

Surviving the Next Downturn: Tips for Subcontractors

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[This material was originally prepared for and presented to subcontractors in May, 2016.]

These general tips and insights can help you win at least one project you would not otherwise win. To win many more projects, ask *your* customers for *their* feedback and guidance. See page 4 (bottom) for feedback topic ideas.

Introduction. Subcontractors' comments about economic downturns:

- The next U.S. construction downturn is projected for late 2017 (2019 for some). The worst feature last time was the downturn's duration.
- *One sub said:* "It's hard to know you're in a downturn until it's on you."
- The most recent downturn was both good and bad. It flushed out weak players, and some unfriendly players retired, but some good customers retired, too.
- *One sub said:* "It pays to make the effort to meet new players. Not everybody does. But, not all new players are open to meeting new people."

Tips to subcontractors:

Limit risk exposure

- Owners are riskier than GCs. Always have a GC network to fall back on if owners postpone work
- Specializing is risky. Have a mix of customer types
- Small customer pool is riskier than a large mix
- Know each contract's payment terms and lien rights.
One subcontractor's rebuttal: "If we read the contracts, we'd never sign them!"
- Expand geographically: knock on doors, introduce yourself
- Add a product favored by a niche market
- Add new specialties: this strengthens diversification and competitiveness

Bonus GC tip:

- *"Know how each project is financed: Subs never ask!"*

Bonus developer tip:

- *"Less than 30% financing from the owner or developer is risky; banks can get spooked and pull out. Ask how much the owner/ developer has at risk."*

Pay attention

- Look at your customers and their customers. Example: Which of your customers and their customers share your priorities (such as quality, scheduling, reliable payment practices)
- Pay attention to what's happening in your markets

Manage expenses

- Keep salaries of office employees low; share profits to compensate
- Keep all fixed expenses down
- Shop for value in capital purchases; buy, don't lease
- Spend on productivity tools, not trends. *One sub's example:* No iPhones—their features aren't necessary; laptops are provided only to those who need them to do their jobs

Manage infrastructure

- Evaluate your office location and work flow layout: should you move?
- Upgrade productivity technology: can different technology make you more competitive?
- Renegotiate your lease if/when economy softens

Manage finances

- Know where you are cost-wise on all your projects
- Make sure your lines of credit and bonding lines are in good shape
- Keep taxes and financial statements current
- Create a monthly budget variance analysis; know your exceptions/variances

Manage human resources

- Evaluate employees: Who might retire? Who might you cut?
- What will trigger a cut? *The tendency is to wait too long*
- Snap up good people from competitors that fail

Invest in productivity initiatives

- Field team: Waste less time. *One sub's example:* Squeezing out 30 minutes of unproductive time per employee per day kept his company profitable
- Office team: Develop/follow one set of “best practices” for each major task (estimating, planning, etc.)
- Management team: Host business seminars (attorney, insurance, IT). *One sub's attorney educated staff on how to avoid liability when a project goes sideways*

Invest in yourself, your professional development

- Participate in roundtables
- Adopt ideas from other companies, industries
- Have a place to ask questions away from peers and employees. *Example:* CEO peer group

Tips offered during the presentation:

- Use a time-clock app to track employees in the field
- Watch out for “rabbit hole” time wasted on the Internet; use better time-management practices
- During the last downturn, one contractor's employees donated wages to keep the company's admin at work part-time.

Tips and comments from interviews with GCs

What general contractors value in subcontractors: GCs select “Boy Scouts”

- Dependable
- Trustworthy
- Locally owned
- Treat your employees fairly
- Show a partnership attitude (example: volunteer cost-saving tips)
- Honest
- Communicative
- Deliver quality
- Show regard for customers' needs

GCs select based on:

- Relationships/familiarity: “We hire people, not companies.”
- Reputation: be known for finishing projects that go sideways
- Integrity: *One GC said,* “Never bail on me. If you can't bid after telling me you planned to, tell me ASAP, otherwise I won't invite you back.”

Bottom line

- *One GC said:* “Relationship is important, but on bid day, we look at price. We need the subs to be low so we’ll get chosen.”
- *Different GC said:* “We do negotiated work. We value relationship, smartest approach and reliability. In this market, resource availability wins over low price. That means we chose contractors we can count on. But when the market cools, price becomes important because we’re chosen on price. However, relationship is important even then.”
- *Caution: The hard-bid selection priority is often exclusively cost. Still, it pays to verify the value of relationship with each of your hard-bid customers.*

Tie-breakers (other than price)

- Experience with this project type
- Reputation for performance
- Thoughtful proposal (solid number, addresses project’s challenges, has a safety plan)
- MBE/DBE/WBE, etc., if publicly funded
- *One GC’s advice:* “Call when you’re familiar with the job. Let’s do a ‘page turn’ to create expectations. Give me cost-saving ideas for the customer. This gives me confidence in your number.”

Attendees’ observations about GCs offered during the presentation

- “Scheduling is a huge issue right now; I’m not seeing adequate project management.”
- “My guess is GCs are promising compressed schedules to win jobs.”
- “This new generation of GCs/CMs rely on computers. They don’t know how to sequence tasks and subcontractors.”

Courtesies GCs value

- “Talk to me about your suppliers. I feel safest with subs who have strong relationships and can get accurate product lead times.”
- “Share your pricing forecasts.” (This is a way to be a partner with customers between projects.)
- *Suggestion: If your supplier relationships are strong, use that to your advantage. Relationships can be differentiators and tie-breakers.*

GCs guidance on trade damage

- The only common message: Agree to an approach to trade damage repairs up front
- Some GCs ask to see allowances broken out separately
- Some resist allowances
- *Recommendation: Turn in repair tickets daily*

General contractors’ business development tips

GCs’ tips to subcontractors on getting your foot in the door

- “Send us your newsletter.”
- “Stop in to see us regularly.”
- “Some subs hold an annual lunch & learn.”
- “Some subs ask for 15 minutes before superintendents meeting to educate us on new technology or products.”
- “Be visible at AGC; meet PMs, estimators there.”
- “Accept invitations from GCs, AGC (mixers, golf tournaments, chili cook-offs, etc.).”

Other business development tips from GCs

- “We understand what it takes to be chosen. We live it, too.”
- “Pings every few weeks, lunch every few months.”
- “I get busy. Ping me once a month or risk fading into the background.”
- “Estimators decide who to bid. PMs decide who we use. Get to know them.”
- “Stay current with who our PMs are. They move up or move on.”
- “Present at PM mtgs. Show us relevant examples.”
- “Stay on my radar. Being invited is a mix of ‘what have you done for me lately’ and ‘the squeaky wheel gets the grease.’ ” *Observation: It takes more effort now to stay “top of mind.”*
- “Follow up after you bid. Let us know you’re really interested.” (*Be a squeaky wheel.*)
- “Have relationships at all our locations.”
- “Ask how we’re organized and who you should meet.”
 - *Suggestion: Once a year have someone from your company call all your GCs and say, “We’re updating our CRM system. We have (names) listed as your project managers and estimators. Is that list accurate and complete?” Organizations change over time.*
- “It’s good relationship management for a sub’s owner to shake the PM’s hand at the end of the project. It makes an impact.” *Comment: This GC was recommending that you do more than simply attend the walk-through. He wants contractors to go out of their way to thank him for his business (visit office, invite to breakfast/lunch, send event tickets). He had choices. Let “values our business” be a tie-breaker that works in your favor.*

Sub and General Contractors’ comments about pre-construction

Subs on pre-con

- Seeing more “soft bidding” on a concept
- Tweaking design is now easy (fast technology); re-pricing tweaks still takes time
- Early involvement can win jobs; it’s a way to turn lemons into lemonade (and influence which materials are chosen)
- *One sub said:* “Whether I respond depends on who’s asking; I say ‘yes’ to known customers, to others probably not.”

Most valuable tip: How to expose a “phantom” project:

- Ask: *Does the client own the land?*
 - Ask: *Has the financing been secured?*
 - Ask: *Have they applied for permits?*
- Subs never ask!

GCs’ pre-con suggestions

- Anticipate follow-up questions; address them in your initial response
- Be easy to work with
- Volunteer cost-saving ideas
- Give realistic/pessimistic estimates, not optimistic estimates
- Understand that sometimes the funder’s requirements drive pre-con questions

Feedback topic ideas: Use feedback, guidance and advice to strengthen competitiveness and revenue

Deliberate Strategies Consulting recommends you ask for

- Feedback from **active customers** about: your strengths, differentiators, weaknesses and field employees; how much value they place on relationships; ways to earn “last look” status
- Guidance from **dormant relationships** on how to be considered again
- Advice from **“perennial prospects”** on how to secure your first win

Using Customer Feedback as Business Advice

Customers have a lot of advice (feedback) to share that contractors never ask to hear. Here is an overview of what you can learn, how you can learn it and why owners should stay plugged in.

What you can learn. The most valuable insights you can learn from customers/prospects are:

- **How they met you:** what worked to bring you together with new prospects.
- **Why they gave you a chance:** what tipped their selection decision in your favor.
- **What’s so great about you:** use your customers’ descriptions of you in your self-introductions to new prospects. Their feedback and guidance might include differentiators you haven’t known to mention.
- **Where you’re leaving money on the table:** learn what’s costing you bid or “last look” opportunities.
- **What could put the relationship at risk:** ask for “room for improvement;” ask what you should start/stop/continue doing.
- **Can you win back a dormant customer:** ask what you can do to restart the relationship.
- **What the real truth is behind individual losses:** Some feedback is tie-breaker guidance. Ask what—other than price—kept you from being chosen. *Suggestion: Don’t accept a one-word answer such as “price” as their reason. Get customers to engage in a conversation; learn something you can use to strengthen your competitiveness and improve your chances of being chosen.*

Ask yourself: **What advantage would it give my company to know**

- what our customers think about us and
- what advice they’d like to give us?

How you can learn it

- People hate surveys; instead interview customers who matter (or hire someone to interview customers for you).*

Why you should stay plugged in

- In one interview a customer shared he was ready to fire his contractor. The owner had no idea the customer was mad. *Point: Customers don’t always call to tell you they’re dissatisfied. Sometimes they simply drop you. Stay engaged with your customers.*

Asked during the presentation:

Q: Will a third party hear more than someone from my company?

A: Yes. An outsider can offer to keep comments anonymous or confidential. Also an experienced interviewer knows how to get your customers to speak candidly.

It’s better to know than to not know, and the way to know is to ask.

Ann Amati is available to help you grow revenue by researching feedback, guidance and advice from *your* customers.



***Through her customer interviews, Ann Amati has helped construction industry contractors, subcontractors and suppliers identify their differentiators, win back dormant relationships and become more competitive. Ask for a sample report.**

Testimonial: “The biggest changes are the shifts we made toward strengthening our relationships with core customers and rebuilding dormant relationships. As a result of Ann’s work, we’re working with several regional GCs that we hadn’t worked with in 15 years.”

Contact: (206) 933-6067 (Seattle) | <http://www.AccountLoyalty.com/contact-htm>

Excerpts from August 2015 testimonial letter from a Deliberate Strategies Consulting customer

To Whom it May Concern:

Eighteen months ago my [subcontracting] company was in the early stages of developing a five-year strategic plan. As part of that process, we wanted to reach out and learn what our customers thought of us.

I agreed it made sense to use an experienced outside party who would focus the conversation rather than have individual salespeople talk to customers and report back what they thought they heard.

Ann Amati talked with customers who had field experience working with us. She didn't stop at gathering general feedback that would have left me wondering what action to take. She probed until she heard specific examples and requests. That showed me she had put herself in my shoes during the interviews.

The recommendations customers offered are the key to some of our recent increase in business. Specific recommendations made it possible for us to develop and track action items. That's led to real changes.

The biggest changes are the shifts we made toward strengthening our relationships with core customers and rebuilding dormant relationships. As a result, we're working with several regional GCs that we hadn't worked with in 15 years.

I pull out Ann's report once a quarter and use it as a guidepost. I review the customer-specific recommendations to monitor how well we're sticking with the priorities our customers spelled out for us.

I'm very pleased with the work Ann Amati did for us, and I'm happy to be a reference for her. The project paid for itself with one revived relationship. We anticipate bringing Ann back every three or four years.

Sincerely,

President
Subcontracting company

Contact Ann Amati for reprint of entire letter and approved sample pages from subcontractor's report.