

Faster, Cheaper, Better

**Starting and Operating
a Business in the Trades**

Jack Borden

Faster, Cheaper, Better



**Starting and Operating
a Business in the Trades**



Self-Counsel Press
(a division of)
International Self-Counsel Press Ltd.
USA Canada

Copyright © 2014 by International Self-Counsel Press Ltd.

All rights reserved.

No part of this book may be reproduced or transmitted in any form by any means — graphic, electronic, or mechanical — without permission in writing from the publisher, except by a reviewer who may quote brief passages in a review.

Self-Counsel Press acknowledges the financial support of the Government of Canada through the Canada Book Fund (CBF) for our publishing activities.

Printed in Canada.

First edition: 2014

Library and Archives Canada Cataloguing in Publication

Borden, Jack, author

Faster, cheaper, better : starting a business in the trades / Jack Borden. — First edition.

(Business series)

Issued in print and electronic formats.

ISBN 978-1-77040-212-6 (pbk.).—ISBN 978-1-77040-956-9 (epub).—ISBN 978-1-77040-957-6 (kindle)

1. Building trades—Handbooks, manuals, etc. 2. Repairing trades—Handbooks, manuals, etc. 3. Small business—Management. I. Title. II. Series: Self-Counsel business series

HD9715.A2B67 2014 338.4'7624068 C2014-905216-2
C2014-905217-0

Self-Counsel Press

(a division of)

International Self-Counsel Press Ltd.

Bellingham, WA
USA

North Vancouver, BC
Canada



Contents

Foreword	xv
Introduction	xvii
1 Faster, Cheaper, Better	1
1. Faster	3
2. Cheaper	3
3. Better	3
4. Good Project Management Will Help You Achieve Faster, Cheaper, Better	4
5. Managing the Project Process	4
2 Considerations for Being a Self-Employed Entrepreneur	7
1. Risks	8
2. Are You a Self-Starter and a Hard Worker?	8
3. Leadership	8

4. Your Specific Field of Expertise	9
5. Sell, Sell, Sell	9
6. Accounting and Financials	9
7. Responsible and Reliable	9
8. Life Changing Commitment	10
9. Money	10
10. Challenges and Heartaches	10
3 Business Fundamentals and the Business Plan	15
1. Required Skills: Sales, Production, and Accounting	17
2. Prepare a Business Plan	19
2.1 Financial projections	20
2.2 Write your business plan	26
3. Working Capital	30
4 How to Structure Your Business	33
1. Sole Proprietorships	33
1.1 Incorporation with one shareholder	34
2. Partnership Options	34
2.1 Unincorporated partnerships	36
2.2 Partners in a corporation	36
2.3 Partnership of corporations	36
2.4 Partnership agreements	36
3. Should You Purchase an Existing Business?	38
4. Finding a Location for Your Business	40
5. Other Things to Consider	41
5.1 Name your business	41
5.2 Design a logo	41
5.3 Insurance	42
5.4 Set up a business bank account	42
5.5 Reporting and registration requirements	42
5.6 Business contact information	42
6. Legal	43
7. Human Resources	44

5	Prepare a Marketing Plan	45
1.	Purpose of Your Marketing Plan	46
1.1	Define your market area and services	46
1.2	Define your market size and your market share	47
1.3	Find your target market	47
1.4	Reach your target market	47
1.5	Prepare your business message	48
1.6	Marketing plan kick off	48
2.	Advertising	48
2.1	Website	49
3.	First Contact with Potential Customers	49
6	I'm in Business!	51
7	Sales	57
1.	How to Be a Successful Salesperson	57
2.	Meeting Your Customers' Project Objectives	59
2.1	Document the objectives	61
2.2	Objectives defined and prepared by others	62
3.	Making the Bid on a Project	65
3.1	Pricing the project	67
3.2	Getting the price right	69
8	Produce It	73
1.	Project Management	74
2.	Create a Project File	76
3.	Purchasing Materials	77
4.	Contract Administration	79
5.	Construction Management	81
6.	Customer Relations	82
7.	Scheduling	83
8.	Managing Resources	85
9.	Mobilizing	86
10.	Supervising	87
11.	Quality Control	88

12. Demobilization	88
13. Contract Wrap-up	89
9 Account for It	91
1. Hire Someone to Help You	91
2. Invoicing and Collections	93
3. General Accounting	96
4. Banking	97
5. Job Costing	99
5.1 Estimated cost to complete	100
5.2 Projected over or under	101
6. Asset Management	110
7. Financial Reporting	112
8. Cash Flow	113
10 Risks	117
1. Identify the Risks	118
2. “Selling It” Risks	118
2.1 Misunderstanding project objectives	118
2.2 Customer misunderstandings about objectives and pricing	119
2.3 Underestimating the cost of a project	119
2.4 Bidding too low on a project	119
2.5 Lack of understanding of a project’s complexity and unforeseen conditions	119
2.6 Lack of resources to undertake your project commitments	120
2.7 Issues with subcontractors and suppliers	120
2.8 Unscrupulous customers	120
2.9 Poor relationship with the customer	120
2.10 Lack of vision	121
3. “Building It for Less Than You Sold It” Risks	121
3.1 Not meeting your Customer’s Project Objectives	121
3.2 Project mismanagement	121

3.3	Not building the project Faster, Cheaper, Better	122
3.4	Not building it for less than you sold it	122
3.5	Inaccurate and unreliable cost-to-complete estimates	122
4.	“Accounting for It” Risks	122
4.1	Under capitalization	122
4.2	Not getting paid by your customer on schedule	123
4.3	The customer has financial difficulties	123
4.4	Personnel problems	123
4.5	Inaccurate and unreliable job-cost reporting	124
11	Suppliers	125
1.	Supplier Credit	128
12	It’s Time to Make Some Money!	131
1.	What Happens to the Profits in Your Company?	132
	Conclusion	135
	Download Kit	137

Samples

1	Statement of Earnings	23
2	Balance Sheet	25
3	Sources of Capital and the Implications of Each Source	31
4	Project Proposal	63
5	Project Types	66
6	Job Cost Estimate	71
7	Project Plan	78
8	Purchase Order	80
9	Paper Trail for Projects and Related Accounting Requirements	92
10	Invoice	95
11	Job Cost Report	102

12	Estimate Sheet	103
13	Work in Progress Report	108
14	Cash-Flow Statement with All Accounts Receivable Collected on Time	114
15	Cash-Flow Statement with Some Accounts Receivable Not Collected on Time	115

Worksheets

1	Are You Suited to Be a Self-Employed Entrepreneur?	12
2	Are You Ready to Make Personal Sacrifices?	13



Notice to Readers

Laws are constantly changing. Every effort is made to keep this publication as current as possible. However, the author, the publisher, and the vendor of this book make no representations or warranties regarding the outcome or the use to which the information in this book is put and are not assuming any liability for any claims, losses, or damages arising out of the use of this book. The reader should not rely on the author or the publisher of this book for any professional advice. Please be sure that you have the most recent edition.

Note: Prices, commissions, fees, and other costs mentioned in the text or shown in samples in this book probably do not reflect real costs where you live. Inflation and other factors, including geography, can cause the costs you might encounter to be much higher or even much lower than those we show. The dollar amounts shown are simply intended as representative examples.



Acknowledgments

Dedicated to my wife, Elaine, for putting up with and supporting a self-employed entrepreneur for more than 45 years.

I would like to acknowledge all the customers who entrusted us with their many projects during my 40 years in the construction business; without them there would be no book and there certainly would be no business. Also, I would like to acknowledge all of my 20-plus business partners over my many years in many businesses; all my accounting friends who have taught me a good working knowledge of their profession and who made me wise enough to know when to hire professionals. Special mention to Mike Stacey and John Barnes who both taught me a lot about project management. And I would like to acknowledge all of my competitors who have inspired me to be the best that I can be in my businesses; without competition there is no business.



Foreword

Workplace safety is not mentioned or discussed in this book. This is not meant to downplay workplace safety in any way. Everyone in our industry must know that workplace safety is of paramount importance to everyone working in construction and the related service industry. This book is about business and not necessarily the right venue to discuss safety in the workplace.

I encourage every reader and prospective entrepreneur to consider safety in the workplace and the safety of fellow workers at all times. As you read this book make sure that workplace safety is always on your mind and part of any plans that you may consider.

You should include workplace safety as an integral part of your business and be sure to create a workplace safety mission statement as part of your planning processes. A serious workplace injury or death in your business would be devastating. Don't let this happen to you or anyone associated with your business.

Whenever you see the words "Faster, Cheaper, Better," make sure you add the word "safer" at the beginning of this statement. You will appreciate the importance of "Safer, Faster, Cheaper, Better."

Always remember: Keep on the *safer* side of life!

Definitions Used in This Book

Construction industry: A business sector that provides construction services. In this book I have expanded the meaning to include related construction services such as maintenance, supplies, light manufacturing, etc.

Customer's Project Objectives: Customer is singular in this case and refers to one customer's defined objectives.

Customers' Project Objectives: Customer is plural in this case and refers to all of your customers' defined objectives.

Faster, Cheaper, Better: Your customers' primary project objectives.

Profit: The excess of the selling price of goods and services over their cost.

Project: An undertaking to achieve a defined set of goals or objectives within a defined beginning to end date.

Project management: The discipline of managing all aspects of, and all required resources for, a project in order to meet all of the defined project objectives.

Project Manager: The person responsible for all aspects of the project. No matter how small or large the project is, one person needs to be responsible for project management.

Project Objectives: Project objectives are all of the defined things that are to be undertaken and/or completed on a project. Objectives can include schedule, budget, and quality, and should be more specifically defined within a project scope of work.

Project Scope of Work: A document that outlines all of the details of a project, what is included, what is not included and, within the scope, defines all of the Customer's Project Objectives.

Self-employed entrepreneur: A person who works for himself or herself and who organizes and assumes the risks of a business.

Work in Progress (WIP): An accounting worksheet that calculates the value of work completed and gross profit earned on projects in progress at any point in time, typically at month end.



Introduction

This is a book about business; more specifically, it's about small businesses in the field of construction and construction-related services. Since this is a book about small business I decided to keep the book small as well. There are hundreds, if not thousands, of books written about business and most are a gazillion pages long and weigh in at a ton or so. This book is more to the point and focuses on better business practices for the hundreds of thousands of small businesses in the construction industry in North America.

Note that this book is all about starting and operating a small business and not the technical side of your business. I have to assume that you are technically competent and have good working technical knowledge and the skills that are required for your business. I also have to assume that for some trades in which licensing is required that you have completed all of the requirements for your state, province, and/or local jurisdiction. Therefore, from a technical perspective you are ready to go.

Throughout the book I refer to our industry as the “construction industry.” Many businesses in the construction industry sector

provide more than construction-specific services such as maintenance, supplies, light manufacturing, etc. No matter how your business is structured I'm sure you will benefit from reading and rereading this book.

You heard me right: there are hundreds of thousands of small businesses in the construction industry in North America. From excavators to framers, from cement finishers to roofers, from painters to plumbers; this book covers all of them. Our industry has built most of the infrastructure and buildings in North America and in the world for that matter. Sure, there are a lot of big businesses in our industry but don't kid yourself, small business is the backbone of the construction industry in North America. We are an extremely unique business sector when compared to other businesses throughout the economy. Big business, as we know, dominates industry and commerce and we are all familiar with big business names and entrepreneurs such as McDonald's, The Home Depot, Donald Trump, Bank of America, Walmart, Exxon, Apple, Royal Bank, Microsoft, GM, Warren Buffett; I could go and on. These corporations and individuals employ millions of people who are, for the most part, employees.

Where you will find the majority of self-employed entrepreneurs is in the construction industry. The average Joe or Jane couldn't even begin to imagine starting a business like Walmart, Microsoft, or Apple, but there are many people who have started or want to start a business in the construction industry. Why? The construction industry is very well suited for small business and for those who wish to be self-employed entrepreneurs. It can be relatively easy to start a small construction business and it can be fairly easy to get out of the business as well. Small businesses in the construction industry come and go; some last for a year, some for a decade, and some for an entire career.

Our industry is one of the more complex and unique industries in the world. Every project, whether it is a new development, a renovation, or a related service comes with a unique set of challenges. Our industry is not a production line making thousands and thousands of widgets or hamburgers that are exactly the same. Quite the opposite, because almost everything we do is customized. In order to undertake these projects we must have the necessary skills and resources to tackle these challenges in a sea of competition and demanding customers. Sounds like fun, doesn't it?

Our industry is also unique in that everything we do is made in North America. We may buy, resell, and install equipment made outside of North America but what we actually do in the field is made locally. We employ local people, we are part of our local business community, we support other businesses in our communities, and we are proud to say “made in the USA” or “made in Canada.” Compared to the majority of retailers in North America who sell mostly goods imported from overseas, our industry can proudly say “made in North America.”

The truth is, for many of us in the business, being self-employed entrepreneurs in the construction industry is the most rewarding career choice we could have made. Look at the alternatives. You could work for Walmart and rise to manager one day. Even if you participate in stock options you are still going to be an employee at the end of the day; one of millions. You could work for the government; whether it is federal, state, provincial, or local, and be set for life with a great pension after 30 years or more of service. You could become a professional such as a doctor, teacher, or lawyer. You could remain an employee in your chosen trade. With all of these choices why would anyone consider starting their own business in the construction industry and becoming a self-employed entrepreneur? Most likely for one or more of the following reasons:

- I want to be my own boss.
- I want to be in charge of my own destiny.
- I want the flexibility that comes with being self-employed.
- I believe I can make more money!
- I don't want to sweat my life away for someone else.
- I'll never have to look for a job again.
- I can take time off whenever I want.

For the most part these are very valid reasons; however, this is reality:

- If you are a self-employed entrepreneur you actually work for the toughest boss you could ever imagine; your own business. There is nothing more demanding than the demands of your own business. You will set the bar far higher

for yourself than any employer would consider foisting onto an employee. In order to be successful, you will need to work extremely hard and smart for your business.

- Your destiny will be wherever your business takes you and that is very hard to predict. You will be able to choose but the successful pursuit of business opportunities will ultimately be your destiny.
- Being self-employed comes with a very flexible work schedule. Ask any successful entrepreneur and he or she will tell you that you only have to work half days; that is, only 12 hours a day.
- Making more money can be a reality but you will bust your butt and your brain for every dollar you make. There are no get-rich-quick schemes in this industry.
- As self-employed entrepreneurs, we don't have to sweat our lives away for a boss, we have to sweat our lives away for our business, our families, our customers, the bank, our suppliers, our employees and, at the end of the day, for ourselves.
- You may never have to look for a job as an employee again but you will be facing a lifetime of selling, and looking for new projects and business. It is a never-ending task.
- You can take time off whenever you want as long as there isn't a project in progress that demands your time just when you thought it was time for a holiday.

If you are still interested in this wild and crazy pursuit to become a self-employed entrepreneur, keep reading. If not, please pass this book on to someone you think may fit the bill. Who knows? If the person is successful, he or she may give you a job one day!

For those who wish to keep reading, all of the above points focus on what it would be like, and the commitment you need to make, if you want to become a successful, self-employed entrepreneur. In reality, you should be in business for only one reason, and that is to make money. That's right: to make money and lots of it! More money than you could ever imagine making working for someone else. The pursuit of profit in your business must be relentless and never ending. If this sounds like greed, it isn't. It is reality.

The truth of the matter is that without profit you don't have a business. Without profit you will become discouraged and want to quit. If there is no profit, your business can't expand and grow. You can't reward yourself for all the work and value you bring to your business without profit. If you're lacking a good income stream, you might as well work for someone else and avoid all the hassles and risks associated with owning your own business. Your bank will have no interest in dealing with you if your business doesn't make money. Without profit, your suppliers won't grant you any credit. You need profit; otherwise, you are going to have a very tough time meeting your personal and career goals. Without profit, your business will ultimately collapse. And without profit, you are a bane to yourself and to our industry.

There you have it. Why do you want to set up your own business and become a self-employed entrepreneur? To make money! Now you've got it. This is what this book is all about: helping small businesses in the construction industry and self-employed entrepreneurs make more money.



1

Faster, Cheaper, Better

Every customer has only three Project Objectives and they are Faster, Cheaper, Better. Contractors have been telling their customers for years that they do three kinds of jobs: quick jobs, cheap jobs, and good jobs, and you can have any *two* that you want:

- A quick, good job isn't going to be cheap.
- A quick, cheap job isn't going to be good.
- A cheap, good job isn't going to be fast.

What if your customer doesn't want to choose just two out of the three objectives? It seems logical that your customer wants all three: quick, good, and cheap. Or, said in another way: Faster, Cheaper, Better. As an extraordinary contractor, you can deliver Faster, Cheaper, Better jobs.

I am not saying Fastest, Cheapest, Best. I am saying that your services as a whole will be Faster, Cheaper, Better than your competitors. You may not always be the *Fastest*; you may not always be the *Cheapest*; you may not always be the *Best* in all aspects of

the project. But taken as a whole on a project, you will be Faster, Cheaper, Better when compared to any of your competition.

This is what Faster, Cheaper, Better means:

- Faster: Always on schedule or ahead of schedule.
- Cheaper: Always competitive and providing the customer with good value.
- Better: Always a quality installation and a better project process.

Now here is something that is most interesting. Every Customer Project Objective that you identify and/or document will fall under one of the three categories of Faster, Cheaper, Better. What does this mean? There will be a number of documented Project Objectives, but in every case every one of these defined project objectives will fall under one of the primary objectives of Faster, Cheaper, Better.

If we were to take a sample project and have six contractors complete the exact same project, we know that one of the contractors will complete the project first, one contractor will complete the project for the least amount of money, and one contractor will have the best quality and project process. It's unlikely that one of the contractors will be number one in all three categories. But what if one of the contractors was rated as the contractor that was overall Faster, Cheaper, and Better when compared to the other five contractors? Isn't that the contractor that would be the real hands down winner?

The contractor who finished the project first may have incurred higher costs, so did his project quality and process suffer?

The contractor who finished the project at the lowest cost may have missed the scheduled completion date, so did her project quality and process suffer?

The contractor who had the best quality and project process may have missed the scheduled completion date, so did he incur higher costs?

Then there was the contractor who was rated overall as the best contractor when all three categories were taken into account. This

contractor was overall Faster, Cheaper, Better when compared to all of the other contractors! That's the contractor the customer wants to do business with because he or she is likely the only contractor that met all of the project objectives of the customer.

Was this contractor the Fastest? No. But the project was completed on or ahead of schedule.

Was he or she the Cheapest? No. But the project was on or under budget and the customer was provided with very good value for every project dollar spent.

Was the contractor the Best in quality and project process? No. But the customer was provided with a job that met all of the customer's quality objectives and the project process was seamless and trouble-free for the customer.

As you can appreciate, this is an extremely important concept; it is the background for this entire book. Exactly what does Faster, Cheaper, Better mean and how do you achieve Faster, Cheaper, Better on every one of your projects? Let's define Faster, Cheaper, Better.

1. Faster

You complete all of your project responsibilities right on schedule. This means not a day late and not ahead of schedule if you are going to incur additional costs (earlier is okay if you are not going to incur additional costs). The customer said, "Be done on a certain day," and on that day you were 100 percent complete. Not 99 percent complete, but 100 percent complete. What else could the customer ask for? Cheaper and Better, of course!

2. Cheaper

You provide your customer with excellent value for every project dollar he or she spends with you. Yes, you expect to make a fair profit on the services you provide and the customer expects this too. What the customer wants to know is that every dollar spent with your company is going to provide excellent value. What else could the customer ask for? Better, of course.

3. Better

Better doesn't refer to just the quality of the installation. To the customer, a Better project means the overall project experience from

beginning to end and the quality of the installation. A Better journey for the customer throughout the entire project! A project where the customer enjoys a trouble-free relationship with the contractor in which communication by the contractor is efficient, effective, and timely, and the contractor is committed to *meeting* the Customer's Project Objectives. The end result is a quality installation.

4. Good Project Management Will Help You Achieve Faster, Cheaper, Better

How is Faster, Cheaper, Better achieved? One way and one way only – excellent project management! Project management is the management of the project process from beginning to end. The project has been sold to the customer and you are ready to build it for less than you sold it. The project process starts and continues on until the project is 100 percent complete and full payment has been received from the customer.

Is project management mandatory? No. At the end of the day the light switch will still turn on the light on a poorly managed project just as it will on a well-managed project. The difference between a well-managed project and a poorly managed project is that on a well-managed project, Faster, Cheaper, Better will be achieved and a poorly managed project will likely be behind schedule, incur more costs, and the project process journey could be a disaster.

5. Managing the Project Process

A project is a task or group of tasks completed within a defined starting time or date and a defined end time or date. The project process is what takes place between the project start date and the project completion date. You complete a number of projects everyday throughout your life. For example, today I am going to the grocery store so I will get in my car, drive to the store, shop, return home, and put the groceries away. The project started when I decided to go to the grocery store and the project ended when I put the groceries away. Was there a management component to this project?

An unmanaged trip to the grocery store does not involve a pre-plan; it only involves the actual return trip and shopping. A managed trip to the grocery store likely involves the following process:

1. Make a list.

2. Check with your spouse or partner to see if he or she would like to add anything to the list.
3. Plan your trip to coincide with other projects that you may have to complete at the same time.
4. Plan your trip at a time that is convenient for you and when the store is not busy.
5. Stay on track and stick to the list by checking off the items as you put them in your basket.
6. Organize the groceries at the checkout in the best order for putting them away at home.
7. Return home.
8. Put the groceries away.

Here's the difference between a managed trip to the grocery store and an unmanaged trip to the grocery store:

- The managed trip likely took less time, therefore it was Faster.
- The managed trip had a list and you stuck to it, so your shopping trip was Cheaper.
- The managed trip avoided the rush hour and you didn't forget anything, so the entire process was Better.

Therefore, a project as simple as going to the grocery store, if properly managed, will result in a Faster, Cheaper, Better shopping experience.

Now I am not suggesting that you want to apply Faster, Cheaper, Better to every aspect of your life. You may end up driving your spouse or partner crazy. What I am saying is that in business every project process needs to be managed in order to produce Faster, Cheaper, Better results. Your customer is paying the bill so he or she wants Faster, Cheaper, Better, which means project management shouldn't be optional in your business. You need to manage every project you undertake.

Before determining how to best manage projects in your business, let's look at the fundamental field components of every project. Whether you are doing the field work yourself or you hire field personnel, you need to provide the following on-site for each and every project if you hope to achieve Faster, Cheaper, Better results:

- You need the material for the project readily available on-site when it is required.
- You need the tools and equipment necessary for the project, all in good repair, and readily available on-site when they are required.
- You need the skilled labor on-site, capable of undertaking the project tasks when they are required.
- One person should be assigned to lead the project process on-site.
- You need to provide clear and concise information (e.g., plans, specifications, drawings, scope, Customer's Project Objectives) to the project personnel that clearly define the scope of the work. Information should be reduced to bite-sized pieces and not in overwhelming package sizes.
- Project personnel need to be provided with clear and concise direction as to what the project expectations are (e.g., schedule, budget, project quality).

That's really all you need to do for the site personnel to do their jobs efficiently and effectively. In my experience on well-managed projects, your typical poorer performers will perform at the level of your best performers. By managing all of the above processes you have just taken away any excuse your poorer workers could have to perform poorly. You have just made their jobs easy and no one on-site has any excuse but to work up to your performance expectations. Now, if you let the site down and mismanage any aspect of the on-site processes, your poor performers will typically crucify you, whereas, your good performers will try to work around your mismanagement and still get the job done.

The bottom line: If you fail to manage all the on-site required processes, you will not achieve Faster, Cheaper, Better and you won't meet your Customer's Project Objectives. On every project, at some point in time, you are going to have to provide the necessary project elements defined in this chapter, and throughout this book. Why not do it with good project management?

The following chapters will help you apply the principles of Faster, Cheaper, Better. The first question you need to answer is: Are you ready to be a self-employed entrepreneur?