrowed funds.

Another bottom-line booster tool is to always ask your subcontractors and suppliers for discounts when you pay them fast, for early payment, or quicker than normal. Often they want or need to get paid faster than the contract or standard terms require. Offer to pay early in exchange for a 5% discount off the full amount owed.

Amount Owed	\$40,000
Discount for prompt pay	<u>5%</u>
Amount Saved	\$ 2,000
Cost Of Money = \$2,000 for 30 days @ 7.5% =	<u>-\$ 250</u>
Net Amount Saved	\$ 1,750

DO THE MATH!

In the example above, when you pay a subcontractor or supplier \$40,000 before you get paid by your customer, and they give you a 5% discount, you save \$2,000 and get to keep it. On most orders, contracts, or jobs, you'll likely get paid by your customer within 30 days. To calculate what you actually made on an early payment, figure the cost of money. If you use your bank line of credit to borrow the \$40,000 to take advantage of a 5% subcontractor discount, and you pay a 7.5% interest rate to your bank for borrowed funds, your cost of money on borrowing the \$40,000 for 30 days is only \$250. Wow! You just made \$1,750 on your banker's money. Do this twenty times in a year and boost your bottom-line by another \$35,000.

3. BE LOW & THEN CHARGE MORE!

The goal of every proposal, price quote, or bid to a potential customer is to get a meeting with the decision maker. This is so you can sit down and negotiate the final price, terms, specifications, and final scope of work. Unless your customer is only getting a proposal from your company, you'll most likely have some competition and be forced to compete on price. The best way to get the meeting with a potential customer is to be the preferred supplier, provider, source, or contractor of choice. Or you can have a strong personal loyal relationship with customers that will give you an edge. If you don't have an "in" with the customer on the specific order or job you're bidding, and all else is equal, your customer will most likely want to meet with the low priced bidder first. So the second best way to get a meeting with a potential customer is to be the lowest priced bidder.

BE THE LOW BIDDER!

Your original bid proposal should only include the bare minimum required by the customer, specifications, or bid documents. No more. If in doubt, leave it out and do not include additional items, gaps in the plans or specifications, improperly requested materials or methods, or upgrades from the minimum things needed to get the job or order completed. If you have a better or more cost efficient way to supply, install, or deliver an item, include it in your proposal as an inclusion.

For example if the painting specifications calls for 3 coats of paint, state that you have included 2 coats of paint on all surfaces to be painted. Or if you know the job will require door closers on all bathroom doors but the plans don't call for them, don't mention them as exclusions in your bid proposal. Remember your goal is to be low bid so you will get a meeting. At the meeting you can then discuss these problems, omissions, and alternate ideas in person with your customer. This tactic will keep your pricing lower, and help you get that important meeting with the decision maker to review your proposal.

At the meeting, discuss every option to upgrade the order or project, improve the quality of materials, add-on additional items which will improve the finished product, or present prices for things required to fill the gaps and complete the work. To boost your bottom-line, offer these upgrades and additional items at lump sum prices including a markup double your standard rate.

As you present each additional item to your customer, carefully watch their face, expressions, body language, and reactions to the pricing as you present it. You can tell by your customer's reactions if you will be able to get the loaded costs for the additional items or when you might have to cut them to be awarded the project. I use the old slogan, 'don't ask, don't get!' You decide the final price at the meeting and can offer them a total package price for the added items they want. Your meeting goal is to get a commitment for the contract or order and get it at a higher total markup percentage than you used on your base proposal. If you can get an additional 15% markup on an additional 10% of work, this will increase your total bottom-line by 1.5%. Over the period of a year this bottom-line booster tool will add up to big bucks.

4. BUY IN BULK!

When I was remodeling our home, the contract with the electrician included an allowance for the number of light switches and power outlets we anticipated. When the walls were framed, I walked the job with him and located where we wanted the switches, lights, and plugs. He told me the final number was larger than the amount he had included in the contract. No problem for me. I still wanted them. He then told me he had already bought the exact number of switches and outlets included in the contract at a quantity discount. And now he would have to charge me more per extra outlet because he couldn't get the same price from his supplier.

I was thinking, on every house built there are lots of switches and power outlets. If I was an electrician, I would buy them by the case, pallet or car load to get the best price I could and then store them in my warehouse. The selling price would still be the same but I would make more money by buying them at a lower price in bulk.

BUY MORE TO MAKE MORE!

What can you buy in bulk to save money? Wealthy drywall contractors buy their drywall and metal studs by the train car load. The same for rebar, lumber, irrigation pipe, copper pipe, and all the other materials subcontractors and contractors need on every construction job. When you buy small amounts from wholesale suppliers, you pay 5 to 20% more for materials. Want to boost your bottom-line? Look at your annual purchases and start buying items you use over and over in bulk. This tool should make you at least 2% to 5% on your bottom-line

5. GET ANOTHER QUOTE!

Most businesses buy their materials and supplies from the same supplier or company year after year and never get additional quotes from other suppliers. When you have companies competing for your business, the price you pay will go down by a few percentage points. What supplier have you been using exclusively for a long time without checking their prices? Why haven't you taken the time to get another quote?

TOO BUSY TO MAKE MORE MONEY?

I bet you're too busy to take the time or hassle getting another quote. Maybe you are too comfortable using the same supply company. After all they give you a few tickets to the football game every year. Are you positive they're giving you the best possible price on every item you buy from them? I know service is important, but you'll get the same service at a better price if you keep them honest. Go to Home Depot and look at what retail buyers pay for the same products you use on a regular basis. Call three other suppliers and get quotes on items you buy all the time. A few phone calls and meetings with different suppliers will boost your bottom-line, even if you decide to stay with your old faithful you've use for years.

6. MARK-UP YOUR MARK-UP!

When pricing jobs or orders, bidding work, or calculating the cost of additional items the customer wants; most businesses leave lots of money on the table by using one total markup rate for every situation. When you blend your overhead and profit into one total markup like 25%, you're not marking up your fixed cost of doing business (your overhead). See the example below:

Direct Costs		\$ 100,000
OH & P Markup @ 25%		<u>\$ 25,000</u>
Total Bid Price		\$ 125,000
Gross Profit Margin		20.00%

Smart and profitable business owners understand the power of marking up the entire cost and every part of doing work on an order or project. Overhead costs are a major part of every company. So, mark-up your overhead costs to boost your bottom-line as well. Using the same total markup for overhead and profit of 25%, look at the better way to markup your products or services:

Direct Costs		\$ 100,000
Overhead Markup @ 15%		<u>\$ 15,000</u>
Sub-Total		\$ 115,000
Profit Markup @ 10%		<u>\$ 11,500</u>
Total Bid Price		\$ 126,500
Gross Profit Margin		20.94%

In the second example, you made an additional \$1,500 or nearly 1% more gross profit. For every \$1,000,000 of total sales volume for the year where you markup your markup, your bottom-line would increase by \$9,400. Not bad for a little bit of extra math.

7. TRASH YOUR TOOLS!

Installation, manufacturing, or field crew labor is very efficient when they have the right tools and they work efficiently all the time. When is the last time you performed a tool inventory to determine which tools should be thrown out and replaced? On the jobsite or in your shop, your crews often work with broken, bandaged, damaged, and old tools. Why? Because they don't want to ask their boss for new ones. Plus, the boss doesn't want to hear excuses or about an employee who has broken a tool. So employees continue to use poor or worn out tools and equipment and keep their mouths shut.

BAD TOOLS = BAD BOTTOM-LINE!

How much money are old, broken, outdated, or inefficient tools costing you? If you've got 10 people on your installation or manufacturing crew, and each person loses 5 minutes per hour working with bad equipment, you're losing the equivalent of 6.7 total hours per day. Over a year this can add up to 1,700 hours of lost time. If you average \$25.00 / hour per crew member, this totals \$42,500 annually down the drain.

Employees	10
Time Lost / Hour	5 Minutes
Time Lost / Day	6.7 Hours
Annual Time Lost	1,700 Hours
Cost Per Hour	\$ 25
Annual Lost Time Due To Bad Tools	\$42,500

Invest in a pro-active tool management program and I bet your employee efficiency will go up by double what you are losing. Instead of losing \$42,500, you'll probably make an additional \$85,000. How? Your employees will be proud to work for a company that cares about quality and is at the cutting edge of tools and techniques. Visit trade shows every year looking for new tools, equipment, and techniques that will make your crews more efficient and boost your bottom-line.

8. SALES PEOPLE & ESTIMATORS ARE NOT PROFESSIONAL VISITORS!

One of the biggest goals of sales people and estimators is to win profitable jobs at their price. Many sales people think their primary job is to stay in touch with lots of customers and be there when they want to order something. Most cost estimators think their primary responsibility is to price work. Estimators figure their job is complete when they fax, deliver, or present bids and proposals to potential customers. Customers don't usually buy numbers on a piece of paper, unless the total price is significantly lower than other bidders. When the prices are about the same, customers make decisions on who to hire or order from based on trust and what people and companies will do for them.

PEOPLE, NOT PAPER, SELLS!

You can't present what your company will do for customers on a bid form. It must be done in person by someone responsible for selling, asking for the order, and closing the deal. If that person is you, your sales person, or the estimator in your company, they need to be trained on developing customer relationships, overcoming price objections, effective selling skills, negotiating tools, and winning presentation techniques. They need to be taught and understand they're in 'show' business and how the bid or quote is presented is often just as important as the price. If you can improve your bid or proposal success ratio by as little as

15% to 20%, your top-line sales volume will go up and you can boost your bottom-line easily by as much as 100%. For example:

	Currently	Improved
Bid / Proposal Success Ratio	<u>6 to 1</u>	<u>5 to 1</u>
# Bids or Proposals / Year	100	100
# Contracts Or Orders Awarded	16.6	20
Average Contract Size	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Total Annual Sales	\$ 833,000	\$1,000,000
Direct Or Job Costs @ 70%	\$ 583,000	\$ 700,000
Annual Overhead	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Net Profit	\$ 50,000	\$ 100,000

By only improving your bid / proposal success ratio a small amount, your bottom-line improved 100%. What can you do to improve your bid / proposal success ratio?

9. EMPTY YOUR YARD!

It amazes me the number of construction and manufacturing company owners who are married to their equipment. There must be something enticing about having a lot of heavy equipment or yellow iron around to make you feel warm and fuzzy. To me, owning equipment is a necessary evil only if it makes financial sense. For example, owning a major piece of equipment is all about the numbers:

<u>Equipment Cost Over 5 Years</u>	
Purchase Price	\$ 100,000
Financing Cost	\$ 20,000
Insurance 5 Years	\$ 20,000
Maintenance & Tires 5 Years	\$ 20,000
Repair Items	\$ 5,000
Gas & Oil 5 Yrs	<u>\$ 35,000</u>
Total Cost Over 5 Years	\$ 200,000
Overhead & Profit Mark-Up @ 20%	<u>\$ 40,000</u>
Total Cost Of Ownership 5 Years	\$ 240,000

The total cost of this equipment will cost you \$240,000 to own for 5 years. The key is to now determine if you can make it worthwhile to own it, maintain it, store it, deliver it, service it, secure it, insure it, finance it, and deal with the hassle of owning it. The deciding factor is how many hours you can keep it busy on the jobsite or in your shop. Using the example above, if you keep the equipment busy for 2,000 hours per year, **your cost per hour** is \$24.00. The question then becomes what that piece of equipment costs you versus what you could rent or lease it for.

<u>Annual Billable Or Usable Hours</u>	<u>Cost Per Hour</u>	<u>Rental Rate?</u>
2,000 hours	\$ 24.00	\$ _____
1,500 hours	\$ 32.00	\$ _____
1,000 hours	\$ 48.00	\$ _____
500 hours	\$ 96.00	\$ _____

DO THE MATH AGAIN!

By doing the math, it is easy to determine if you should own or rent equipment. If you can keep it working enough billable hours per year to make money and cost you less than renting, it makes sense to own equipment. Call the local rental or leasing companies to compare your cost of ownership to their rates. I’m sure you’ll discover which equipment you should or shouldn’t own. Sell the unprofitable equipment, take the cash and boost your bottom-line by investing it in assets like real estate that grow in value every year.

Also think about what equipment you can own that doesn’t require a lot of maintenance where you can get a big return on your investment. For example, used job office trailers only cost \$5,000 to \$7,500 to buy. Contractors who buy their own office trailers for their construction jobsites can rent them to their projects at a competitive rate of \$350 to \$450 per month. That is more than a 75% annual return on your money. Take a hard look at your equipment program. Get rid of your underutilized equipment or machinery. Do the math and boost your bottom-line.

10. FINISH FASTER QUICKER!

I was visiting one of our construction jobsites a few years ago in mid-August. We were building a large 75,000 square foot concrete tilt-up industrial building. I was discussing the schedule with our project superintendent and concrete foreman. I asked when they were planning on tilting up or erecting the concrete wall panels. They told me they had scheduled the crane to lift the panels in mid-November. I was thinking: ‘Three more months! That seems a bit too long!’ I asked them how they arrived at mid-November. They said they decided that November was a doable date and easy to make so they would be ready for the crane.

I then asked them if they could move the date up a few weeks. They hesitated and shook their heads ‘no’ in protest. Then I offered them both a \$1,000 incentive if they tilted-up all the walls by October 31st. Guess what? They both changed their tune in a hurry and said they could figure out a way to get it done and guarantee they would erect the walls two weeks earlier. Not a bad investment: a \$2,000 bet versus 20 men working for 2 weeks (\$40,000 minimum plus on-site costs). The end of the story is they actually tilted-up the walls on October 26th. I gave the superintendent and foreman \$1,000 each and every crew member a day off with pay. My net gain was over \$50,000 after all of the costs were determined. Plus our customer was happy with our early finish for the project.

OFFER SOMETHING TO GET SOMETHING!

What games and incentives can you offer to entice your crews and employees to work faster and boost your bottom-line? Faster work equal more money in your pocket. Try different incentives like competitions between crews, games to beat the budget, challenges to finish ahead of schedule, hardware store coupons for no defects or repairs, catered barbequed lunches for meeting milestones, dinner gift cards for crews who hit important targets, winter jackets for no accidents, or anything else that will keep work fun, exciting, interesting, and competitive.

Make it your priority to tell your people how difficult it is to actually make a profit. Explain that these little bottom-line boosters can make a big difference. Your job is to make it your priority to focus on the positive factors you can influence instead of complaining about the economy or your competition.

11. CLEAN OUT THE DEAD WOOD!

Ever been accused of being a sandbagger? Golfers who pad their handicap are often called sandbaggers. They keep their handicap artificially high so they get a few extra strokes from their opponents when playing matches. The term 'sandbagger' comes from the concept of filling your golf bag with some sand so it's heavier than normal, causing you to get tired and not play up to your potential. In order to keep their handicaps comfortably higher than they should be, sandbaggers do little things like missing short putts on purpose when they don't need to sink them to win a hole.

Business owners and managers have lots of things to do everyday to keep their ball rolling towards the target. They often get overloaded and don't take enough time to do everything perfectly as they know they should. After awhile, they get in the habit of doing things the easy or fastest way and take short cuts to get things done. This reduces their bottom-line net results. Think of the little things in your business you know you should do to play your best game everyday. When you don't follow sound business principles, added costs, small problems or costly mistakes add up and significantly weigh you down. This drags your bottom-line lower than it could be.

For example, when you keep poor employees on your payroll too long or continually use the same supplier without getting other bids, you are saving time but costing you money. When you continue working for bad customers rather than seeking new ones or not taking the time to focus on collecting your receivables fast, you're saving time and losing small amounts of money that add up significantly. When you do extra work without signed change orders or only offer what is on the plans and specifications to get awarded jobs, you are saving time while not maximizing your bottom-line.

Whether you're too busy, stressed-out, or overloaded, you have many options and choices available to do a better job or make more money. Here are more tools to help you get out of the rough, back on the fairway, make more putts, and play up to your full potential. Make a point to try a few of them. This will help you get the unnecessary sand out of your bag and increase your bank account.

BAD APPLES?

Who on your crew or staff causes you the most grief, doesn't do a good job, or has a bad attitude? These poor performers are infiltrating everyone on your team and bringing them down. Poor performers should be cleaned out, fired, and removed fast. Think of employees as trees in the forest. When they die, run out of life, or stop growing, they become dead wood. Dead wood gets in the way, is a fire hazard, and causes you to trip or fall as you move forward. When you let the dead wood remain, you tolerate bad performance. When you don't remove or clean out dead wood, other employees have to put up with them, work around them, cover for them, and make excuses for them. Additionally, your good employees lose respect for a boss who won't do what's right in a timely manner and accepts less than the best from his people.

I know you're too busy to get rid of the dead wood employees and find some new people to do a better job. I know you can't find any good help. But by doing nothing and walking by poor performers, you're avoiding tough decisions and losing more money than you can imagine. One dead tree can reduce your crew efficiency by as much as 25%. Make a list of your employees and rate them from 1 to 5 on the skills you need them to have to be efficient and proficient in their duties. Also rate their attitude and aptitude. And rate them on their desire to take on more accountability, responsibility, and leadership. Through this process, you'll discover your valuable employees, those who can improve, and those who shouldn't work for you.

<u>Employee Rating Scale</u>	<u>Skill #1</u>	<u>Skill #2</u>	<u>Skill #3</u>	<u>Attitude</u>	<u>Aptitude</u>	<u>Total</u>
Joe	5	4	5	1	1	16
Dave	3	3	3	5	4	18
Sue	4	3	4	4	4	19

After analyzing these results, while Joe has great skills, he has a lousy attitude and needs to find work elsewhere. And most likely he is holding Dave and Sue from reaching their peak performance levels.

It's not your fault ten to twenty percent of your employees are not suited to work in your company. You shouldn't feel bad about finally realizing the fact that not everyone you hired was the right employee to work for you. You did your best hiring them. But some people eventually didn't fit the required job description or aspire to excellence in your company's environment. In other words, a few of your employees are working at the wrong place. It is not good for them nor you. And they need to move on and find a place where they'll contribute in a positive way. Feel good about cleaning out the dead wood. It's good for you,

your employees, and those who'll be leaving your company. So get out your axe and cut out the dead wood. Then make it your priority to find positive people who'll make your company a better place.

12. DO MORE TO GET MORE!

When you offer or provide the minimum required by the contract, specifications, scope, or plans, you can't expect to make more money than the minimum allowed by your competition. I know you think you're better than your competition. Providing good quality work and service is expected and will get you on lots of bid lists with lots of competition. But in reality, your competition wouldn't be allowed on the bid lists unless customers believe they can do the job just as well as your company. When all else is equal, the only differentiating factor is a lower price. Now what? You have to offer more or provide something different than your competition to get more work at higher prices. People won't pay more for your services or products unless they get more than the minimum required.

When would you pay more for a box of 16 penny nails? First you don't really care who makes the nails. After all, they're just nails. You most likely wouldn't pay more unless there's something else offered to entice you to buy more or pay more for the same box of nails you can get at any hardware store.

GO THE EXTRA MILE!

What else can you do or offer to set yourself apart from your competition and be different? Can you add more services, provide more value, be faster, offer a better guarantee, provide higher quality, give longer warranties, be more convenient, provide better supervision, be cleaner, provide more technical expertise, offer engineering services, include more items of work, guarantee a completion date, provide a discount for faster pay, or reduce risk.

I recently spoke at a conference of art dealers. The successful dealers were those who went the extra mile for their customers. These 'best of class' dealers did more than sell paintings. They also provided free delivery, they rearranged the furniture at their customer's homes to enhance the new artwork, and then they professionally hung the paintings at no extra charge. Wow! They go the extra mile. And as a result, customers refer these dealers to all their friends and family. What extras do you provide? Think more than you're doing now. You are NOT doing enough to get a higher price. What can you do to be different than your competition? The more you do, the more you'll make. The less you do, the less you'll make. Provide the minimum and get the minimum.

13. MARKUP SMALLER BIGGER!

I often get asked how much should we mark up our work to make a profit. Company owners are looking for the magic percentage that'll guarantee a profit on every job, contract, or order. But markup is tricky. It's a function of what you need to cover your fixed overhead costs plus a profit margin combined with what the market will bear. Smart business owners realize all jobs are not equal and markup should vary with every order or , customer, or contract.

Total Direct / Job Costs	\$5,000,000
Total Annual Overhead	\$ 500,000
Annual Profit Goal	\$ 250,000
Overhead Mark-Up	10%
Profit Mark-Up	5%
Total Mark-Up	15%

First determine how much total markup for overhead you need to cover all of your fixed expenses for the year. For example, if your total annual overhead is \$500,000 and your total direct or job costs are expected to be \$5,000,000, you need an overhead markup of 10% to recover your overhead costs. Next determine how much profit you want to make for the risk you take. If you want to make \$250,000 annual profit, your profit markup must average 5% using the above example. Now you have a minimum markup of 10% for overhead and a total profit markup goal of 5%.

In the above example, the key is to average 15% total markup over the year. To maximize your bottom-line, use a variable markup system. Smaller orders, contracts, or jobs take the same amount of time, energy, overhead, and supervision as bigger ones. Therefore you need to charge more on smaller jobs for overhead and profit to cover the added cost of managing them plus a larger profit margin to get a return on your time and energy. I recommend you create a "Variable Mark-Up Chart" similar to the example below for your company to use when marking up jobs of variable sizes.

VARIABLE MARK-UP CHART

<u>Direct / Job Costs</u>	<u>OH & P Bid Markup</u>	<u># Jobs</u>	<u>Total Markup</u>
\$ 0 to \$ 50,000	25%	20	\$ 125,000
\$ 50,000 to \$ 100,000	20%	15	\$ 168,750
\$ 100,001 to \$ 250,000	17%	10	\$ 297,500
\$ 250,001 to \$ 500,000	15%	5	\$ 281,250
\$ 500,001 to \$1,000,000	12%	2	\$ 180,000
\$1,000,001 and larger	<u>10%</u>	<u>1</u>	<u>\$ 100,000</u>
Total OH & P Bid Markup	15% Average	58	\$1,152,500
Total OH & P Goal			\$ 750,000

(DO NOT USE THESE MARKUP PERCENTAGES – THEY ARE JUST EXAMPLES!)

By having an annual goal of 15% markup to realize your goal of \$750,000 total OH & P, you can make decisions about the number of jobs and at what rate you need to mark them up to meet your goals. Note the bid goals are higher than what you really need. This allows for bad jobs or competitive factors out of your control.

14. FIRE THE DEADBEATS!

Do you have a customer you wish you never did business with? Do you have customers who don't pay their bills in a timely manner or chisel you down and try to get you to take less than you're owed? Do you have customers who are very difficult to deal with or don't provide proper supervision on their projects? Do you have customers you wish you never heard of? What are you doing about firing these "dead beat" customers who take all your time, drain your energy, ruin your life, and suck money out of your business? Start by making a list of all of your present and past customers and rank them.

CUSTOMER RANKING CHART

<u>Total Annual Revenue</u>	<u>Total Profit</u>	<u>Average Order Size</u>	<u>ROE Factor</u>	<u>PIA Factor</u>
Customer 1				
Customer 2				
Customer 3				

ROE is 'Return On Energy.'

PIA is 'Pain In the _ _ _'. No, not what you're thinking! PIA is '**Pain in the Assets!**'
 These are customers who cost you the most time, energy, and money.

Next decide if the lowest ranked or deadbeat customers are worth the ROE and PIA factor to continue to do business with. Every year take a hard look at the customers you spend time working for. I recommend you fire at least 10% to 15% of your customers annually. This forces you to go out and find new customers who'll respect and treat you as professionals and allow you to make a good return.

15. COLLECT YOUR CASH!

You work too hard and your business is far too risky to not get paid in a timely manner per your contract agreed upon terms. Many business owners don't like to call customers and ask

for money or when they can expect to get paid. They delegate it to their bookkeeper and let her do what she can. And to make it worse, business owners don't like to meet with their accounting staff on a regular basis to review outstanding receivables. Besides, they are too busy working to take time to care about collecting money. And they don't want to harass their dear customers who demand perfect quality and great service, and then don't pay their bills as promised. Are these really good customers? Or are you afraid to take a stand and upset them while they upset your life?

You're in business to make money. The only way you can make any money is if you collect it. When you ignore your accounts receivables and let your customers take advantage of you, it's an indication of your weak business principles, character, and confidence. What are you afraid of? Why aren't you a squeaky wheel demanding to get paid when your money is due? Are you afraid of upsetting or losing bad customers?

BAD CUSTOMERS ARE CRIMINALS!

Every day customers who don't pay promptly cost you lots of money. You're stressed about making payroll or covering expenses. This causes you to make bad decisions and discount your invoices to get paid early. Not getting paid promptly also creates a cash-flow problem. This cash crunch keeps you from hiring and training better employees, buying the latest tools and equipment, marketing to potential profitable customers, and giving incentives to your employees to increase productivity. It also takes away the opportunity to invest your cash and receive interest on your checking account balance. Without realizing it, your customers are stealing from you.

The effects of slow pay from customers hurts your bottom-line in more ways that you can imagine. To boost your bottom-line, you must make it a priority to focus on prompt pay and collect your cash. Read the contract payment terms you sign and force your customers to follow them. Setup a receivables tracking system and meet with your accounting manager weekly to review it. Make those collection calls to the decision maker and inform them of the contract terms. And don't be afraid to enforce the contract by giving proper notice, stopping work, placing a lien on projects, or filing lawsuits when justified. As a general contractor for over thirty years, I have observed that companies tend to pay quicker when asked for their money firmly and regularly. And those who sit and wait for the check to arrive in the mail get paid last.

16. MULTIPLY YOUR MONEY!

Increasing your bottom-line is a tough task. Many of your competitors price their products, services, and contracts too low. This doesn't allow you to charge enough for the service and quality you want to provide. Your employees aren't always as efficient as you hope for or want them to be. The weather and other things out of your control get in your way and slow

you down or hurt productivity. Poor communications, promises, incomplete plans, and bad specifications often stop your progress. And then, trying to get paid is not an easy task either.

Every dollar counts. Every penny wasted is precious and can add up to thousands of dollars at the end of the year. So what are you to do? Maximizing your profit must be a top priority right along with getting your projects completed. By taking a little time focusing on increasing your net profit will boost your bottom-line and allow you to make a lot more money. When you're too busy working, don't forget to take enough time to focus on your finances, financial tools, and business strategies which will make you more money. Implement these tips and tools to grow your bank balance.

MAKE MAKING MONEY YOUR PRIORITY!

When I ask small business owners specific questions about their finances, many respond they don't really know much about their numbers. They let their wife or bookkeeper worry about the money details and their job is to get the work done. To me this is an oxymoron! Work all day stressing and struggling trying to get things done, but don't really care or know much about how much money they're making. The main purpose for owning and managing a company is to make a profit and increase its' net worth. In order to make this happen, you should also focus on your numbers as part of your everyday activities to stay on track and get the results you want.

Annual Sales	\$3,000,000
Monthly Revenue	\$ 250,000
Average Bank Balance	\$ 125,000
Invest Bank Balance In Money Market / Savings	<u>3%</u>
Annual Net Income By Investing Bank Balance	\$ 3,750
Average Monthly Material & Products Accounts Payables	\$ 50,000
Discount Offered By Suppliers For Prompt Pay	2.5%
Average Monthly Discounts	<u>\$ 1,250</u>
Annual Net Savings By Taking Discounts	\$ 15,000

A simple way to multiply your money and increase your net profit at the end of the year is to manage your cash aggressively. It doesn't take much time, but it can return a nice sum of money for your efforts. If your company is generating \$3,000,000 in annual sales, you will average \$250,000 in monthly revenue. Most likely you collect your money throughout the month but only pay your bills twice a month. This means, on average, you should have a bank balance of around \$125,000 at all times. If you average \$50,000 monthly in materials and are offered a 2.5% discount for quick payment, this will generate an extra \$15,000 net profit annually. And if you invest your cash balances in interest bearing accounts or bank investment programs, you should be able to make another \$3,000 to \$5,000 every year. Not bad for a few minutes a week of time focused on managing your money.

Make an appointment with your business banker and discuss the many options and programs they have to maximize the return on your bank balance. Ask them about “sweep accounts”, “overnights”, “money market accounts” and “T-bills”. A good banker wants you to make as much money as you can. After the meeting, decide how your company will invest their money and then delegate the task to your accounting manager. Track your monthly progress and watch your money multiply.

17. STOP GIVING IT AWAY!

If you had ten dollars for every extra or additional work item your company, managers, project manager, employees, field superintendent, or foreman did without a clear understanding of who will pay for the additional work, could you have retired several years ago? Contractors know they should get it in writing via a signed change order before extra work is performed. But they don't do it until after the fact in many cases.

When your customer asks for extra work, why is it so hard to put it in writing and get written approval? Everyone knows most contracts require signatures on change orders prior to starting extra work. But when you postpone getting a formal approval for extra work until days, weeks or months after the event occurred, you have no leverage. And when you have no leverage, your customer is in a great position to negotiate the final price with you, change their mind, or decide the work wasn't really extra and should have been included in the original contract.

PUT IT IN WRITING!

Present a complete cost breakdown for every proposed change order your customer requests in advance of starting the work. Use a standardized format and cost template to make sure you include everything the additional work actually costs. Every time extra work is performed, the followings costs occur:

- Management to process the paperwork
- Supervision to supervise the work
- Accounting to pay for the work
- General condition costs as the job will take longer
 - o Trailer & toilets
 - o Power & power poles
 - o Utilities
 - o Truck
 - o Equipment
 - o Small tools, ladders, etc.
 - o Small items: nuts, bolts, hardware, etc.
 - o Temporary protection, barricades, etc.

- Liability insurance
- Overhead & Profit

Don't short-change your company by not asking for everything you deserve. I see most change order requests presented as labor, materials, and subcontractor costs plus a markup without extra costs for the many items listed above. If your company does \$3,000,000 in annual sales of which \$300,000 is performed as change orders or on a cost plus basis, not charging for everything you spend can cost you as much as \$30,000 or more per year in lost revenue for things that you actually had to pay for.

18. TWO HEADS ARE BETTER THAN ONE!

As a progressive leader of a growing construction company, I wanted my key project managers and superintendents to accept more responsibility. As a result, I tried to delegate as much of the work to them as possible including writing subcontracts, ordering materials, signing contracts, and approving change order requests from subcontractors. Time went on and my personal inspection of their actual work became less and less, as I trusted them more and more. But then the worst scenario happened and we experienced some major financial setbacks. A customer pressured a project manager to agree to some contract clauses that seemed innocent. Months later, when the project was nearing completion, the customer held us to these clauses which added lots of items into the scope of work we never had intended to do. Upon my review, it was obvious the project manager had agreed to contract terms he didn't understand.

This caused me to take a hard look at how we do business. I discovered many problems with our 'trusting' system we were using. Some project managers were not getting the complete scope of work included in many subcontracts they were writing thus causing cost overruns on several projects. Some managers were not tracking their employee timecards properly and keeping track of all the vacation time they were taking. Some managers were approving expense accounts without reviewing all the bills in detail. The payroll department wasn't charging costs accurately to the right jobs and cost codes. And I found some people were 'stealing' from the company using creative accounting. Oh well, some much for trusting your long-term employees and relatives 100%.

ENTITLEMENTS = BAD BUSINESS!

It is my opinion people over time feel entitled to take or receive a little bit extra from the company. The longer they work for your company, the more they will take advantage of the situation or your good nature and trusting management style. These employees start doing little things like leaving early without docking their own pay, asking a supplier for a little material for their home remodel, filling their car with gas using the company credit card, and lots of other little things add up to big bucks over time.

In order to remedy the situation, we re-implemented our written company policies and made it clear there would be no exceptions for anyone regardless of their position, tenure, parents, children, or position in the company. These new rules required two people to review, approve and make every decision involving company contractual commitments, financial obligations, payments, or monetary transactions including the following:

- All contract terms and conditions
- All subcontract pricing, awards, terms and conditions
- All checks issued
- All change orders
- All expense account approvals
- All employee reimbursable items
- All overtime pay or requests
- All vacation or time-off requests
- All payroll preparation
- All sick time approvals
- All project payables
- All job purchases

19. ACCURATE GENERAL CONDITIONS

Estimating accurate general conditions or indirect soft costs for projects can be a simple task when the estimator is accountable to get it right. Most estimators use unit prices which are never checked against the actual final job direct costs. For example, creating a budget for temporary toilets seems easy. An eight month job should cost 8 times \$100 per month = \$800. But when the field superintendent sees there are 40 men on the job, more than one toilet and more than one servicing a week is required. This might increase the actual job cost by as much as \$200 per month. These extra costs will add up to lots of lost cash.

ACCURACY IS THE GOAL!

The estimator's job is to calculate an accurate cost estimate of what it will cost to build each project. After every job, they must look at the actual final job costs and see if they miscalculated or under funded any items. Before they price out the next job, they should get with the project manager or field superintendent to determine what will be required to run the project they are currently bidding. Take a hard look to determine if you are charging the right price for:

- Project manager, superintendent, and their vehicles
- Project photos, sign, as-built drawings, etc.
- Temporary facilities, trailers, toilets, sanitation, etc.
- Temporary utilities, electricity, power poles, water, phones, etc.
- Temporary fencing, gates, barricades, site lighting, heating, etc.

- Safety, first aid, shoring, access roads, security guards, etc.
- Water quality control, dust control, etc.
- Trash, cleanup, window washing, final punch-list, etc.

20. MOTIVATE WITH MONEY!

I get asked about profit sharing programs at every convention I speak to. Incentive compensation can be broken down into two types: earned or arbitrary. Earned incentive compensation is based on a specific formula that rewards for results based on tasks, accomplishments, or results you want to measure. Arbitrary compensation bonuses are based on what the boss feels is the right amount to pay someone for good work, a positive attitude, or a thank-you for a job well done. It is often based on what the boss thinks is expected to keep employees happy.

I don't think arbitrary compensation encourages employees to do their jobs faster or better. But often it is expected as a part of the overall employee compensation package because other companies do it, or employees feel entitled to something at year end regardless of overall company or personal results. To me this is no more than a gift of generosity from the employer and it is not required. It's a nice gesture and will keep some employees from looking for jobs elsewhere, until they get their year end bonus. But, these gifts really don't make the company any additional bottom-line profit.

PAY FOR PERFORMANCE = PROFIT!

Extra compensation based on measurable results will produce positive bottom-line results. If employees know what's expected and are only compensated for hitting their targets, they will hit them. If they don't know the exact results expected and don't have a reason to achieve them, why should they want to go the extra mile? This requires the boss to determine exact results that will make the company more money. For example, if you want an eight month project finished in 7 months, a generous bonus for the crew or superintendent will keep the team focused on achieving the goal and motivate them to hit the early completion target. Without a financial incentive, the target is a nice idea but of no benefit to the crew to finish early or work harder.

Our workers compensation insurance rating was suffering due to field employee claims for jobsite injuries. We implemented a 'Safety Bucks' program to motivate the crews to work closely together and watch out for unsafe workers or conditions. Each worker received \$1 per day if the entire crew had no accidents. If anyone on the crew had an accident, no one received the safety bucks for the period. We paid this cash bonus out quarterly. This instantly focused everyone on all of our field crews on safety and making sure there were no accidents on the jobsites. This program really worked as it kept everyone focused on the target. Plus I always enjoy giving out bags of bucks to my field crews for no accidents!

Examples of measurable clear targets can include:

- Total man-hours to complete a job
- Hours without an accident
- Project milestones completed by a date certain
- Customer referrals
- Project punch-list or close-out completion
- Improving your bid-hit ratio
- Customer satisfaction
- Project profit
- Project completion and sign-off by customer
- Change order profit
- Estimating accuracy
- New customers signed-up
- Average job size increase

Making the most money you can is fun if you make it your priority. Too often you get so busy you don't have time to do the little things to boost your bottom-line. Give several of these twenty tips and business tools a try and you will make more money. Let me know if you have additional ideas that have worked for you.

SEE YOU AT THE BANK!

ABOUT THE AUTHOR GEORGE HEDLEY



George Hedley, ‘The Business-Builder’ is an entrepreneur, business owner, and the recognized authority on how to build a business that consistently produce bottom-line results, loyal customers, leaders, and profits. He is the author of several books including: “On-Purpose...On-Target!” “The Business Success Blueprint” series and ‘Get Your Business To Work!’ George is also a regular columnist in numerous magazines every month.

George’s expertise is based on his real world experience leading people; running a profitable company, and getting things done. He founded & built his commercial construction and development company from \$0 to \$50 million dollars in only 7 years! For his accomplishments, George received the nationally recognized award “Entrepreneur of the Year” by Ernst & Young and “Venture” magazine. George is a graduate of the University of Southern California in Civil Engineering and has served as President of 5 industry associations.

Today, along with managing his company, George owns HARDHAT Presentations and is a popular speaker to companies and associations. He has earned the prestigious ‘Certified Speaking Professional’ designation from the National Speakers Association. His ‘Business Building Programs’ include topics on Building Leaders, Profits, Customers, and Wealth. He also holds in-depth 2-day ‘Profit-Builder Circle’ boot camps for business owners to help them get their businesses to work.

LET’S TALK ABOUT BUILDING YOUR BUSINESS!

Contact George via email at for information about **speaking** to your organization, signup for his **free monthly management e-newsletter**, or attend a ‘**Profit-Builder Circle**.’



E-mail George

gh@hardhatpresentations.com

George’s BLOG

www.getyourbusinesstowork.com

Phone George

800-851-8553

Website & bookstore

www.hardhatpresentations.com