

# Seven Stupid Things Contractors Do to Commit Financial Suicide



By Monroe Porter

Through the years, I have coached and counseled thousands of contractors. Most contractors don't call and say, "I am making a lot of money and I'm not sure why." Rather, they are seeking advice to get them out of some type of hole or problem. I would like to talk about seven mistakes we see over and over.

## 1. Expanding beyond your market.

Most contractors fail when they go outside of their geographic marketing area. An exception to this is a situation when one customer asks you to work on their property on a national basis. This type of out-of-town marketing succeeds because it is not really an expansion of your business but rather expansion with one customer.

Some contractors expand because they think the grass is greener somewhere else. Many simply let their egos get in the way of good judgment. Expansion outside of your local market is difficult, particularly for a subcontractor. Subs must build a local labor force. You also have to build a management team to run those branches. My advice is simple: If you are not making money, fix what is wrong with your business and make money in your own market. If you are not making money and plan to relocate as a cure, do so as a tradesman.

For those of you who are making money and are tempted to expand geographically, think of it this way: Contracting is a risk — why expand in such a risky venue? Consider taking money from the contracting business and diversify. Hire a good financial planner. If you are bored, find a hobby or use your business skills to help a charity. Don't let your boredom destroy your business.

## 2. Building your own house or office.

While I have written about this in the past, I want to reiterate what a financial disaster this can be. Most contractors already have a full-time job. Building your own house or office can be a huge business distraction. We estimate it costs our average client \$100,000 in lost profits. Are you in a financial position to take such a financial hit? If not, hire someone and let them do it.

Also, don't underestimate the impact of having your own crews work on your magnificent dream house. It is difficult to explain to a \$12-an-hour guy why you are not made of money when you are building a multi-million dollar house.

## 3. Using the IRS as a bank.

No matter how bad of a cash crunch you are in, always pay your payroll and income taxes first. The government is the most expensive bank in the world. Just don't do it, no matter how tempting it might be.

## 4. Being improperly insured.

When you have an accident and are sued for millions, it is too late to discover that you are not properly insured.

Insurance is a complex legal issue. The purpose of insurance is not to protect you from day-to-day mishaps, but rather to ensure that a disaster will not wipe you out.

Make sure you have a professional multi-line business agent who is an expert in insurance, not sales, review your insurance needs. If need be, increase your deductibles, but make sure you have adequate disaster coverage.

Incorporate and make sure your corporate structure is clean with no games. Make it so that you can hand them the

keys to your shop and still keep your house and personal wealth. Make sure you are covered for incidents such as embezzlement, employee non-owned vehicles, etc. Consider having an umbrella that covers your personal worth.

I am not an insurance expert. These are just suggestions. Hire someone who is an expert. I know insurance is expensive and a hated word to contractors. But if you ever need it, it will save your butt.



## 5. Making real estate mistakes.

Many contractors dabble in real estate, and this can be a great strategy — but don't do so until you are ready. Trying to cut deals in real estate when you are in debt as a way to get out of debt can be a huge distraction. Only do such things when you have the time and capital to do so. And don't mess around in real estate until you have met other basic financial needs such as an IRA, a rainy day bank fund, etc. Once you begin

to make a little money, develop a plan, not just a haphazard deal approach to managing your wealth.

## 6. Doing the wrong job and having a big loser.

This is a biggie for many contractors. Taking on a risky job in hopes of making a lot of money can sink your ship. Don't let the excitement of the big score cloud your good judgment. Some warning signs are:

- If an unknown customer or out-of-town company calls out of the blue and has a "too good to be true" job, well, it probably is. Conduct an extensive credit check.
- The job stretches your abilities and is not only large but difficult in scope, and will require most of your best people.
- The job is more than 20% of your total sales volume for any given year. How are you going to keep your other customers happy while you work on this "home run" miracle?
- The job is new construction and much larger than other jobs. New construction is almost always harder than working directly for a property owner. It can take longer to get paid because you have other subs and trades in your way.

Last but not least, if something goes wrong on this job and you are not paid a substantial portion of what is due, will it destroy your lifestyle and business or just hurt you short term? Think of it this way: Staring at a pretty girl may not be cool with your wife; but it probably won't destroy your marriage. An occasional temptation by a job is natural, going beyond that may destroy your business.

## 7. Having a dysfunctional partnership.

The best of partnerships are difficult. People form partnerships for many reasons. Possibly, you and your partner are brothers or cousins. Maybe one is the field guy and the other an office person. Over time, it is very difficult to keep those partnerships focused where both partners are bringing the same value to the business. People's lives and goals also change over time. Maybe when the business started, one of you was a \$50k foreman and the other a \$50k salesperson. But now, one partner runs the business and is a \$150k a year owner, and the other is a \$150k a year foreman, which is not so OK. If you are going to have a partner, you both must act and communicate like partners.

While this list does not necessarily represent all of the stupid financial mistakes I see contractors commit, it is a pretty good cross section. Avoiding or simply thinking through some of the issues will save you a lot of heartache and money.