

## **Two Negatives of Owning Your Own Construction Business**

**Executive Summary.** Owning your own construction business, or any business for that matter, is not all Porsches and Rolexes. It can be a lonely and rough road. Below are two of the largest potholes in the road. There's plenty more – these were the first two to top of mind.



**Isn't owning any business tough?** Yes, owning any business can be full of challenges and very difficult. But, according to my banker, running a construction business was second in difficulty only to having a bar or restaurant.

**What makes construction #2 on the list behind bars and restaurants?** I've owned five businesses. Two of them were construction contracting companies, one a software company, one in engineering services, and the current business being a construction consulting firm. Looking back, the construction contracting businesses were the toughest for me. By far. Here are the two challenges that come to top of mind:

- 1. Cash flow – cash is King!** My first year in business, we did \$140,000 in sales. When I exited my company about ten years later we were doing just about \$25 million. And as I got bigger, profit became smaller. Generally speaking, it doesn't get easier as you get bigger. The risks get larger and I was learning that it was becoming a volume business – taking one job to help feed the prior ones. With construction, many projects carry a 5% retention which means that on a million dollar job, the last \$50,000 is held until final completion. When you're bidding jobs for about that percentage, it doesn't take long to figure that you're in a constant cash flow fight.

The pace of change order processing can also kill a contractor. The problem isn't necessarily the fact that the extra work was added, it's the timing of the extra work. Usually the work change ordered has already happened, or must happen now. This is all before the money is in hand from the owner. "Fronting" the money for change order work is in the best interest of the project and the relationship between you, the contractor, and the owner. However, it is a textbook example of what not to do. The advice here is to spend the owner's money on the owner's awarded extra work.

If you cannot get enough money in the door fast enough to cover payroll, payroll taxes, other state and federal taxes, bond and insurance payments, subcontractor payments, and union dues, it doesn't take long to fall into a death spiral.

- 2. People, people, people.** I've employed between one and ninety (90) employees at any given time. Would I say that people is the toughest, yet most important thing about a business? Yup.

Good people allowed me to open a second office in Seattle (my first was in Honolulu), to acquire good-sized cost plus work in Tacoma, to go on vacation twice a year away from work with limited worry, to estimate thousands of jobs, to make relationships with equipment dealers to buy additional gear, and to generally grow a business.



*Designed by Freepik.*

On the flip side, not-so-good people file police reports on other people for leaving water on the sinktop in the bathroom down the hall, file lawsuits against the company for unlawful termination, embezzle money in various ways, and don't finish tasks timely which results in you (the owner) having to pull an all-nighter.

**My story.** If you couldn't tell, all that above was taken from my personal account. In the second paragraph I used the phrase "full of challenges". I hate that phrase. I've always thought that it is a phrase used by someone who's never owned a business. "Full of challenges" is an academic phrase. There are other colorful four letter words that more aptly describe the issues. "Dumpster fire" would be more accurate, but f-i-r-e is not the sort of four letter word I was thinking of. It's not easy having a construction business. My construction business was tough on me as a sole owner. It was also tough on my family who noticed a stark difference in my personality as the years went on. I was never relaxed, rarely calm, and often stressed to an unhealthy level the vast majority of each waking hour.

Believe it or not, I don't regret it. That's another day for another article.

Work safe!