

# Competing in the New Economy



**To stay profitable, downsize and trim costs where you can**

by Mark Hansen

This year is no 2008. Then, my business was booming and I had just picked up another work truck and stocked up on tools to outfit another crew. I had transitioned from being a carpenter to being a business owner (*Deck Ledger*, July/August 2008; [deckmagazine.com](http://deckmagazine.com)); though I was no longer swinging a hammer, I was so busy, I had to limit the number of bids that I did in a day to five. I was even turning customers away.

Then it all stopped — dead. It was as if someone had reached over and turned off the faucet. The phone stopped ringing and customers who were on the schedule started canceling. Cash flow got tight. The news media played up the crashing economy, people got scared, and businesses went bankrupt. If you are still in business, I commend you.

For most of us, the time is long gone when we could charge whatever we wanted to for a job. Although a lot of legitimate construction businesses have gone under, competition has actually increased — because of an influx of unlicensed contractors. This, unfortunately, is our new reality.

## **Cutting Overhead**

At the most simplistic level, business is a subtraction problem. Cash in minus expenses out equals the bottom line, which has to be a positive number that's big enough to support the business owner.

In 2008, I was too busy working and bringing in cash to look for lower prices; when times are good, expenses don't seem that important. For example, for seven years, I had a separate fax line that cost about \$30 per month.

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In that time I received probably 30 faxes, which comes to \$84 per fax. When cash was flowing freely, I didn't have to pay attention to those kinds of numbers.

But when times are bad and cash flow is limited, cutting expenses may be the only way to increase, or even just maintain, your bottom line. Look at everything. Cutting overhead will let you reduce your hourly rate, and that will make your bids more competitive while still allowing you to earn a profit.

The easiest way for me to cut expenses was to bring lunch from home. Eating out every day costs in the neighborhood of \$50 per week, or \$2,500 per year — not counting the time it takes to run out to a deli. Bag lunches, on the other hand, are cheap and quick; all you need to do is grab your lunch box and drop the tailgate.

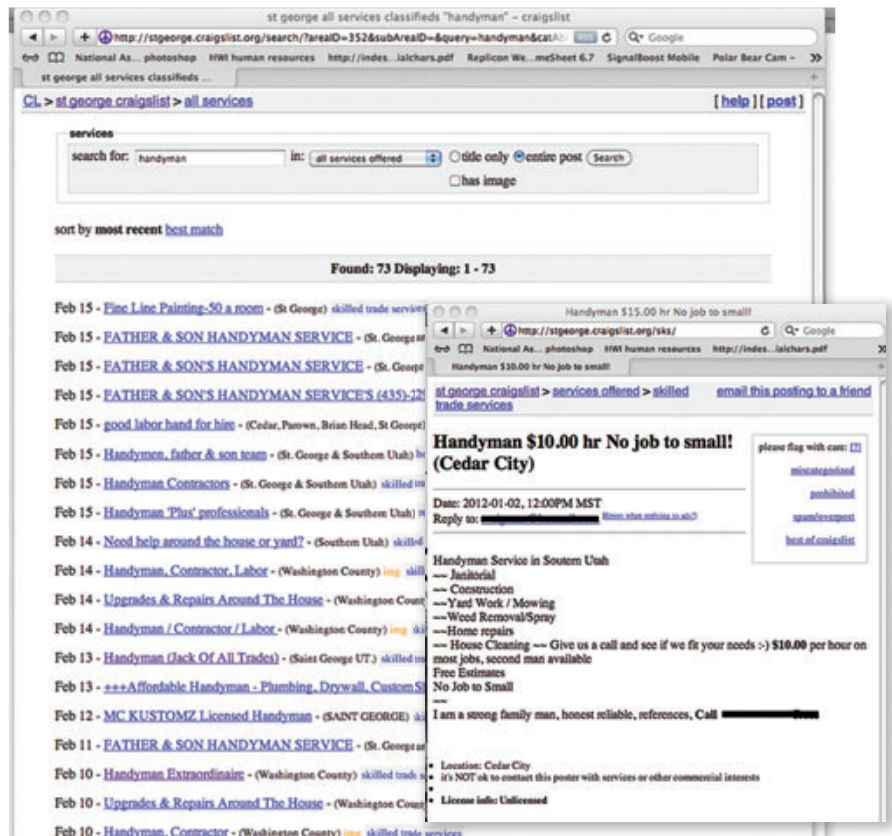
Another simple — and big-ticket — move I made was selling my extra work truck.

Then I took a look at my material stock. If you're like me, you tend to accumulate extra materials rather than return them at the end of a job. This is easy to justify; having an extra box of screws on hand can save a mid-day trip to the lumberyard, and returning materials takes time and fuel. While these are valid points, all the extra stuff in my trailer turned out to be worth almost \$800. Now I plan my material lists in great detail, shooting to have the exact quantity of lumber, hardware, and fasteners I need. And I hit the lumber store right when it opens so I can shop with fewer distractions.

Since my business had fewer jobs to do and no employees (more on that below), the amount of office work declined to the point that it made no sense to pay someone to handle it. Now, I do it myself. Exactly how much you would save depends on your business, but eliminating or reducing office staff can usually save thousands of dollars a year. One caveat — you have to keep up with the paperwork. The penalties and interest for missing a quarterly tax payment can quickly erase any savings you would otherwise realize.

### Goodbye Employees

I am once again a one-man band, as I was when I started out. It was hard to let my guys go. They had worked for me for a number of years and I felt responsible for them. But as the owner, I had to make tough decisions or



**The competition is tough today. All you need to do is look on Craigslist to find cut-rate, unlicensed, and uninsured people willing to do any kind of work. They undercut legitimate businesses like yours.**

lose the business. With no employees, I've been able to charge less but still maintain a profit.

Since letting my guys go, I have run into a couple of jobs that I couldn't tackle by myself — for example, a deck 14 feet off the ground. I have a couple of options when this kind of situation arises. For one, I can pull in guys as needed from a temp agency. That can be problematic — you don't necessarily know if the help you'll get is qualified or a good fit, but I've minimized that trouble by developing relationships with a couple of local temp agencies so they know what I'm looking for. I can also tap my network of contractor friends. We have a pact to help each other out when necessary.

Another challenge I now face is being productive while still making the phone calls needed to run the business. At first I would get so busy working that I would put off my phone calls until the end of the day. But when I got home, my children wanted to spend time with me, and I'd still have calls to make. Don't get so involved in your business that you forget what's important in life. My solution is to dedicate 10 a.m.



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each weekday to making and returning phone calls; I set a permanent alarm on my mobile phone as a reminder.

### Advertise Selectively

Advertising is at least as important now as it was in 2008. What's more important today is being sure that it pays off. The Internet is where it's at. For years, I've tracked where every job came from. The main source



**Laying off employees may be necessary for a business to survive tough times. While working alone can preserve profits, it also means you have to do the grunt work as well as the skilled labor.**



**Hard times demand price consciousness and greater efficiency. Shop around for the best price and be at the lumberyard when it first opens, so you can buy what you need before it gets busy.**

of new customers used to be the phone book, but those calls have declined drastically while hits from the Internet have skyrocketed. When it was time to renew my \$4,740-per-year Yellow Pages ad, I decided to cancel it. (I did take the free one-line ad they offered for my landline.) The Yellow Pages salesman pretty much told me that I had lost my mind. Armed with my advertising tracking information, I told him the numbers spoke for themselves.

He switched tactics and said that for \$1,140 per year he could put me in the Internet directory. There was no way I was going to pay that much to be listed on one measly site. Instead, I got on the Internet and listed my business on free business directories. There are literally thousands of places where you can list for free. To see what I'm talking about, type "Wasatch Valley Construction" into Google. The first nine and a half pages are listings for my company. At 10 links per page that's 95 links to my company. You'll get to page 33 before my company name doesn't show.

### Shop for Better Pricing

For contractors, insurance is a big part of overhead. When you're shopping around, remember that it's easy for an insurance company to offer a lower price than you're currently paying, but the big question is whether you're getting the same coverage. Compare apples to apples. Call your current insurance agent and tell her you are shopping around. Ask for a print-out of exactly what your current policy covers and what the limits and deductibles are. If she's smart, she will not only give you the print-out, but she'll also look for ways to get you a lower price. You have nothing to lose. The only downside is that you may have to front some cash to get started with a new company.

I considered losing my landline to save money, but decided not to for a few reasons. That number is tied to all the Internet directories I signed up with, and I also get a free listing for it in the business pages of the phone book, which I don't get for a cell number. Plus, a landline is still a sign to customers that a company is legitimate. Cutting your service to the basic package, however, may be worth a look.

Now is also a good time to price-shop local lumber stores. Like you, they are fighting to sell their products, and they may be willing to negotiate. In 2008, I had not price-shopped a different supplier for five years. Now I have three different suppliers pricing my jobs. I have good relationships with all three, and my material costs are lower.

### Take Jobs You Used to Pass On

The day after we had a bad wind storm blow through our state, I got a call about a deck that had a tree land on it. After bidding the job, I got into my truck to leave and a neighbor flagged me down to ask if I did roof repair. In 2008 I would have politely declined. Instead, I said, “Yes I do. Let’s take a look.” She needed 12 shingles replaced. I gave her a bid and she gave me the job. Then her neighbor wanted a bid on a 15-shingle repair. I got that job too. By the time I left the subdivision, I had landed five jobs.

### Sell, Sell, Sell

Consumers have been told that contractors are hurting for work and are willing to bid rock-bottom prices. And not only are consumers beating contractors up on price, in some cases they’re getting eight or more bids. Fight this. I start by asking how many bids a prospect plans to get. If it’s more than four, I politely decline the opportunity. That consumer is looking for the lowest price, period.

Be prepared to sell your service and focus on what sets you apart. Online and in person, I explain to customers how mine is a legitimate company, with insurance and a contractor’s license and many years in business. I talk about the quality I offer, and I emphasize that I’ll be around to honor warranty claims.

When you show up for a bid, look like a pro. One thing

that will really set you apart is having a tablet computer in hand. I picked up an off-market-brand tablet for \$180 and loaded it up with pictures arranged in categories such as railing, decking, and pergolas. I make it a point to include pictures of items I want to upsell, like lighting and decking patterns.

Every single customer who has seen these images has commented on how useful they are. It’s a lot easier and more effective to show a photo of something than to describe it. And while I’m taking measurements for the deck, I have prospective clients look at a slide show of my best work, to help close the sale.

### Put Your Head Down and Fight

One thing I touched on earlier was competition from unlicensed contractors. In Utah, and I’m guessing in other states, the licensing department seems more apt to find fault with legitimate contractors than to spend time pursuing the unlicensed ones. I spoke with the gentleman in charge of licensing enforcement about this, and his response was that they don’t usually go after anyone until there’s a complaint. Therefore, my advice is to complain when you know of unlicensed contractors doing work.

In addition, pay attention to local or state issues that affect contractors. If your state plans to hike licensing fees or adopt an unfavorable code requirement, contact your legislators. Most have websites that make this easy to do.

Times are tough and likely to stay that way for the foreseeable future, but do not cut your price so low that you make little or no profit. I’ve watched too many contractors under-price themselves out of business. If you’re priced so close to the bone that some little setback can kill your profit, you may end up doing the job for free — in which case, you would have been better off not landing the job at all.

Figure out how much you need to charge and do not deviate from it no matter how badly you need the work. If every decking contractor were to do this, we would all be better off. I once had a customer who said accusingly, “I suppose you are making a profit on this.” I replied, “Yes ma’am. Don’t you go to work to make a profit?” Profit is not a swear word. Even in today’s economy, if you have to bid so low that you cannot make a profit, maybe it’s time to look at a different career. ♦

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**Work hard to impress potential clients. An inexpensive tablet computer is an easy way to showcase your work and to provide your customers, who don’t live and breathe decks, with an image of what they’ll be buying from you.**