

5 STRATEGIES TO BUILD A PROFITABLE CONTRACTING BUSINESS AND AVOID THE "RACE TO THE BOTTOM"

Business advice for Trades

DOES THIS SCENARIO SOUND FAMILIAR?

Work has been harder to come by in recent times, or at least good margin jobs. In the past, word-of-mouth and the advert you have been running for ages in the Yellow Pages has provided plenty of potential jobs to quote on and you can keep the team fully engaged without too much problem. Not any more. The client seems to know more about the market than you do and just wants you to beat the other guy's price. Even when you do the client says the other guy has come in cheaper (you suspect they gave your quote to them) and so you cut your margin again and resign yourself to not taking a project management "salary" on this one, so you can keep the guys working and not lose them across the Tasman. That holiday for the wife and kids to the Gold Coast later this year looks like a fading mirage, again!

If that scenario, or a version of it, strikes a chord with you and the situation you are finding yourself in, then it is time to review your current business direction and try some new strategies. As Thomas Jefferson once said, "If you want something you've never had, you must be willing to do something you've never done." If you want to break out of the "race to the bottom" pricing spiral, what follows are 5 strategies that will help you re-focus your business and set you on the path for a profitable business and lower stress life.

1. LEARN TO SELL

Everybody is in sales. The pivotal question is whether you are any good at it. Whether you like it or not, every day you are faced with trying to negotiate, persuade and attempt to get people to see your point of view. That's sales.

People try to avoid the process in some way by saying they have a great product or service and it sells itself. These days that rarely works.

Competition is too fierce and consumers too demanding and knowledgeable to rely on the old adage, "If you build it, they will come".

If you don't learn some sales skills and then build a solid and consistent sales process, the client will just go for the lowest price. You need to give your potential client a reason to

choose you over the competition. Fortunately all sales skills are learnable, so spend some time to learn and practice the various steps in the sales process so they become second nature, and you become a "doctor of selling".

So, what have you done to improve YOUR sales skills?

2. BUILD A LEAD GENERATION MACHINE

When I ask contractors where they get their leads from the most frequent response is usually "word of mouth". This is great and is the cheapest and most effective marketing tactic of all. But it doesn't work all the time and recently has been working less effectively for many people. If you just rely on one source of leads, and one that you have no control over, you risk falling into a big hole with little or no pipeline of work pencilled into your calendar.

What you need is to have a range of marketing tactics in place to generate leads into your sales process. I would suggest a MINIMUM of 6 activities and preferably up to 10. Some activities may be quite passive, like good signage, while some may be quite active, such as attending referral generation groups and direct mail campaigns. It's all about building a SYSTEM to generate leads of the right sort on a consistent and tested basis.

So, how many lead generation activities do YOU use?

3. TARGET BETTER CUSTOMERS

Who is your customer? Some would respond to the question by saying, "Well, everyone is my potential customer, right?" Wrong. There are lots of people out there who are the wrong customer for you and the sooner you put down your shotgun and pick up your rifle with scope the better. I know the temptation when the market is soft is to grab anything with a heartbeat. If you haven't positioned and marketed your business as the expert in a certain niche, then that's probably what you are forced to do.

A better strategy, but one that takes a bit of time, is to analyse where your best customers come from, what problems/needs/desires they have and go hard out to attract more of the same. Perhaps this may line up with some

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special skills or passion that you have. Effectively going DEEPER into a smaller segment of the market and becoming the expert, go-to guy that is top of the list to talk to.

So, what does YOUR A-class customer look like?

4. UP YOUR VALUE IMAGE

Why should a head contractor or owner choose you over the other contractors going for the job? By any chance, was your answer "better quality"? All contractors think they produce better quality than the competition. Even if you do build better, your client probably can't tell the difference, and if you are a plumber or electrician, your better quality is probably hidden behind the Gib board anyway. Many customers actually believe they are paying for perfect quality, which is both unreasonable and impossible.

So, given that "a quality job" is taken for granted, how else can you add value to a customer and stand out from the competition? Here are a few ideas to consider:

- Quicker response
- Better communication
- Budget assistance
- Superior on-time completion
- Cleanliness
- Perfect safety record
- Adequate financial resources to allow slow payment

There will be others. When looking to develop a competitive advantage you also need to test it against the following:

- Does your prospective client care about "it"?
- Are they willing to pay a premium for "it"?
- Will past customers testify that you have "it"?
- Does your competition not have "it"?

So, what is YOUR competitive advantage?

5. KNOW YOUR TRUE COSTS AND MARGIN

More companies go bust due to lack of cash than anything else. Even when the work is coming in and the team are all really busy, a lack of understanding around calculating true profit and keeping an eye on cash flow can result in a sudden and catastrophic change in your financial circumstances.

Those owners who consistently focus on paying themselves first PLUS factoring in a net profit figure, while regularly keeping an eye on key financial numbers, go on to have successful businesses and comfortable lifestyles. All power to them! Many contractors go into business for the independence that self-employment gives and to make more money than just receiving a wage. Few have the financial skills necessary to properly manage a business however and tend to "wing it", relying on the occasional advice from their accountant when reviewing the annual accounts. Their independent nature makes them reluctant to seek outside help and admit that they don't know what they don't know.

To improve the chance of financial success this needs to change. Contractors need to learn about overheads, which are fixed and which are variable. How much MARK-UP is required to be added to costs in order to achieve the required gross MARGIN needed to ensure the sale generates a profit. How much is YOUR time worth in managing the business, doing the quotes, paying the bills, liaising with clients and what should be added into overheads to cover this?

Once you have a better understanding of what real costs and profit figures make up your business, you are more likely to have the confidence to provide well supported fixed price quotes to prospective clients that guarantee a profit, rather than relying on loose, charge-up arrangements that seem to be okay at the start, but which often end in disputes, unhappy clients and no money for the contractor.

So, do you have a good grip on the numbers in YOUR business?

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