

Managing Subs



ILLUSTRATIONS BY DAN DRABEK

In 1978, after years as a spec remodeler in California, Adrian Lugo founded Lugo Construction in Fife, Wash., and promptly lost most of his life's savings on his first four projects. After qualifying for an Affirmative Action program as a minority contractor, Lugo entered into a joint venture with an established minority firm, where he learned construction systems, risk management, and how to "bid on the street." When his partner retired, Lugo continued to take on larger commercial projects. Despite the size and volume of his company today — 35 employees and about \$15 million of commercial, industrial, and institutional work per year — the lessons he learned while building his company are valuable for builders of any size.

CONTRACTS

JLC: What's the main difference between how you treated your subs when you were a residential contractor and how you deal with them now?

Lugo: When I was a residential contractor, the schedule was driven by the subs. If the sub couldn't make it, or the sub was tired, or the sub drank too much, or the sub was having personal problems, the work halted or slowed down dramatically.

Things are different in commercial work. Commercial clients plan their advertising campaign around the construction schedule. They hire new employees and rely on a specific date that they can open their doors for business again. So we started becoming extremely schedule-conscious.

A tight but fair contract and strict attention to the schedule keep subs on budget and on time

JLC: When you were doing residential work, you still wanted to get it done on time but the subs didn't pay any attention. Why do they stand up and pay attention now?

Lugo: Because I have a very good contract. It's a lot like the new AGC [Associated General Contractors of America] contract, except that I had my contract in place four years ago. We take it one step further, though. If you take a hard look at the AGC contract, it's very open-ended about what the general contractor can do. But in my contract, I have spelled out what I can do to you and what you can do to me. We can do things to each other if we cause each other grief.

JLC: So what kind of things can you do?

Lugo: Back-charge for delays — that's the biggest thing, and that goes both ways. If I get a back charge from a sub on a job, heads roll from the superintendent up. But by the same token, if a sub delays us, they end up paying in two ways. We send them a three-day notice to come up to speed, either by manning their crews or double-shifting — whatever it takes, they've got to come up to speed. And if we have to put on extra supervisory people (if they double-shift, for instance), they also have to pay for that.

A three-day notice is kind of a kick in the teeth that you don't really want to give. We don't send a three-day notice out of the clear blue sky. It's the last resort, but let me tell you something: The good subs scream and yell, but boy do they come on line quick.

The big thing is to get subs to finish on time or early. When subs finish on time or early, they always make money. That's why I tell them that their best employee is my superintendent, because if my super finds that their crews aren't performing, he tells them.

JLC: Do you have contract language that gives you approval over a sub's employees?

Lugo: It's in the very beginning of the contract. If we find somebody who's not producing like the rest of the crew, we get rid of them.

JLC: Other than the issues you've already mentioned, what do you usually have to explain to subs about your contract?

Lugo: We have a clause that says the

sub can't charge us more than 5% on work that we give to them; the same goes for work they give to us. In other words, say we damage something and we need the sub to correct it. That's work from us to the sub, outside the contract with the owner, and the sub can only mark it up 5%. And when a sub screws up and wants us to fix it, we can only charge a 5% markup.

JLC: Have you ever had to use that clause when, say, one of your people cut through some piping or wiring?

Lugo: We've done that, cutting through a slab. It was a double screwup. The print said to run plumbing and electrical through a certain area, but we got a change order asking us to saw-cut and drop the floor. We



knew there was electrical and plumbing in there, but we weren't careful, and we cut through everything. We had to have the subs come and redo it. It doesn't happen often, but it does happen.

JLC: Does that ever lead to a dispute?

Lugo: Sure. But there are some good lawyers out here. I usually call up the sub and tell him, "Look, would you please call these lawyers before you go haywire? Get a second opinion before you go off the deep end."

We also defend our subs. We sometimes get into shooting matches with inspectors and owners over a sub's work. They want the drywall to look like a car body, and I have to explain that we're not dealing with something that's stamped out of a mold. This is hand-applied drywall — give me a break.

We're in a dispute right now in which the owner doesn't want to pay

the sub the cost of delays. As the GC, we're not entitled to delay costs in this case because the changes didn't stretch out our critical path. But the sub was delayed 10 days by the owner on his portion of the work. I'm asking for that money for the sub.

JLC: The sub probably feels pretty good about that.

Lugo: What we find is that if the subs make money, we always make money. If the subs lose money, we always lose money. Our contract is heavy-duty, but it's geared to help the small guys. The big guys have no problems, but you have to keep the small guys on schedule because they have more commitments than just your job. If they foul up on their other commitments, they may be out of business.

LOWEST RESPONSIBLE BID

JLC: You developed this approach over a period of years, but you had to start somewhere. When you were writing your first subcontracts, what rules and principles guided your relationship with subs?

Lugo: The basic premise? Do unto others as you would have them do unto you.

JLC: Sounds familiar.

Lugo: It definitely works.

Anybody who says it doesn't work is going to make a lot of money real fast, but they're not going to last.

JLC: That rule really begins with taking the low bid, doesn't it?

Lugo: The lowest *responsible* bid. The sub's references have to check out. Some subs have complained that we shopped them — we took their bid and didn't use them. That isn't true: We took their bid, then we found out their references were less than desirable, so we found someone else. If we can't find somebody else to do it for the same price, guess what? We pay more.

JLC: Who do you usually call as a reference?

Lugo: I call other generals and owners. And when I do that, I want to talk to the project manager that had the sub on the job. I also run credit checks on subs I don't know. I have a credit service that costs me a couple of

hundred dollars a year plus \$10 for each credit check.

JLC: So that keeps you from hiring a sub who goes under in the middle of your project.

Lugo: Right. Another thing we regularly do is help subs start up. A superintendent will tell me he's found a small sub who knows what he's doing and he's starting his own company. The super may want to give him the opportunity to bid a bigger job, but the sub won't be able to make payroll because it's too big for him. So we'll help him out. We sign joint checks to suppliers because the sub can't establish credit, or we help them meet payroll by advancing money outside the normal pay schedule. Of course, the sub still needs to be low.

JLC: What kind of assurances do you require from a sub when you do something like that?

Lugo: He's got to come in here and meet me face to face. And he's got to tell me, "I will complete this job." He's got to show me he's serious about the job and understands what I'm doing for him. If you're handing someone the golden goose and they don't know it's the golden goose, they might kill it.

I have something that I think is unique. I have a person in my office — I hired her, she works for me, there's no one above her but me — whose job title is Subcontractor Advocate. Her sole purpose is to make sure the subs get paid on time. If they don't know how to do their paperwork, she helps them. If they're having trouble getting an insurance policy, she helps them. If they need joint check agreements to pay their suppliers, she helps them.

She's also good at recognizing start-up subs who will help us in the long run. We have a sub right now who's starting his own firm, and we showed him how to get his license, how to establish systems to run his company, how to stay out of trouble. I even showed him how to negotiate with us.

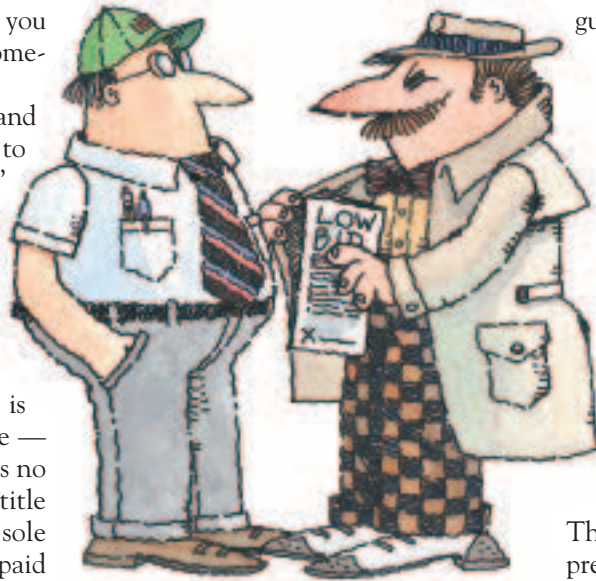
JLC: You negotiated both sides of the table?

Lugo: Yeah. I had my project manager negotiating for our side — we staged it. He had the sub in a corner, trying to get him to do temporary power,

although it was excluded from his bid. I said, "Come on, man, you're the low bidder. You haven't signed a subcontract yet, tell us to take a hike." I told him he was in a different role now, going up against generals who would try to eat him up. If I'm trying to get you started here and then you die with the very next general you work for, what's the use of it? So we finally agreed to the terms of a contract and got it rolling. He's doing a \$254,000 subcontract — the biggest job he did before that was \$13,000.

JLC: You learned these lessons yourself, of course, in the School of Hard Knocks.

Lugo: It's a School of Bleeding Red. I learned it by being a subcontractor. The



generals would eat me alive. I would bid the concrete work — sidewalks, driveways, foundation, retaining walls — then the general would say, "How about adding another 2 feet here? It's not going to cost you that much more to do that. And why don't you punch this foundation wall out here for a bay window? That won't cost that much more. I'll give you more jobs."

I eventually realized I was making hardly anything on these jobs, and I wasn't making it up on volume. So when I became a prime contractor, I couldn't do it to other people, because I knew how much it hurt.

JLC: But that is the strategy of a lot of prime contractors.

Lugo: That is *the* main strategy of

almost *all* prime contractors. Let me tell you a story. We bid a job and came in second. A sub called me and said, "Hey, Adrian, I really wanted you guys to get that job. I really don't like working with that guy who was low — he abuses us, and we never make what we bid on jobs with him."

So I asked him, "Did you bid to him the same number you bid to me?" He said, "Of course I did. What if he found out?" I said, "So what if he finds out? Why don't you tell him it costs more money to do work with him? Why don't you tell him the truth?"

The difference between my bid and the low bid was something like \$1,100 on a \$900,000 job. The subcontract was for \$106,000 — the difference was about 1 percent of his bid. So I asked the sub, "If I said that for \$1,101 I can guarantee you that I will get this job, would you have given the money up?" He said, "Well, sure, I'd give you that money in a minute. We work good together." And I said, "Then why didn't you do that?" Then it dawned on him.

JLC: If you have five or six subs doing that, then you're getting a substantial advantage on your bid. Do you have subs who work that way with you?

Lugo: Yes, we do. And guess what? The generals in my area are starting to treat the subs better. They're afraid Lugo's going to get a preferential bid.

JLC: The Lugo Movement. What do you do in return for that preferential bid?

Lugo: We treat the subs good, keep them on schedule whether they like it or not, make sure they make money, make sure they get their change orders.

Here's what we do about change orders. We have weekly meetings, and we ask the subs if they feel that there's any work here that's out of their scope that needs a change order. The meeting is on the site, and they *must* attend.

We also have weekly safety meetings — they're mandatory and all the subs must come. And we make sure all subs comply with the law. We make sure their personnel have CPR cards and are working safe.

TWO-WEEK SCHEDULE

PROJECT NAME: EPI WAREHOUSE
JOB NUMBER: 9506

PREPARED BY: J. CASANDRA DATE: 9/7/95
SUBCONTRACTOR/TRADE: COLLINS CONC.

DESCRIPTION	WEEK BEGINNING:							WEEK BEGINNING:						
	MON	TUES	WED	THUR	FRI	SAT	SUN	MON	TUES	WED	THUR	FRI	SAT	SUN
FORM WALLS	X	X												
POUR WALLS			X											
BACKFILL				X	X									
FORM/POUR REMAINING CONC.				X	X			X						
SEAL PIT AREA									X	X				
INSTALL FTGS/BEAMS										X	X			
INSTALL GRATING											X	X		
MANHOURS	64	64	30	40	40			24	32	32	32	16		
NUMBER OF PERSONEL	8	8	3	5	5			3	4	4	4	2		

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QUALITY BEGINS ON DAY #1

Job managers use this simple form to coordinate subcontractor schedules at meetings held every two weeks. The meetings are also a time for subs to ask for change orders on work they believe is beyond the scope of their contract.

SCHEDULING

JLC: What management tools do you use to keep subs on schedule?

Lugo: We have a look-ahead meeting every two weeks on small jobs, once a month on bigger jobs. In that meeting, we find out when each sub needs to be in a certain room and eliminate conflicts. We coordinate with them so no one steps on anyone else. We've had 65 people in a building doing all the finish work and we didn't have one conflict — no one stepped on anybody.

JLC: Does every sub get a copy of the master schedule before the job starts?

Lugo: Yes, and we also have a two-week schedule that is actually done on a form that we copy (see “Two-Week

Schedule," above). That's what stops conflicts on the job site.

What we found out is that the average sub wants to feel good about the job. They want to feel that they helped us, their customer, and the owner, the ultimate customer. And they want to make a profit and go to the next job. They don't want to live on our job site. And it all depends on the schedule. If their crews are spending too much time on a particular item, they're sitting on their butts, and the sub's going to lose money.

JLC: Many builders expect the sub to do what he says he's going to do, then wait till the end to see how it turned out. But you're managing subs every step of the way. How do you think that

translates from the big jobs you're doing to smaller residential work?

Lugo: Let me tell you something that I really believe. A small job, a short-duration job, is tougher to run than a big job. With a big job, you get a week to correct something, but with a little job you may have only hours to correct something. It had better be right.

I'll give you an example. We built a custom home at the end of last year. It was a 3,500-square-foot custom house, and we built it in a little over two months. And I'm talking custom — tile, glass block, marble, Corian, columns on the inside, a view of the water, the whole shooting match.

It was interesting, because the customer was both excited and dismayed — excited that we did it so fast, but

wondering if we could do good quality work in that time frame. We bid against another custom builder who was going to take five months and who was \$30,000 over us. The owner asked me, "How can you beat him and get it done so fast?" Simple: I *know* I'm going to make the profit I bid at; the other guy *hopes* to make a profit.

JLC: You're not paying your people any less, either.

Lugo: No. I'm probably paying my people more. And on that job, I had a working superintendent who was spending four to five hours a day managing and three to four hours a day actually working. And he only worked up through framing; after that he was a full-time manager.

How could I do that? How could I put a job trailer, a port-a-san, a full-time super, a fax, and a copy machine on the job site, and get the job done sooner, cheaper, and make more money? Because I'm going in there with subs who know what I can do, they know they're going to get in and get out, and they know they can schedule their next job around mine.

JLC: Did you sub this whole job out?

Lugo: About 90%. We did the foundation — we like to control the concrete. After that, we had one guy there, the superintendent, full-time, eight hours a day.

The house was done very fast. When the inspector came by, we never had anything that didn't pass because my superintendent verified everything before he got there. No delays — all the subs were in and out.

JLC: When do your subs get paid?

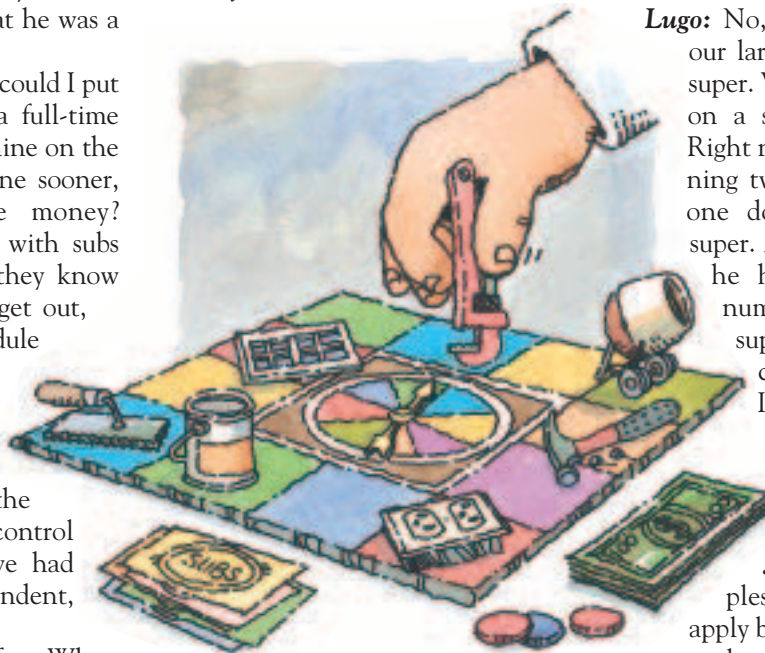
Lugo: Five days after we get paid, the subs have to get paid or heads roll in our office. Why five days? Because we have so many jobs that we have checks running all the time, literally all week long. We need the five days to be able to process it.

The only reason subs don't get paid is if they don't turn in their lien releases from the previous payment. The other thing subs have to do is tell me who all their suppliers are and any sub-subcontractors, because I need lien releases from them, too. If they have trouble,

my Subcontractor Advocate will help hunt them down.

JLC: How do you get subs — particularly excavators and concrete subs — to start on time?

Lugo: Out of necessity, we have become experts in two areas, dirt work and concrete. Because the whole job relies on dirt work and concrete. We do dirt work with people we know can handle it. If we receive a low bid from someone whose references tell us he hasn't handled difficult sites and isn't always on schedule, I'll pay more money to the next guy. I hate to do it, but your biggest risk is at the beginning of the job.



JLC: What if one of your subs is delayed on some other project and it's going to affect his start time with you?

Lugo: It *doesn't* affect his start time with me. What you have to do — and it's not an overnight thing — is to establish that when you say "Wednesday, June 7th, I want you on this job site," you mean it. We call all our subs two weeks before they're supposed to start, to notify them that the start date has not been changed. One week before they're supposed to start the job, either early in the morning or in the evening — we work around their schedule — we ask them to come to our job site and verify that everything's in order. My super sits down with them and makes a list of what needs to be done to be ready for each sub. Just in case we get behind in concrete, framing, or something, we

want to make sure that the areas they want to start on are ready.

JLC: By "ready," you also mean that there's not a lot of junk piled around.

Lugo: Correct. That's another thing you'll find in our contract: We're freaks on cleanliness. And if you don't keep your area clean, we charge you \$35 an hour to keep it clean for you. Because when a guy has a lot of junk all over the place, the next guy can't follow him in. And neither one can get done fast enough, so they won't make any money.

JLC: How about day-to-day supervision? Do you ever have a sub on site by himself?

Lugo: No, he's never by himself. All our large projects have a full-time super. Would I put a full-time super on a small remodel? It depends. Right now, one of our supers is running two jobs because the smaller one doesn't warrant a full-time super. And we have a sub we trust, he has the emergency phone numbers, CPR card, and our super's pager number just in case anything goes haywire. If our super's gone from the site, we give the sub a letter designating him as the superintendent.

JLC: Did all of the principles we've been talking about apply back when it was just you and a couple of employees?

Lugo: When I started, it was me and one project manager, and each of us handled a couple of jobs apiece. We played by the same rules back then, but we didn't formalize them into writing.

Everything in our contract is there because we've been burned. Take the part about removing a sub's employees from the job. I will fire my super if he cusses at a sub for no reason, so I will fire a sub if he cusses at his employees for no reason. I know the frustration of being in the field. I tell my supers and my subs that if someone whacks you out so much that you feel you have to cuss them out, and then go home and cause your wife and children grief because you can't wind down from it, just fire him. Just get him off the job site. But if I find out that you enjoy screaming and yelling, I'll get rid of you. ■