

Subbing Out Everything

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Detailed specs and good site supervision make this low-overhead technique go smoothly

The company I now own with my sister was started as a painting company by my grandfather in 1916. When my father took it over in 1941, he changed it to a general contracting firm. He specialized first in home building, then in commercial remodeling, with a speciality wallpaper company on the side.

It was a successful business. By the time I joined the company in 1968 to do payroll and job costing, my father had a crew of 30 men in various trades, from truck drivers to cabinetmakers. He worked hard to make sure these people had work. He succeeded, even though it meant long hours and that, at times, he had to skip paying himself.

In the 1970s, however, the continuous boom that Hawaii had enjoyed since the 1950s ended. Our business shrank accordingly. By the time my sister and I bought the company in 1981, we had little other than maintenance and repair work, and only three field employees. Our wallpaper division was busier than our remodeling division.

We needed a plan. We decided to quit commercial work and specialize in residential remodeling. We had more experience with residential than we did with commercial, and we were confident that we could sell to that market.

We also decided that if we grew, our crews would not grow along with us. Instead, we would handle everything with subs. This decision came from years

of watching our father struggle to hire, maintain, and keep working a crew of qualified trades- and crafts-people.

We have made our plan work. We now run a \$2 million-a-year residential remodeling company, doing jobs that range from \$5,000 to \$100,000 or more, with most in the \$25,000 to \$50,000 range. We have about six to ten jobs in production at any given time.

We have five people on our staff, but no one lifts a hammer. Subcontractors do all the work. It took us ten years to put together a team of

subs that work together smoothly and produce the quality of work we are proud of. We work with three carpentry subs, two electrical subs, three plumbing subs, one drywall sub, one mason, and two painting subs. Success means making sure they all work together smoothly—that nothing falls through the cracks and that the client feels a continuity of service and care from us, the general contractor. To achieve this, we've found that three things are crucial:

- careful, thorough planning and specification of the work

- a good preconstruction conference to review the work with the subs and finalize the schedule
- steady coordination of the job once production is under way

Lining Up the Ducks

We are a design/build firm. Once a client is committed to working with us, on anything but the smallest jobs, we have the client sign a separate design contract first, to cover the costs of designing and spec'ing the work. We give a ballpark estimate based on our previous experience with similar jobs, making

it clear that it might change once specs and plans are finalized.

Securing the subs. We then pin down the precise design and specs for the job and create a tentative schedule. Then we meet with each sub to review the scope of their work and get their estimates.

We generally know which subs to turn to for a given job. In turn, our subs are familiar with how we work and with each other, so they know what is expected and can do their estimates accordingly. For instance, all our contracts call for the subs to clean up after themselves daily, so they know to include that in their estimates.

They also know, from experience and from the schedule, that they may need to make short trips back to the site to accommodate other subs, so they include those costs as well. For instance, the carpentry sub may



From foundation and framing to finished product, Karen Nakamura's remodeling company subs out everything. Good planning, vigilant production coordination, and daily client contact ensure continuity and quality.

have to send out a man twice in one day to tear out and then rebuild framing around a new plumbing fixture or appliance.

The final estimate. Once we have received the subs' estimates, we compile the final estimate for the client. This is simply a matter of adding up all the subs' estimates and adding our overhead and profit margins. This entire bid preparation period — from finalizing the specs with the client to presenting the final estimate and contract — generally takes about two to six weeks, depending on the job size.

Once we have a construction contract, we're ready for the most important step in the process, the preconstruction conference.

Preconstruction Conference

We added this conference step about a year ago. It has worked wonders in removing the little kinks and hiccups that can throw a remodeling schedule off track. We schedule the conference about six weeks before the job is scheduled to start. This allows time for scheduling flexibility, material delivery (which can take a while from the mainland), and getting permits.

At this conference we introduce the client to the subs, review the scope of work, and explain to the client how the schedule will run and who to contact (us) with any questions or problems.

We also review, in detail, the schedule with the subs. We walk through and confirm every foreseeable step in the job. Here, we work out the last details concerning who does what when.

By carefully planning and specifying the scope of work for each sub, we're able to schedule pretty accurately. But we often need to make adjustments at this conference. Taking a second look, for instance, the carpentry sub may realize that he'll need a full day rather than a morning to tear out a wall and cabinet to give the plumber access to piping, so we adjust the schedule accordingly. Making the necessary adjustments here, before the job starts, has made a big difference in how the jobs actually run.

After the conference, we print a final, detailed schedule. We send a copy of this to every sub and to the client. With that done, we are ready to begin production.

Coordinating The Job

When you don't have someone on site all day, communication with clients and subs becomes the crucial element in keeping the job running smoothly. In our company, we ensure good communication in two ways: by having our field superintendent make a daily visit to each site and by making our in-house project coordinator (who rarely leaves the office) available at all

times by phone. It is these two people who actually manage the production of the jobs and keep them moving smoothly.

Our field super, Jane Nakamura (no relation), spends her days visiting sites. It is she who actually drives the work in the field. She secures the permits and meets building inspectors and material deliveries. She coordinates the work of subs on site, answers their questions, delivers last-minute materials to them, accepts or rejects their work, updates them about job progress or schedule revisions, and gives daily status reports to the office project coordinator. She also tries to talk with each client daily and answer any questions or resolve any problems they have. Jane has both a beeper and a cellular phone so she can be reached at any time.

The other key production role is played by the in-house coordinator, Charlotte Bickford. She is the job's traffic controller. She takes all calls from the field. If something requires immediate on-site attention, she pages or calls Jane to take care of it. Otherwise, she makes the necessary adjustments herself. This means tracking and updating each job schedule, producing the paperwork for change orders and purchase orders, and relaying information between subs, clients, suppliers, and Jane.

She also does much of the work that the salespeople (my sister, Audrey Tanaka, and I) used to do before we got too busy selling: writing the specifications and scopes of work for new contracts and subcontractors; collecting bids; devising the schedules; ordering materials and confirming their arrival; and compiling the final estimate and client contract.

This may sound like a lot of personnel — two salespeople, the in-house coordinator, the field super, and an office manager/bookkeeper — but this is what we need to run our \$2 million company. In a smaller company, some of these functions could be combined. With a cellular phone and a beeper, even a one-person company could do all these functions — estimating and selling prospective jobs, coordinating and visiting jobs in production, and doing the paperwork.

A slightly larger company could do it with two people — one in the field selling, estimating, and doing the field-super job, and one at the office doing the in-house coordinator's job and office administration.

In any case, the essentials of the system remain the same: careful planning and specification of work, a thorough preconstruction conference, and vigilant coordination of jobs in progress.

The People Part

Along with these logistical

necessities, running an all-sub contracting business requires good relations with both clients and subcontractors.

Keep the customer satisfied. We're sometimes asked if customers, when told that we sub out all the work, are concerned about quality and continuity. We can usually ease such doubts by providing references and explaining that we use only a handful of subs with whom we have long working relationships. That, along with careful planning and the promise of daily client contact, usually reassures them.

The subs have been good about hitting punch-list items, which are coordinated in the same way the main parts of the job are. We often add a little insurance on punch-list items by meeting the sub at the site to go over the item, and then reminding the sub the day before the work is to be done.

Finding good subs. We find good subs by asking for recommendations from those we already know well. We have long-term relationships with most of our subs. Our newest sub is a plumbing sub we've used for about two years. Our longest relationship is with one of our electrical subs, whom we've been using for 12 years. Most of the other subs we've been using for five to ten years.

Now and then we have to drop a sub. We had to drop one of our old plumbing subs, for instance, because the skill level of his helpers varied too much. And about three years ago we had to change one of our framing and carpentry subs because he grew into a general remodeler and started marketing to some of our clients.

We're careful to keep our relationships with subs professional and well-defined, while doing what we can to make their jobs easier. We spec carefully, but never dictate how they work. For instance, we never request or demand that certain crew members do certain work.

We also select subs based on the specifics of a job (mainly size) and sometimes on the nature of the work. You get into trouble, for instance, using a smaller sub on a big job, because he might not have the personnel to make the schedule. A larger sub, on the other hand, may not be willing to do a smaller job unless he's looking to fill small gaps in his schedule.

We take care of our subs by paying them well and on time. They submit fixed-price bids, but we accommodate their need to charge for the extra tasks that working with us entails, such as daily cleanup and working with other subs. We also have firm change-order and hidden-damage clauses in our client contracts, so that anything not called for in the specs, or

anything discovered while the work is in progress, is covered by the client. (In the occasional instance that we fail to spec something necessary to the job, we eat the difference. That doesn't happen often, however, because we spec the jobs in detail.)

Another thing we do for subs is supply most of the finish materials and specialty items ourselves — finish hardware, light fixtures, plumbing fixtures, carpeting or sheet vinyl, ceramic tiles, etc. This means the subs only have to worry about supplying the more standard items, such as lumber, drywall, and plumbing and electrical materials.

All this has paid off in good relationships with our subs. They stick with us, keep to the schedules, and are willing to give a little on tight-budget jobs. In return, we accommodate them by paying more when a job requires something extra. We also take care to schedule carefully so they can depend on the schedule.

The Other Side

One issue to watch for when you use subs a lot is the sub versus employee question. Both the IRS and the workers compensation insurance industry frequently audit contractors to make sure that their subs are really subs, and not employees. We keep this distinction by making sure none of our subs get more than half their work from us, and by letting them meet the contract specifications and schedule in whatever way they wish. We also follow the usual rules of making sure they have workers comp insurance and are licensed independent contractors. We also get a certificate of insurance from each of our subs each time their insurance is renewed.

There are a few compromises you make when you work only with subs. One is that we can't track costs in fine detail, for we don't know the hours and per-item costs for the work our subs do — we have only their final bills to use when making future estimates. However, as described earlier, we give only an initial estimate, based on this ballpark figure, and base the final estimate on the subs' actual estimates for each job.

Another drawback is that, overall, costs run about 10% higher than if we did the majority of the work ourselves. This makes us a little more expensive than some of our competition. But it's worth losing an occasional job because of this to get the flexibility and limited overhead that comes with having few employees. ■

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