



# No Plan, No Future

by Les Cunningham

Few builders or remodelers would argue with the idea that a construction project requires plans. The plans tell both the contractor and the client which materials will be used and how much they will cost, what rooms the building will contain, and how the finished product will look.

Too many of the same builders and remodelers, however, fail to realize that their businesses need a plan for the same reasons. Construction company owners and their employees need to know what kind of projects they want to build, whom they want to work for, and how much money they want to make.

It usually takes a person three to five years to find out that they're losing money in their business. By then, it's usually too late to turn the business around. Construction companies are no exception; in fact, I've had the loathsome task of having to tell a number of construction company owners that they were not suited to the business. They didn't take the news kindly, but it was better to hear it from me than suffer a slow death in the marketplace.

Why do these companies fail? There are as many reasons as there are splinters in a 2x4. But many failed construction companies follow a pattern similar to this:

A budding remodeler quit a good-paying job selling medical equipment to start his own construction company. He started selling construction jobs within his circle of friends, and since he did quality work, his reputation grew within that circle. Soon, his volume began to grow and he appeared to be on his way to success as a contractor.

He was already doomed, of course, but he didn't know it. The problem was that his circle of friends was limited. The rest of the market was a complete mystery to him — beyond his circle of friends, he didn't know who his potential customers were. He knew even less about his competition. In fact, he

assumed that people who didn't hire his company must not be interested in quality. He didn't actually know what kind of work his competition was doing for the price they bid, but he *knew* it wasn't up to his standards.

The beginning of the end was typical. One day, his company seemed to be doing well; the next day, business simply dried up. He hadn't done any marketing because his circle of friends had provided all the work and referrals he'd ever needed. He'd never had to find any work — the work had always come to him. Now, the phone had stopped ringing.

He could have taken stock of his situation and launched a campaign to bring in new work, but he was con-

***To be successful, a company needs more than a reputation for quality work***

vinced he could weather this slow period. He didn't want to lose his two good carpenters, so he put them to work on his own house. He didn't know how long they'd work there, but he was sure it would be temporary, fill-in work.

Soon, however, the work on his own project was finished, so he sent his two employees to work on a project at his church. Since it was for a good cause, he billed them out at cost — he could write the rest off as charity anyway. Every once in awhile, a small job would come in, so he'd pull his employees away from the free work and get them onto the paying job. When they'd finished the project, he'd send them back to the charity work.

This went on for almost a year. During that time, he realized he'd been paying his employees too much to be competitive in his market. He was

beginning to see that he needed to position his company relative to the type of work available and the services his competition offered.

So he went to his employees and asked them to take a pay cut so that his company could survive. Here's what they told him: You live in a house that's much nicer than ours, and you've had us working on it the last few months to make it even nicer. You've also had us working for your church to improve that property and your standing in that community. It appears to us that you're just trying to use the slow economy as a trick to decrease our wages. We won't take a pay cut — in fact, we want a pay raise. The contractor had no choice but to close his doors.

What went wrong? What could this builder have done differently to ensure the success of his company?

His downfall was a lack of planning. Before he left his selling job, he should have decided how much money he needed to live on and how much profit he wanted to earn.

Next, he needed a business plan. He needed to know how to set his prices to meet his personal goals. He needed to decide what volume of work was necessary at what profit margin to sustain the lifestyle he wanted for himself, his family, and his employees.

Finally, he needed a marketing plan. He needed to decide where he would turn for work after he'd exhausted his small circle of friends. He needed to find out what kind of work was needed in his community, which construction companies were providing those services, and what he could do to compete with them for the limited number of jobs.

Instead, this builder let the market control him. He took whatever work came his way, and assumed that his reputation for quality would carry him forward. But he missed opportunities for work because he didn't know about it, and he didn't price his services to fit his market. By the time he noticed work was drying up, it was too late to do anything about it. ■

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