

BY DAVID GERSTEL

Remodeling Your Thinking

When a friend asks me to recommend a construction contractor, I give them a name from the very short list of guys I feel I can suggest with confidence. “Bob,” as I call him in my new book, *Building Freedom, A Construction Pro’s Path to Financial Independence*, is on the list. Even so, when I recommend Bob, I do hesitate. That is not because Bob fails to check off all the boxes. He does. Bob produces first-rate work. If he gets a callback, he jumps on it. When he charges for preconstruction work, his estimate is transparent. He does not conceal overhead and profit in charges for labor and material. The guy practices integrity with every nail he sets and with every communication.

So why do I hesitate when I recommend him? Because I know that even as Bob takes good care of my friends, he’ll woefully undercompensate himself financially. Bob places mental obstacles between himself and the level of pay enjoyed by other well-established builders in our area. He’s in need of what I call “thought remodeling.” That’s a practice akin to the down-to-earth approach to mental health challenges known as “cognitive behavioral therapy (CBT).”

THOUGHT > EMOTION > ACTION

The core concept underlying CBT is: Thoughts precede and create emotion. Emotion undergirds action. That is, thought > emotion > action. The neurological underpinning of CBT, as I understand it, is that the more often we think a thought, the deeper its pathway in our minds. The deeper a pathway, the more likely our thoughts are to go down that pathway. Eventually, as a thought courses through our minds over and over, thinking it becomes a habit. And in due course, the habit can harden into a belief that rigidly governs our decisions and practices.

Therein lies our problem. Some thoughts are bad habits. They are, in the language of CBT, “thinking errors” that foster unhealthy emotion that, in turn, ignites ill-advised action. As construction pros, we can become habituated to thinking errors in our work life.

CONSTRUCTION INDUSTRY THINKING ERRORS

- Over-obedience
- Underpricing
- Revenue obsession
- Profit neglect
- Balance sheet pride
- Overhead obliviousness
- Name your own

Bob commits the thinking error CBT labels “mind reading.” He believes that his clients think of him as a mere “handyman” and not deserving of the pay commanded by top-drawer pros. To that he adds a second error, “catastrophizing.” If he submits a bid for a job and does not get it, he worries that he will never get another project.

Catastrophizing has driven Bob to push his prices so low that he “wins” seven out of 10 bids. More astute construction pros aim to win roughly three out of 10. If they are winning more than that, they conclude they are bidding too low and increase their prices. Meanwhile, Bob, gripped by his thinking errors, is trying to get his prices so low that he will win nine out of 10 bids!

Bob’s thinking errors have jeopardized his future. Soon he will be entering the “golden years.” Those years can be more like pitted copper if you have not piled up a fair amount of gold—namely, cash-producing investments that support a healthy and comfortable lifestyle. Bob has denied himself the income needed to build those investments.

He is not unique. Melanie Hodgdon described the situation in her *JLC* article “Job Pricing Blunders” (May/20): “The very characteristics that make contractors incredible neighbors all too often lead to decades of hard work with little to show for it.” They produce work that delights their clients. They treat employees like daughters and sons. But they neglect their own welfare. As they age and are no longer able to stand the stress and strain of construction, they find themselves facing a threadbare future. A variety of thinking errors, long rationalized or ignored, have come home to roost.

As they age and are no longer able to stand the stress and strain of construction, some contractors find themselves facing a threadbare future. A variety of thinking errors, long rationalized or ignored, have come home to roost.

COMMON THINKING ERRORS

During my decades in construction, I’ve observed a range of thinking errors across our industry. Below, I will discuss a few of the most prevalent:

Over-obedience. It’s akin to what CBT terms “outsourcing happiness, giving outside sources the final say” in our thinking and decisions. A builder buddy of mine suffered from that error. Then one evening as we drove to a meeting of our association, he exclaimed, “Know what my problem is? Every time I hear someone in our group extol the latest and greatest thing they are doing, I think I have to do it, too, or fall behind.” He was suffocating in the clutter of procedures he had adopted. He changed his thinking, cleared out the clutter, and remodeled his business into a leaner and more efficient operation.

His problem is widespread. One industry expert reports that when he starts with a new client, he typically finds that fully half of the procedures executed in their offices are of no value. One example (mine, not his) of valueless effort: compulsive job costing that wastes time at jobsites for the filling out of overly detailed time cards and in the office for getting the time card info into a job cost record—all without any verifiable benefit for project management or future estimating.

So much time spent on superfluties can distract from focus on work vital to the health of a company—notably bidding and estimating. Though the heartbeat of any construction company, bidding and estimating is often given short shrift. It gets done, but casually rather than systematically, with the imprecise results excused by clichés such as “estimating is an art, not a science” or “you can’t know what a construction project will cost until it is over.”

You may be a whiz at marketing, sales, and even production. But if you cannot systematically choose the right jobs to pursue and nail your estimates for building them, eventually you will be toast.

Underpricing can result from thinking errors that lead you to sell yourself short like Bob. The good news here is that errors can be corrected. Each time you catch yourself committing an error, you willfully replace it with better thinking. Eventually, the error will die out and the new and more functional thought will replace it.

Paul Winans, a builder who in time became the national head of NARI, was held back early in his career by thinking errors similar to those embedded in Bob’s mind. Unlike Bob, Paul remodeled his mind, removing the errors and putting

new thinking in their place. In his memoir, *The Remodeling Life*, Paul recalls that early in his career he was not charging enough for his work. He thought and feared that if he raised his prices, he would not get enough work. He was challenged by a mentor to test his thinking. He did, gradually raising his prices. To his surprise, with each increase, he continued to get plenty of work. He quenched his old thinking and replaced it with a new belief: “I sell value, not price.”

Paul’s correction of his error helped motivate another builder to remodel his thinking. That would be me. I, too, underpriced due to flawed thinking. My thinking error was of a different type than Paul’s. It was akin to what CBT terms a “false sense of responsibility.” Though I had no real idea of a client’s financial position, I would worry about an imagined burden the costs of their project might impose on them. On one project, I cut profit entirely out of my bid. Right after I completed the job, I spotted a brand new luxury camper van parked at the client’s house. That experience definitely intensified my motivation to remodel my thinking about pricing.

Like Paul, I installed a new belief in my mind and presented it to clients. “We are not cheap, but we are a good deal. May I tell you why?” Generally, they said “yes,” listened, and accepted my charges—including those for estimating and other preconstruction work.

Revenue obsession and profit neglect. Certain thinking errors come in pairs. One pair is “revenue obsession” combined with “profit neglect.” Remarkably, those errors are sometimes fostered by the very folks who sell consulting services to our industry. When marketing their services, they trumpet the increases in top line revenue reaped by their star clients. Similar ballyhoo rings out at our meetings of our associations. If you attend them, you’ve heard the bragging—“We’re doin’ 20 mill this year.” More substantial indicators of company health—employee morale and low turnover, percentage of work from references rather than marketing to strangers, and solid year-after-year profitability—are barely noted by the consultants or the braggarts.

Writing those lines, I think of my drill rig operator. He figured out it was not his gross sales volume that really mattered. “I take home more money and enjoy life more with just my one rig, operating it myself, than I did when I ran 20 rigs and had a far bigger top line number.” I have lost count of the construction pros who have told me

Underpricing can result from thinking errors that lead you to sell yourself short The good news here is that errors can be corrected. Each time you catch yourself committing an error, you willfully replace it with better thinking.

a parallel story. I also know men and women who have successfully built sizable companies. They are amazed by what they have been able to do. However, it is not that top line, the gross sales, but their employees and profitability they focus on and are proudest of.

Balance sheet pride and overhead obliviousness. A second pair of thinking errors—namely “balance sheet pride” coupled with “overhead obliviousness”—is related to the first. They also divert attention from the factors that actually make for a financially healthy construction business. In *Building Freedom*, I wrote about them in detail. Here, I have room only to note that the balance sheet that feels good during boom times can turn on you when demand for construction shrivels. The warehouse, the big equipment, and the elaborate office that once stoked pride can transform into cash-eating predators. They become liabilities, not in the formal accounting sense, but in reality. As they sit idle, they gobble up capital reserves for payments, storage, maintenance, and security. Steadily, they slide toward obsolescence, losing value.

Balance sheet pride is joined at the hip with “overhead obliviousness.” We see that from the bottom to the top of our industry. We hear it from the startup guy who says, “I don’t have any overhead.” (Really? No truck? No phone or computer? No time spent meeting potential clients and generating estimates and bids? None of the dozens of other overhead costs I list in *Nail Your Numbers*?)

We find overhead obliviousness promoted by the advisors who service more established companies. One urged an audience of builders to focus on four numbers: You, as owner, concentrate on construction costs and profit margins. Have your production manager focus on sales and estimating. She assigned to no one the task of monitoring, managing, and containing overhead. The consequences of such negligence can be brutal.

If you are oblivious to overhead, your balance sheet can steadily become overloaded with “assets” of dubious business value. They may have been purchased for the sake of “professional image.” They may be “big boys toys” purchased on impulse. They may have been purchased in a misguided belief that they were essential to the operation of a real construction company.

Whatever the supposed “assets” are, in time, the costs of maintaining all the stuff listed on your balance sheet contribute to ballooning overhead. It can readily grow to half of the markup

you can get during times of strong demand for construction. Then an economic crunch comes. Now you can’t get projects with enough markup to even cover your inflated overhead much less anything for your own pay or company profit. You are hemorrhaging cash and teetering toward insolvency. If the recession that seems to be underway as I write this article does take hold, that is going to be the experience of construction companies caught in the thinking errors of balance sheet pride, overhead obliviousness, revenue obsession, and profit neglect.

ACQUIRING AWARENESS OF OUR THINKING

Take a close look at your thought > emotion > action pathways, and you may find that your errors are different from any I have mentioned. If you are able to spot them, you will have taken the hardest step toward thought remodeling. We construction guys, especially those of us who came up through the trades, are good at getting up early, grabbing a coffee, and cranking up production at the office or jobsite. At standing back, examining our patterns and the thought/emotion sequence that gave rise to them, we are not so good.

How can a construction pro acquire awareness of thinking errors that are getting in their way? To get started, you could adopt a practice encouraged by Gino Wickman in his book, *Traction*. Wickman advises this: Weekly, make an hour appointment with yourself. Make it at a quiet place well away from your office or jobsites. Keep the appointment without fail. Spend the hour reflecting about your practices and the thinking and emotions that give rise to them.

I have done that for years. I make my thinking appointment at a favorite café, treat myself to a latte, and sit for an hour considering my principles and practices and decisions about projects. It is hard work to just sit and think. But I have had a great run in construction, enjoyed working with many talented designers and craftspeople, and reached financial freedom. Those weekly think appointments help me to spot and remodel problematic beliefs and continue on my way.

David Gerstel is a builder and the author of the construction industry bestsellers Running a Successful Construction Company and Nail Your Numbers. This article is adapted from David’s newest book, Building Freedom: A Construction Pro’s Path to Financial Independence.

We construction guys, especially those of us who came up through the trades, are good at getting up early, grabbing a coffee, and cranking up production at the office or jobsite. At standing back, examining our patterns and the thought/emotion sequence that gave rise to them, we are not so good.