

eBOOK

FROM SURVIVAL TO SIGNIFICANCE



BY PAUL HOLLOMAN

In contracting, survival is luck. Flourishing requires leadership, processes, and discipline.

Organizations that succeed have solid structure, processes, and leaders that enforce them.

It's a sobering reality, 50% of small businesses fail by year 5 and Construction has the highest failure rate. Complex projects, skyrocketing materials costs, lack of skilled labor are some of the factors that make it difficult to survive. However, with the right leadership, processes and discipline, a contractor can more than survive, they can flourish.

I am a Family Man, I am a Soldier, I am an Athlete, I am a Project Professional and I have been part of a myriad of teams and organizations in my lifetime spanning across industries, geographical regions and through them all, 2 themes constantly emerge:

1. No matter how simple an organization may seem at face value, it is always more complex than you think.
2. The success of a project or an initiative are determined long before execution of the project begins. The challenge is to understand the capabilities of the resources at your disposal, synchronize, galvanize and maximize these resources to accomplish your goals.

During the last few years, I have gotten into Scuba Diving and this experience has allowed me to make the connection between a Coral Reef and a Tradesman Contractor. In a Coral Reef, if one level of the food chain fails, then it can have a cascade of effects that can end with the collapse of the entire Ecosystem. Much like a Coral Reef, if a contractor experiences failure in one area of the business, it can have a downward impact such as:

1. Jobs running behind schedule.
2. Inefficient Crews.
3. Difficulty managing multiple jobs at once.
4. Disappearing profit margins.

Does any of this sound familiar? Contracting is a tough business between outpacing the competition, managing the customers, vendors, employees, the family, creditors, salesmen, the Boy Scouts, and Girl Scouts it can get overwhelming, in fact it may feel like your head is about to explode. Having the proper processes, systems, team building, and leadership can help you navigate these challenges allowing you to move from a chaotic and reactive posture to a proactive less stressful environment.

This eBook is volume 1 of 2 and it is intended to give small contractors a different perspective on the root cause of some of the challenges they are faced with. It includes real-world solutions, Volume 1 will layout problems and Volume 2 solve them. Ultimately, you want your business to resemble a healthy Coral Reef with a balanced ecosystem and once the pH is properly set, then you can go from Surviving to Significance.

Here we go!

**WHAT IS,
DOWN GOES
THE SHIP!**



What happens when silos do not line up?

I worked with a contractor doing Dry Dock projects which occur when a Ship is essentially placed on supports, stripped down to the hull, and rebuilt from outside in. Part of the scope of work was to remove a Chapel and replace it with an Escape Room. I was eager to meet the team, learn the ropes and get the project underway. Once I met the team, immediately the caution flags started going up; the projects were executed at different locations around the world; the teams were distributed across 3 time zones and they lacked collaboration prior to the start of the project.

The concept was the project was designed, materials purchased and drop shipped in time to meet the team on location for project execution. While going through the scope of work, there were some areas that were not clear such as who would execute a certain body of work and who would pay for that work. A major risk that went unaddressed was procurement; the procurement specialist worked alone, and he was tasked with purchasing for all projects. He was under heavy distress which went unnoticed even though he had the potential to derail all projects if the correct materials did not arrive on time. The organization approached their projects with a silo-based mentality where the project was estimated in a silo, designed in a silo, procured in a silo, and moved towards installation with the expectation that the correct materials would arrive onsite, on-time and within budget.

There was little interaction between the silos and as the project moved the installation, the risks and confusion mounted. Valuable information resided within each silo (department) and it was used to do the work in that department, but it also included important information required for the next silo to do their jobs. Long before the installation team took one step onto the jobsite, the risks, the confusion, and the problems mounted. Since the project team rarely collaborated and bridged the gaps between the silos, then they basically kicked the can down the line and someone on the backend would have a bitter pill to swallow. The first project was a mess, the team worked 80 hours per week to compensate for poor planning and missing materials. We were able to at least complete the first project on time since we were in the western hemisphere, and we were able to source missing materials. If the first project was a mess, the second project was a catastrophe with the team working over 120 hours per week. Since this project took place in Europe, then we could not source materials in the same manner as the first project. We rushed materials in from all over the world resulting in enormous spending for materials, shipping, and labor. There were rough meetings with the client because our delays potentially derailed the clients aggressive schedule for this 100-million-dollar project.

Ultimately, we finished both projects but the company lost their shirts on both projects. The siloed approach and lack of organizational collaboration checked all boxes; the jobs ran behind schedule, the crews were inefficient, the profit margins disappeared, and they had a terrible time managing multiple jobs at once. To finish were we started.

What happens when silos do not line up? The ship is out of alignment, it takes on water and down goes the ship.

Bottlenecks Eliminate Production



If bottlenecks are not, corrected...?

I was brought in to help a contractor streamline operations and increase profit margins. The core team was knowledgeable, experienced and needed minimal supervision, however the non-core team members were not as skilled or experienced and they caused the majority of the issues experienced. I realized that the team nearly always managed to finish their projects on time while almost always losing money to the sum of around \$250K annually which was unsustainable. Enter the ringleader, all information and decisions went through him, and he was the chief bottleneck in the organization.

The ringleader made every decision with zero input from the team and more often than not, his decisions were made in panic with little consideration of their impact to the team. For example, the team forecasted annually and one of the budgets was for non-Capex equipment which was around \$125K for the year. The ringleader spent \$600K on non-Capex equipment without talking with the team and he singlehandedly demolished the budget and financial performance of that department and the team for the year. I also observed supervisors giving instructions to their teams and the ringleader would contradict them, undermine their decisions, and change the plans leading to confusion, inefficient teams, and quickly disappearing margins. With the constant demand on the team and its limited resources, their success depended on efficiency and being in sync with one another, however the ringleader consistently made commitments to customers without finding out what the teams were working on, discussing which is the primary focus and what can be delayed and in turn leading to inefficiency, scheduling delays and once again reduced profit margins. The ringleader was the bottleneck in the organization and because of his inability to "get out of the way", the operation was turning into a disaster.

All information channeled through the ringleader and since he was not a good communicator or planner, then the objectives were never effectively communicated to the team, and it was killing their bottom line. Instead of an organization with different departments and people responsible for different tasks and deliverables, the organization looked like a bicycle wheel with the ringleader in the middle as the hub and all spokes leading back to the center. The ringleader could not be everywhere at once and as the demand grew, the team could not meet the demand. Due to the bottleneck in the organization, they were constantly inefficient, unprofitable, and maybe more important, their growth stuttered.

If bottlenecks are not, corrected...? The organization grinds to a halt!

And the question is...
What happens to an organization
that lacks reliable systems,
processes and structure.



What is the organization will lose it way? And the question is?

I worked with a contractor with an interesting business model involving shared savings and subcontracting installations. The organization had an eager, energetic, and enthusiastic team who lacked experience. Whenever the team was notified of a new project, the team took an all-hands-on-deck mentality where everyone would take a piece of the job, but no one owned the entire project and critical information fell through the cracks leading to projects running behind schedule and over budget. Additionally, if projects achieved a specific profit margin, then investors would completely reimburse the money spent on the project which conserved cashflow. The shared energy model's algorithm was based on replacing an inefficient technology operating for a given amount of time and consuming a certain amount of energy with an efficient technology operating at the same time, and as long as they followed this formula, then the margins were great. The organization had visions to expand nationwide although they did not understand that every state with its different legalities represented almost a different country which presented additional risks.

At face value, this organization had it figured out, and they were onto something with enormous potential. To reiterate a bullet point from the introduction, "No matter how simple an organization may seem at face value, it is always more complex than you think". The Sales and Estimating teams would deviate from the algorithm looking for volume over value jobs and in turn negatively impacting profit margins. The Project Management team was inexperienced, and they did not understand the terminology or the requirements to get their projects installed on time and under budget leading to soaring installation costs. Senior Leadership did not understand that different states had different legalities that resulted in fluctuating sub-contracted and shipping costs. All these factors ate away the profit margins leading to projects that investors would not fund and in turn depleting the contractor's cash flow reserves. Finally, only one team (Sales and Estimating, Project Management, Procurement, Installation) could execute one project at a time and given their challenges and lack of experience, it was nearly impossible to execute multiple jobs simultaneously and let alone scale and grow.

This organization with the shared savings and project funding model was positioned for explosive growth, however their success depended organization alignment based on reliable systems and structure. For the model to work, it was imperative that their projects consistently achieved the intended profit margins. Failure to synchronize resources would consistently lead to disappearing profit margins, projects not being funded, exhausted cash flow that would grind the business to a halt. I have seen it happen time and time again where an organization underestimate how complicated it is to synchronize and galvanize their organization. A mission statement, a motivational speech and a family environment may work in the short term, however for an organization to become scalable and maintain the same level of proficiency as they grow, they must have reliable systems and structure in place providing a framework for teams to operate within. These systems and structures cannot become rigid and inflexible, they must be continually updated and revised as circumstances change.

The question is... what happens to an organization that lacks reliable systems and structure?

Volume 1 Conclusion

3 examples from different contractors and their challenges, what am I saying? Teams working in Silos, unaddressed bottlenecks, and the impact of not having reliable systems and structure. Let us look at the coral reef ecosystem for clarity. Silos: a reef survives when one level of the food chain feeds the next level and what impacts one of level of the food chain can have a domino effect will in turn destroy the reef. Bottleneck: a healthy reef is indicated by the presence of sharks. Sharks are the top of the food chain and they eat the bigger fish, however the Sharks started eating the plankton that feeds the reef, then there would be nothing for the reef to eat and in turn nothing for the fish that feed off the reef to eat. This would cause collapse at each level of the food chain eventually leaving the Sharks without bigger fish to feed on. Unreliable systems and structure: coral reef ecosystems thrive when warm currents provide nutrients that allow them to flourish. As ocean temperatures rise and the water becomes too hot for the coral reef to thrive in then they become bleached, desolate and they eventually die off.

As a small or medium sized contractor with limited access to capital, it is imperative that you maximize your resources and if your intended profit margin is 20%, then you must consistently make 20% if you are going to flourish and let alone survive. This requires that you have teams that work in collaboration with one another and not in silos, all teams are empowered to make decisions and maximize their potential within their roles by eliminating bottlenecks and they have the systems, structure, and processes to make decisions based on the needs of the organization. The downwind impact will be:

1. Fine-tuned and well operating teams.
2. Projects that are delivered on schedule.
3. Realized profit margins.
4. An organization that is scalable and ready for growth.

Let's put a ribbon on this thing. Volume 1 has laid out a few examples of small contractors that were not operating as optimally as they could. Do any of these scenarios sound familiar? Volume 2 will show what was the solution for these scenarios and hopefully provide you with a roadmap if you are experiencing some of the same issues.

