

# The Contractor Death Spiral



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You are probably familiar with the contractor death spiral. Maybe not the name, but the concept. You are in the death spiral when you have to collect a cash deposit from the next job in order to finish the last job.

The spiral grows tighter due to the “brain static” that results from never-ending stress, sleepless nights, endless mistakes, unfinished jobs, customer complaints, vendor credit holds, payroll - which in turn leads to bad decisions, “ballpark” bidding, costly errors, re-work, discounted prices, and family problems at home, which in turn lead to more static and an ever tightening spiral.

If you don't pull out of the spiral, you will crash - and maybe even wind up on TV or in court.

## WHAT CAUSES THE SPIRAL?

There are many reasons contractors first enter the spiral, but one overshadows them all: If you are in the spiral, you have been losing money. You've been losing money on your bids and you've been losing more money in execution of the job. It has to stop. If you are to fix problems, you first have to know what they are. There are four chronic reasons contractors lose money:

- Mis-bids
- Mistakes
- Labor costs, and
- Customer concession

## MIS-BIDDING

Mis-bidding means you don't have a chance. It means you bid work for less than it will cost to do it. It means you bid to lose money - even if you don't think of it that way.

Nobody does that intentionally (well, some do, depending on how desperate they are to collect a cash deposit). They do it because they don't know their costs and instead apply "rules of thumb" to pricing estimates. They do it because they don't know the difference between margins and mark-up, or have a complete list of items to include in their estimates. They don't know how much they have to sell to break even, or how much work they can do in a week, or a month, or a year, and they do it because they don't keep good books.

You have to make money, and to do that you must bid jobs properly. I have a four-part series of articles on how to do that beginning with [this one](#). Yes, it's work, but it's the first step on your way out of the death spiral.

## MISTAKES

Mistakes cost you twice. First, they cost the out-of-pocket expense of fixing the mistakes, and second, they cost you profit you could have made on new jobs you're not doing because you are re-doing the last one.

Mistakes compound because of brain static, which leads to a lack of focus. Instead of overseeing your crews and subs, you concentrate on making the next sale in order to collect a cash payment. Mistakes mean that instead of managing your 2 or 3 or 4 current jobs, you also have to manage an additional 2 or 3 or 4 unfinished jobs. Mistakes demolish focus by compounding work beyond your capacity to manage it.

## LABOR COSTS

Labor is the most difficult cost to manage on jobs. Even when you accurately plan the hours required to complete a job, you fail to account for the cost of unproductive hours spent running to the parts house, or showing up at sites that aren't ready, or, my pet peeve, paying a guy to pick up his buddy who lost his driver's license.

## CONCESSIONS

Contractors trapped in the death spiral negotiate from a position of desperation when confronted with unhappy customers' out-of-scope demands: "You said you'd be done by June...," or "You said the bid was 'turnkey'," or "You said you would..." or "You need to fix that because it worked until you got here."

Contractors trapped in the spiral also negotiate new work from a position of desperation: "I'll knock off 10% if you give me a down payment check today." Concessions of scope or price both lead to a tighter spiral.

## STOP IT!

The death spiral is no place to spend your life. If you want out, you have to fix the problems that drag you down. If you're not committed to doing that, get the hell out of business. You can go broke with far less effort by sitting on a beach with your toes in the sand.

**Mis-bidding** — You must know your costs and how to bid so you can bid jobs at a price that gives you a real chance at making a profit, AND you have to muster the resolve and courage to ask for that price.

**Mistakes** — Mistakes are due to lack of focus and oversight. Concentrate on one job at a time and get it done. Customers with unfinished jobs will call and complain, and you will have to weather that storm, but you will at least get one job done and checked off the list.

**Payroll** — You have to get your payroll under control. Pay only for productive work. Focus on scheduling on the one job you're doing, get materials to the jobsite, use a GPS enabled app so guys clock in when they actually arrive at the job and clock out when they leave. And, no more paying someone to pick up their buddy who lost his driver's license.

**Concessions** — You have to stick up for yourself. Customers will misread contracts in their favor, or want extras, or tell you "I bought those parts off the internet and want you to deduct the retail price from the contract price." Learn to say "No." Stand your ground. (And continuously improve your contract to clarify scope of work.)

If you want out of the contractor death spiral, you can do it. I've seen it done, and as I write this, I have three contractor clients working their way out. Everything you do is because you decided to do it. You can decide to end the suffering, or you can decide let it continue. Muster the courage and resolve (fake it if you have to), and do it. Otherwise, head to the beach.

If you have any further questions, please don't hesitate to mail me at [Martin@annealbc.com](mailto:Martin@annealbc.com) or visit [www.annealbc.com](http://www.annealbc.com)



## Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.