

Small-Business Forum

by Paul Hanke

About 40 builders from around New England gathered in early September for the latest in the series of Small Business Forums sponsored by the Quality Building Council of the Northeast Solar Energy Association (NESEA). The day-long workshop, held in Sturbridge, Mass., covered the general topics of hiring, motivating, and keeping good help, along with estimating and job management.

Ward Smyth, of Salmon Creek Builders in Salisbury, Conn., and Kate Mitchell, of Island Women Construction on Nantucket, acted as moderators for the workshop, which they quickly organized into an informal give-and-take session that drew upon the experience of the participants as much as upon the knowledge of Smyth and Mitchell.

The two "leaders" started the day by removing the speaker's podium and asking the audience to rearrange the seating into a circle to facilitate discussion. Smyth noted in his opening remarks that no one present was more qualified than anyone else, and that he and Mitchell wanted the format to encourage interaction. This set the tone for the day, and was reminiscent of the popular and lively Builder's Forums at larger NESEA gatherings in the past.

Kate Mitchell gave up a career as a

from five years to 35 years in the trades. One fellow was just setting out on his own, but most were there to learn how to cope with expansion or manage their present work more effectively.

Why did these particular men and women give up a precious workday to come to this confab?

One admitted that he is "a real good carpenter, but a lousy businessman"—a sentiment echoed by others.

Art Smith, a designer/builder from Wayland, Mass., said, "Last year I discovered overhead. This year I discovered markup. I'm here to learn all I can."

One contractor said he "would rather bang nails for eight hours than keep books for two," but recognizes that bookkeeping is essential to success and growth.

Another: "I took 15 years getting my carpentry skills together, and I don't want to spend the next 15 learning business."

A former civil engineer said he wants to "stop giving away excellent building."

Thomas Taylor, from Rhode Island, said he came "so I can get eight hours of sleep at night."

In short, participants wanted to know how to manage their affairs more effectively, grow in an orderly way, and maintain quality control when the busi-

ness has grown beyond the managerial capabilities of a single person.

Ward Smyth commented that he knows several builders who regret having established formal profit-sharing programs.

Time flexibility can be a problem, when your overhead and profit are based on your hourly billing.

On Hiring

Kate Mitchell is committed to an all-woman crew. This requires her to train many of her workers. What's more, they are mostly "independent types" who tend to leave after a while. She asks for a two-year commitment in exchange for training, based on a handshake.



'People who have been in business for themselves are the best employees.'



Ward Smyth says that "people who have been in business for themselves are the best employees," but to beware the "chronic entrepreneurs" who work for others only long enough to save a grubstake to go out on their own again.

On Employee Relations

A participant: "No skilled person needs another person to come along and tell them how to do it."

Kate Mitchell: "Learn to shut up."

On Compensation

One participant takes his crew and their families out to dinner at the end of a job, or buys key workers a desired tool.

Ward Smyth tries to give raises four times a year, with the emphasis on competence or productivity as opposed to seniority. He also tries to distinguish between the inflation and merit components of a raise.

Kate Mitchell has several carpenters who earn more than she does.

Ward Smyth noted that some owners could probably earn the same salary working for someone else—"and get 5 percent extra at the bank."

On Safety

Salmon Creek offers a standard Red Cross first-aid course for employees



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(50 percent on company time, 50 percent personal time).

On Estimating and Bidding

"Salmon Creek is never the low bidder, but we almost always get the job."

After nine years, Kate Mitchell is "very accurate" on materials take-off,

but still "way too optimistic" on labor estimates.

"Markup" is not the same as "profit," as Ward Smyth pointed out. He also noted that building is one of the lowest-markup industries in the country. As a comparison, retail stores typically mark up 100 percent. Builders should mark up 1.25 to 1.65 times for a modest profit margin.

According to Smyth, "The most important part of estimating is analysis of jobs done." Most people agreed that time cards (filled in daily) are the key to tracking labor and estimating future jobs.

On Billing

Small jobs can be billed on the basis of 33 percent down, and 33 percent and 30 percent at the start of the next two phases of work. (Don't bill at the end of the previous phase, since a few uncompleted details could forestall payment.) Leave a mere 3 percent for the final punch list.

Twice-monthly billing, with payment due in ten days, lowers the amount of each bill to the client and enormously improves cash flow.

One old-timer starts each job by recording the contract with a lien on the property.

On Contracts

Former lawyer Kate Mitchell cautions that the standard AIA form is not a "builder's contract." She used the standardized version to customize her own, but had it reviewed by her own lawyer.

Salmon Creek has an extremely detailed policy manual that describes the company, wages and benefits, job-site phone policy, smoking (never in a finished house), dress code (subject to on-site override by the foreman), moonlighting policy (encouraged for small jobs), and "what you have to do to get fired."

On Time-and-Materials Agreements

Ward Smyth: "Most of our society operates on a fixed-price system."

Another participant: "Most people think T&M is a blank check," and "People will sign a lump-sum contract at 50 percent more than they would ever consider for T&M."

It was on this issue that the group dynamics became apparent. One participant was extremely reluctant to switch from T&M pricing—which he felt protected him from high risk—to lump-sum contracts. The vociferous group support and encouragement appeared to go a long way toward changing his outlook.

On Change Orders

One participant has begun to charge a \$75 to \$100 administrative fee for each change order. Kate Mitchell bills them on a time-and-materials basis. Another participant asks to be paid 100 percent upon signing the change order (subject to a ±20 percent adjustment after completion).

On Insurance

There was a good deal of discussion about workers' comp, which went somewhat over my head since I am self-employed. But I did catch one important bit of advice: Warn clients against hiring contractors who can't furnish insurance certificates for their employees and subs. The clients themselves could be held liable for claims filed against the contractor.

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lawyer nine years ago (a decision she has "never regretted") to become a carpenter. She has been a partner in Island Women Construction for more than four years. The firm is small—building a couple of houses a year, plus renovation work—and currently employs eight people. Island Women subs all its work except carpentry in a busy and difficult resort-area market.

Ward Smyth also gave up a career—as a field engineer for an urban construction firm doing mid-rise housing and shopping centers—to enter the custom residential market 4 1/2 years ago. Salmon River now employs 21 people and expects to add another five in the near future. The firm's work is centered in the prosperous tri-state corner of Connecticut, New York, and Massachusetts.

The workshop participants ranged from small builders employing one to six people to the vice president of a development firm doing elderly-housing projects. Most do custom houses and renovation, but a couple have small subdivisions under construction.

An asbestos-removal contractor from Buffalo has had up to 90 employees at one time, and contracts from North Carolina to Maine. Experience ranged

ness has grown beyond the managerial capabilities of a single person.

On Hiring, Motivating, And Keeping Good Help

Kate Mitchell pointed out that "work isn't worthwhile if you can't come in and leave feeling good about yourself." Give strokes, she suggested, and "don't throw a fit" on the job.

Another participant added that when he once blew his top on a job, he was "the only one working on the site"—everyone else stopped to watch and listen. Instead, take a person aside if you have something critical to say.

Ward Smyth: "Treat your employees as you would like to be treated as an employee." (Where have I heard that before?)

On Benefits

Only 20 to 30 percent of the participants offer a benefit program to their employees. Ward Smyth speculated that this might partially account for the high turnover rate in the trades: people leave seeking the highest hourly rate.

On Other Incentives

One builder gives 2 percent of any job that an employee brings in (outside normal marketing channels) to that

On Job Management

A participant: "The important thing is to do your estimates in a summarized form so you can easily keep running track of how the job is going." Kate Mitchell added: "This also allows your crew to help you correct *your* estimating errors."

On Subcontractors

Kate Mitchell took a long time to build up a stable of *reliable* subs. Now she will never use a sub again after one failure to show up, or other serious offense.

work. But if you become a *manager*, you can double your salary."

Finally, concluded Mitchell, "If you have a prosperity mentality, you'll prosper. If you have a scarcity mentality, things will be scarce." ■

'People will sign a lump-sum contract at 50 percent more than they would ever consider for time-and-materials pricing.'

On Quality Control

Kate Mitchell attributes her success to quality building and sticking to her completion date no matter what.

In answer to one of my questions, Ward Smyth said he has never asked workers to tear out unsuitable work on their own time, but that "probably 50 percent have done so." To me, that's a sign of a good working relationship.

Salmon Creek has periodic quality-control sessions for its workers, and is working on a manual—right down to nailing schedules.

Resources

Several participants found estimating books, such as *R.S. Means* and *National Construction Estimator*, to be useful and reliable for estimating jobs where they had no records of their own to go by. Walter Stoepfelwerth's seminars and books (Home Tech Publications, 5161 River Rd., Bethesda, MD 20816) drew high praise, especially from Ward Smyth. *NEB* columnist Jon Hardie also got favorable comments.

NAHB accounting forms were recommended, as were SCORE volun-

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On Computers

One participant said that computers "don't take any less time, and they take a long time to learn." But for organizing, he said, "they're incredible."

Ward Smyth: "If you don't estimate well, a computer will only help you go wrong faster."

An important lesson learned the hard way: Always keep a backup disk. One participant lost all of his past job records in one of those "freak" computer accidents that happen all too frequently.

teers (retired executives). But the group that received the most favorable comments as a support organization for people in the business was Associated Builders & Contractors of Middletown, Conn.

Conclusion

To sum up, Kate Mitchell said she had been persuaded of the value of hiring another person to do half of her job and help keep track of costs. As another participant said, "You can't grow bigger than yourself if *you're* doing all the