



Construction Business Best Practices

An electronic handbook
compiled and edited by
Asian Contractor Association
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Step 1: Build an "On-Purpose - On-Target" Business

Imagine you owned or managed the perfect construction business.

What would it be like? In my perfect business, I would come into the office two or three days a week; check-in with my managers; review their projects and progress; give them some encouragement and direction; call a few loyal customers and take them to lunch; check on my real estate developments and investments; and make lots of money. Then, spend my free days golfing, sailing, traveling with my wife and all the other fun stuff I like to do! What do you think? Work a little and make a lot!

This is what I call an "On-Purpose...On-Target" business. Your business and your money works for you. You are an owner, not a hands-on, make-every-decision, over-worked and under-paid supervisor and worker.

What Do Business Owners Want?

I'll tell you what I want-I want my business to give me what I want! I want my business to be:

- 100 percent run by my management team
- A great place to work that attracts the best employees
- A company built on long time repeat loyal customers
- A business that makes double the industry average profit
- A company that grows my equity and building wealth
- An environment that creates lots of freedom and fun

What Do You Want?

You don't want a business that barely makes it-struggles, has cash-flow problems, doesn't allow you to have any time off and doesn't build your net worth. It took me nearly twenty years in business to finally understand. My business is a tool to give me what I want-wealth. Wealth is money and what it does for you. Money gives you time, energy, freedom and funds to use as you want-to help others; to use for your family, your employees or your community. As a business owner, to achieve wealth, you have to build a business that works and eventually creates financial independence. Your money must work for you. You should not be working for enough money to stay alive. Wealth is freedom! It gives you choices and allows you to enjoy your business and personal life.

Most business owners never become "wealthy" because they don't sit down and clearly write out what they want. But they do know they want something different than they are getting now! So, today you have an opportunity to figure out what you want and then build a business to deliver exactly what you desire.

The Purpose of Your Business is to Give You What You Want!

The purpose for your business is not to make you miserable, consume all your time, whine about your employees, hate your customers and have financial stress. Most construction business owners shoot for "MORE"-more sales, jobs, customers, profit or more of the same. "MORE" is what I call the "UN-TARGET"-wanting to be HUGE. The busier you get, the more uncomfortable you are as you get used to being stressed out. This business owner chases bad business, says "yes" too often, is too optimistic about the reality of their situation, and has no clear plan or goals.

Successful business owners know what they want and decide what's important. Take a few moments to write what you want:

- Personal
- Business
- Financial
- Operational
- Customers, marketing and sales
- People and leadership
- Equity and wealth
- Freedom and fun

The Entrepreneur's Journey

After graduating with a degree in engineering, I worked four years as a civil engineer and construction project manager. Like my father, I had the entrepreneurial spirit and wanted to be my own boss, but I had no clue how to run a business. In 1977, I decided that starting a construction company would be easy-bid cheap and stay busy! At twenty-seven years old, I had four years experience, \$2,000 in the bank, just bought my first home and construction was in a recession. Perfect timing to start Hedley Construction! Besides, I already owned all the tools required to be a success in construction-a contractor's license; a used orange Datsun pickup truck with 92,000 miles, a metal tool box and lumber rack; a golden lab retriever; a ten gallon ice chest; a big radio; a new hard hat with my name engraved on it; and a thirty foot contractor's power lock tape measure.

Most entrepreneurs start their company without a written business plan. They have a dream to be their own boss and make it on their own. With determination and hard work, they hope to build a "perfect" business. But, most don't have a written plan, management team, the capital or leadership skills to be successful. When I landed my first construction project, it went well because I was small and did everything myself. It is simple when you have no overhead, no employees, only one project to work on; you make all decisions, supervise all the work, make all the purchases, prepare all the bids and estimates and sign all the contracts.

As your business grows, you work more hours. Cash-flow becomes tighter and you have no extra time. You start getting out of control as your business controls you. You finally give in and hire the most "experienced" people you can find-your relatives! Next your finances get out of control, so you hire a bookkeeper. But, since you don't know anything about accounting, you are at her mercy and hope she doesn't bother you with the numbers, or find out you aren't making any money.

The challenges continue to mount-cheap competition, getting paid, unhappy customers, finding trained employees and making a profit. There are too many details, you get bogged down and only have enough time to put out fires. You have to make all the decisions for everyone and keep trying to

do it all yourself. You are now officially over-worked and under-paid. If your business goal was to be busy-you've made it! It's amazing how busy you can be, being low bidder and selling price. Everyone likes you when you're busy-your banker, suppliers, subcontractors and employees. Everyone except your family and friends, and yourself!

You try hiring managers who can run your company for you without problems, stress and you being hands-on. But, you can't let go. You can't find any good people who are accountable, responsible or will work as hard and as smart as you. People now become a big problem, not the solution. Your business isn't working. You're totally stressed out and frustrated, your life is out of balance, your business is out-of-control and your company controls every waking moment. Your business is now "Off-Purpose and Off-Target!"

The Entrepreneurial Decision

At first, it's just you. It's simple when you do all the work. You do a great job, so you get some referrals and more work. You hire people to do the work. You're now in management. Management isn't fun when you become the complaint department. What should you do next? You have three choices:

1. Go back to doing it all yourself
2. Sit and wait for "it" to change
3. Work different!

To build an 'On-Purpose...On-Target!' business, you can't shrink your company and you can't sit and wait for something to happen. Your only choice is to change the way you work. It might seem easier to change your employees, customers, subcontractors or suppliers. But to get what you want, you've got to make the big change and change yourself. Change the way you think, do business, manage, prioritize, work, lead and change how you work and live your life.

The year was 1985 when I finally made a decision to get my business to work for me and without me. I would have to change and implement new ways to run my business. I dedicated four hours a week to working "on" my business. You can, too. Commit to get organized, systemized and in-control. Work on setting goals, create budgets and fix things which always go wrong by installing operational systems. Worked with your key managers and delegate nearly everything to them. Set up check and balances for every department and focus on helping your key managers become the best they can be.

If you were to buy another company, what would you want to know about it? You would ask to see their financials, customer logs, receivables, assets and liabilities and study their competition. I have been in business since 1977, and the number one thing I would want to know before considering buying a company is "does the business work?" or "do I have to do the work?" I would only want to buy a company that works without the owner doing the work.

Do You Own a Job?

The problem with most entrepreneurial companies is the owner plays too big a role in every day operations. Without the owner's constant attention and involvement, the company doesn't work and wouldn't exist. Do you own a business that works without you doing all the work? Do you own a job or a company?

Imagine your business is "On- Purpose...On-Target" and meets your personal objectives. To achieve that goal, you'll have to start working on your business to reap the ultimate benefits of business ownership-time, fun, freedom, equity and wealth.

Your current results in profits, people, stress, time and freedom are the number one indicator of your priorities and your attention to customer service, quality workmanship, financial reporting, operational systems, marketing and sales systems, motivating people and visionary leadership. When you're not getting what you want from your business, there's something wrong. It's not your people, subcontractors, suppliers, competition, or customers. It's you! Your bottom-line results are the number one indicator of your abilities as the leader of your company.

The Answer is You!

Not enough sales? Perhaps your sales systems stink. Not enough repeat customers? Perhaps your customer service stinks. Selling low price? Perhaps you're not any better than your competition. Not enough profit? Perhaps your

organizational systems stink. Perhaps you don't know the difference between an income statement and a balance sheet. Perhaps your priorities aren't on people, finances, overhead controls, cash flow or the bottom-line. Or perhaps you don't set goals, know how to run a business or think you're the problem. Only you are responsible for you, are accountable for you, can make you get what you want and can do what's necessary to meet your goals.

When's Your Wake-Up Call?

You are accountable for how you spend your time, manage, lead, delegate, trust people and train your employees. I finally realized to get the results I wanted in my company, I would have to make some big changes. But it's hard to change the way you always works. Eventually you've got to stop saying things like "trust me, everything is ok" or "someday soon I'll finally get it right!" or "I know my company will work when I get that new estimator or project manager or when we get paid on the big job." When is your wake-up call?

Get In the Opportunity Business

As I looked at my business, I saw that we were commercial general contractors, selling construction services against too many competitors at too low a profit margin. It seemed all my customers were buying low price. Again, what business are you in? Are you in the construction business or are you in the opportunity business-looking for opportunities to be different than your competition, add more value, provide more services, make double the industry average profits, develop strategic alliances, leverage your relationships, joint venture, build a great place to work, grow your equity, build wealth or seek investments that don't require hands-on management?

To get what you want and be "On-Purpose...On-Target," you'll have to change the way you think about your business. The natural tendency is

to continue doing things the same way, work hard, stay busy and try to force it to happen. But remember the purpose for your business is to give you what you want-above average profits, increased equity, new opportunities, wealth and freedom as your business works without you!

To make this happen, I changed our business model from a general contractor to a company that seeks wealth building opportunities and investments. We started asking our customers to joint venture with us on their development projects. We began finding equity and financing sources to build real estate projects for our own account. I brought on a partner who was knowledgeable in new markets. I gave up our bad customers who shopped price. We changed our business goals from more sales volume and increasing our profit margin to growing our equity, building wealth and creating more time to enjoy the benefits of our investments.

Take the First Step

What will you do different to get what you want? You can get your business to work. Envision what you want and how you can get your business to work without you. Decide what you'll have to do with your people, customers, project types, money and time. An "On-Purpose...On-Target" business meets your business and personal goals. Step one is to figure out exactly what you want. Then you can make the changes necessary to make it happen. We will explore Step 2-Build a Profitable Business-in the next article of this series. For now, take the first step and make a detailed list of what a perfect business would be for you.

Step 2: Build a Profitable Business

If I followed you around for a day, what would I see? What would be your focus? Would you be spending your time on details, scheduling crews, making sure materials are on the jobsite, bidding work, meeting with customers, showing your foreman what to do or completing the job paperwork? Do these activities make you profitable?

There are two main reasons to own a construction company. One reason is to have an enterprise where you get paid a reasonable sum for the work you do, make a decent living and have the freedom of not reporting to an employer. The other reason to own a business is to make a profit for the time, energy and risk you take.

After I spoke at a national convention, a construction business owner approached me for advice. He said he was over-worked, stressed out, hadn't paid himself in months, was having trouble collecting money customers owed him, trying to find time to do the required paperwork and hadn't taken a vacation in years. I asked him to tell me his average profit margin, overhead costs, equity, working capital and available line of credit at the bank. He looked at me like I was from another planet. It was obvious he had started his company with little or no money and expected to build a business without the basics in place for growth. It seemed there wasn't any hope for him to make a profit as he wasn't focused on the most important part of a business-the numbers.

In my last article, I explained step one of the business success blueprint: Build an "On-Purpose...On-Target" Business! Start any journey by figuring out what you want. It was obvious this contractor hadn't taken step one and listed out what he wanted his business to do for him and what it would take to make it happen. Step two in building a successful business is to focus on your bottom-line numbers and always make sure you make a profit.

Are You an Entrepreneur?

Many small businesses are owned by people who just want to work for themselves and like being in control of every decision and detail of their business.

They don't delegate much and really don't like employees or customers. They like to stay small and don't want to grow. These businesses are sole practitioners and may only have a handful of employees and customers. There is nothing wrong with these businesses. But entrepreneurs, on the other hand, are business owners who want to grow their companies and create an organized and systemized business that works for them. The business is employee-run, has loyal customers, makes a robust profit and creates wealth.

What do you think successful and profitable construction company owners and entrepreneurs spend a majority of their time on? They are focused on making and maximizing PROFIT. They learned long ago that details, commitments, hard work, and micro-managing doesn't result in profit. Profit is the result of staying focused on making money in everything you and your employees do. Know your numbers, make them a priority and do everything you can to hit your targets. Entrepreneurs know that cash, capital and equity are the lifeblood of their future. This is what I call "profit-driven." Are you profit-driven?

Profit-Driven Test

Take this true or false test to determine if you are profit-driven:

1. I know the profit targets on every job.
2. I know our fixed cost of doing business.
3. I know our exact annual overhead costs.
4. I know our annual breakeven revenue.
5. I know our net profit year-to-date.
6. I know our annual gross profit goal.
7. I know our annual net profit goal.
8. I know how much cash we have in the bank.
9. I know what our company working capital is.
10. I know what our company equity is.
11. I know our annual equity growth goal.
12. I know what our current receivables are.
13. I know what our backlog is.
14. I know what our total debt is.
15. I know our projected monthly cash-flow.
16. I know what our equipment costs are.
17. I know our average gross profit on every job.
18. I know what a good profit margin should be.
19. I know the difference between gross profit and markup.
20. I know how to maximize our bottom-line profit.

How did you do? Do you have any false answers? Profit-driven business owners, entrepreneurs and managers usually have at least fifteen true answers out of these twenty questions. People who have less than ten true answers are not

focused on making a profit. Their priorities are on surviving, keeping busy, getting the work done and then getting more work with which to pay their bills.

You can't get your business to grow without making a profit. Profit allows you to build a company. The more profit, the faster you can grow. Profit allows you to invest in people, systems, equipment, training, customer service and technology. Without a good profit margin, your business struggles and can't get moving toward achieving your business goals.

Are You Volume-Driven?

Many construction businesses focus on volume and staying busy. They go for more work instead of profitable work. They take what comes in the door and compete against too many cheap competitors who don't know how to make a profit. They don't offer anything different than their competitors, so they have to sell low price. This causes them to take on more work at too low a margin to cover their costs. More volume is addictive and keeps you on the treadmill going nowhere. And this eventually results in not enough profit to sustain business growth. I am not impressed with company owners

who brag about how busy or how big they are. I want to know how much profit they are making! Your goal is not to be busy. Your goal is to make a HUGE profit!

The CEO's of major Fortune 500 companies are focused. They get judged on only two indicators of success. They live and die on their stock price or company value and quarterly earnings or net profit. Do you think like a CEO? Are you focused on increasing the value of your company and always making a profit? Do you make your people accountable to hit their numbers? Do you know your numbers and what it takes to make a profit? Do you look for customers, markets and projects where you can make HUGE profits?

What is Your Top Priority?

Profit-driven business owners and managers know what they want. They want to make a big profit, and to reach that end, making money must be your top priority. You need precise profit targets and clear goals for your people, projects and customers. Shoot for a specific return on equity and a return on your energy invested. Identify the type of projects at which you excel, the market in which you flourish, the maximum and minimum job sizes you best manage and your own capacity. Decide when to say "Yes!" and more importantly, when to say "No!" That is a key to being profit-driven.

For my first ten years in business, I was focused on getting work and getting it done. I grew my business fast and made an average profit. My focus was on sales and customer relationships-not a bad thing on which to focus. But my profit margin was only 1 or 2 percent pre-tax net profit-the national average for construction companies. After fifteen years, I finally took a hard look at my

bottom-line results. I realized this profit margin was too low for the risk I was taking. At that low profit rate, I would never be able to get my business where I wanted it to be. I was stuck in a rut. I decided I had to work differently to make a HUGE PROFIT and get what I wanted: a business that works without me, loyal customers, equity, wealth, contribution to others and freedom.

By changing our focus to achieving what I wanted and making HUGE profits, our company has made drastic changes in the way we do business, and as a result, lots of money. We now make 500 percent more net profit than we did doing business the same way we had for years.

A graduate of my 'Profit-Builder Circle' roundtable program just wrote me this great testimonial:

"I wanted to drop a line to let you know-almost three years after having participated in your program-profit, profit, profit. I practice and preach the principal constantly. We've become much more efficient at identifying loser jobs and clients and removing them from our midst. In the last three years we have increased our net profit to \$900,000 on \$9,500,000 in revenue after capitalizing \$350,000 worth of equipment. We paid off \$250,000 worth of debt. I paid myself a solid salary, and I've managed to acquire another property, which my company pays for in rent. I've taken at least six weeks a year off. In addition, my kids actually know who I am, and my wife no longer works in the office and is able to be a full-time wife and mother."

What is Profit?

Profit-driven owners and managers know their numbers. They know what it takes everyday, every month and on every job to make a profit.

- Profit is return for the risk you take in business.
- Profit feeds and supports business growth.
- Profit is a reward for running your business professionally.
- Profit can be split with key employees as an incentive.
- Profit can be used to help you through tough times.
- Profit allows investment in an exciting new venture.
- Profit is the outside indicator of how well your business runs
- Profit shows you how much money your money makes.
- Without profit, your business can't thrive and prosper.

Profit is financial gain or return from the use of capital in a business. Profit is the sum remaining after all costs-direct and indirect-are deducted from the income of a business. This assumes you have income or revenue and have collected it. Most business owners start their business with capital or a cash investment and still have some left-this is the equity in your business. Equity is also the value your

company is worth if it was for sale. Direct costs are your direct job costs or the costs of doing the work you have been contracted to complete. Indirect costs are your fixed costs of doing business, which include your overhead, management, office and administration. Overhead costs continue on whether you have any jobs under construction or not.

Know Your Numbers!

Starting with your overhead, you must know what your break-even point is. Most construction companies don't reach this point until the final quarter of their fiscal year. What profit do you want to make above the break-even point? Don't calculate in percentages. Instead, focus your targets with exact numbers that managers will understand and can hit. For example, at Hedley Construction our gross profit target is \$2,000,006 in 2006! With a break-even point (overhead) of \$1,000,000, our net profit target is \$1,000,006-clear and precise.

Profit-driven owners and managers are competitive. They need targets and score boards. You can't win a basketball game without shooting at the basket and keeping score. You can't win a golf match without holes and scorecards. You can't reach your business goals by trying to work as hard or as fast as possible. What profit targets do your people aim at?

Make sure each member of your team knows exactly what their target is. For the architect and general contractor, use precise schedules with milestones and deadlines. For the

project manager, use exact goals for job cost and profit. For the project administrator, use monthly deadlines for invoices and shop drawing approvals. For the foreman or supervisor, use quality and safety milestones that can be tracked and scored. For subcontractors, use mandatory requirements such as job meetings, inspections, notices and documentation. This is profit-driven in action.

When bidding jobs, can you cut your costs? No! Can you cut your overhead? No! What is the only variable to profitability? The final sales price. Profit-driven owners and managers focus on profitable projects, customers and services. These give you a high return on your assets, time and energy. Profitability starts with sales. Controlling costs, expenses, quality and purchases is easy. Selling is hard. Rather than devoting your time to daily operations, focus at least 25 percent of your time on getting profitable work. Look for profitable project targets, repeat loyal customers and referral opportunities.

Get Focused on Profit Building!

What do you want, more volume or more profit? Real men and women go for profit and don't care how busy they are. When you're too busy, everyone likes you (employees, suppliers, subcontractors, creditors, etc.) except your family and friends. After I decided our company was not in the volume construction business,

we skyrocketed to HUGE profits. We are now exclusively in the profit building business. We seek projects, customers, managers and employees who are focused on making us lots of profit. We seek opportunities to increase our equity and build wealth instead of staying busy and competing on price. Is your business focused on your future? If you were an outside investor, would you invest money in your operation? What bottom-line return would you want? I bet it is more than 1 or 2 percent pre-tax net profit.

21 Profit-Building Steps to Success

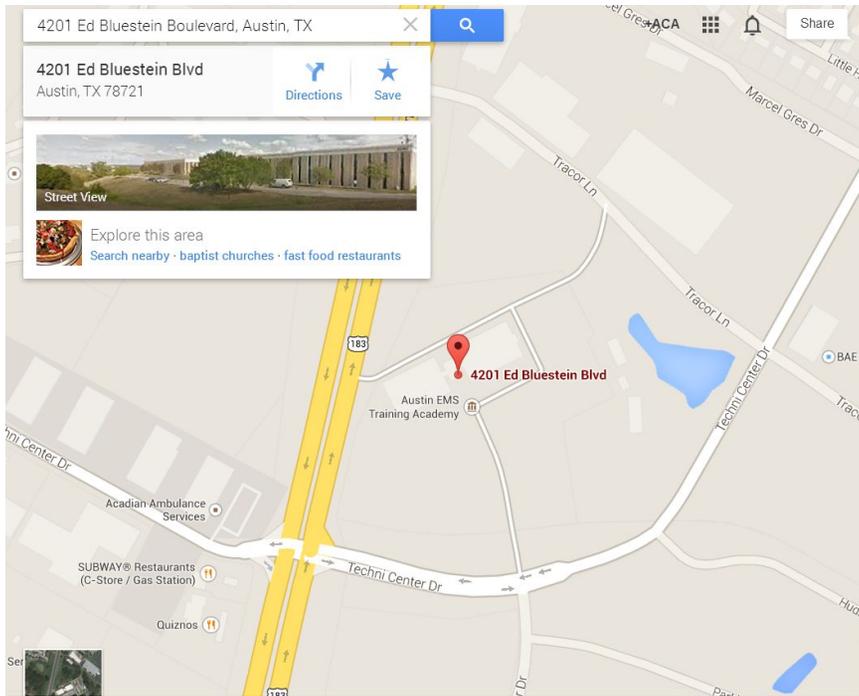
1. Keep your personal overhead low.
2. Pay yourself first a fair salary every month.
3. Save 10 to 20 percent of all personal earnings.
4. Get out of personal debt now.
5. Don't spend money before you've made it.
6. Invest six months working capital as reserves.
7. Get a bank line of credit for emergencies.
8. Balance your company budget.
9. Only hire the best people and pay them top dollar.
10. Always make a profit every month.
11. Track sales and backlog every month.
12. Track monthly cash flow and profit and loss.
13. Track your accounts receivables monthly.
14. Delay all purchases except technology for one year.
15. Buy your first income property before your second truck.
16. Rent equipment as needed until 75 percent is job-charged.
17. Get out of business debt.
18. Reinvest 50 percent of all profits back into the company.
19. Look for outside income producing investments.
20. Give back to your community, charity or church.
21. Share your wealth with those who helped you.

Fortune or Fame?

The magic of making lots of profit starts with making lots of money! To build a profitable business takes focus and tough decisions. I am not in business to be liked or famous. I am in business to make a HUGE profit and grow my wealth. When you have a fortune, you can share it and give back to others. You must be the leader and set the example. Focus on making a profit, hold people accountable, delay marginal buying decisions, say "no" to tempting jobs that look risky, don't let people waste money, let go of your poor performing employees quickly, know and watch your numbers, know your break-even point, watch your cash-flow, seek big profit customers and projects, be firm and tough on suppliers and subcontractors and get those change orders signed. You know what you've got to do to make a profit. Stop the insanity and work differently! No profit equals no future! When profit is your No. 1 business priority, you will be taking the

second biggest step toward building an "On-Purpose...On-Target" business and getting your company to work for you.

About the author: George Hedley owns Hedley Construction and Hardhat Presentations. He is the author of the "The Business Success Blueprint Series" available in eight workbook and audio CD sets.



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