

THE ACADEMY OF ELECTRICAL CONTRACTING

**PAPER PRESENTED BY FELLOW
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**CONTRACTOR STARTUPS:
TRAINING FOR A FAST-CHANGING WORLD**

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One of the benefits of being a member of the National Electrical Contracting Association is the many opportunities for up-to-date and effective training. NECA programs include marketing, estimating, lien laws, motivation, production efficiency and employee relations. More recently, some chapters have also begun presenting classes to prospective contractors on how to startup and maintain your own electrical contracting company. In fact, National NECA now offers Contractor 101 online in a curriculum that earns college credit, and the Academy of Electrical Contracting currently has 19 mentees in the personal mentoring program it sponsored.

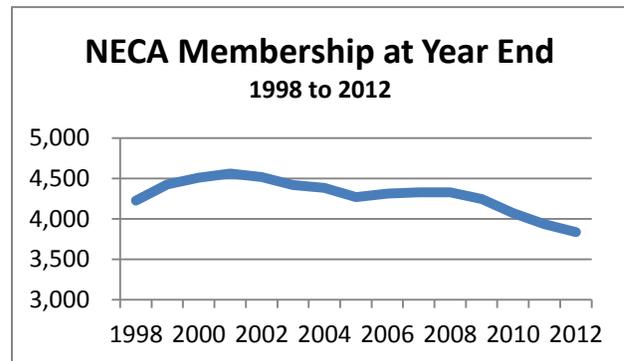
I had recently stepped down after four years as vice-president of the Northern California (NorCal) chapter of NECA when we started talking about holding startup classes of our own. We opened it to 20 students in 2008, and worked with a total of 64 students in the two years we ran the program. It was an eight-week course with three hours of classes each week, and was well received by those who participated.

It's true that there was some grumbling from existing contractors when we began the classes. "We don't need any more competition," they said.

That could very well be true, especially in a down market or recession like we experienced in 2008 and 2009. As I see it, though, there will be new electrical contracting businesses, and so the real first question is: Do we as an industry want to help guide the life-altering decision of starting an electrical contracting business?

By providing training, we can help ensure that the next generation of electrical contractors will be well trained, will be NECA contractors, and will be union signatory as opposed to enemy non-union.

Let us not forget that the population of NECA contractors has gone from over 4,400 in 2000 to under 4000 in 2013 (as demonstrated in the chart below). The success of recruiting existing contractors to NECA across the nation has been spotty. NECA absolutely has to replace our numbers in order to stay strong and viable.



In addition, the market share of the union electrical contractor has dipped to an all time low in the United States to 29 percent, and I think that number is very optimistic. So whether it is mentoring, online education or the classroom experience, we have a lot to gain with the incubation programs going in many areas of our Association.

If contractor startup training is the right thing to do, the next question is: What can we teach them to get them ready?

A startup contractor is like a baby calf that is dropped on the wild prairie by its mother. The first few minutes, hours, months and first year are the most critical if the newborn is to live. We all know the 2013 world of electrical contracting and, for that matter, all of construction contracting, is a mind-boggling morass of rules, regulations, people problems and electronic communication that change every minute, every day.

First, we shouldn't ever forget that first-hand work experience with an existing contractor should be the primary source of education. As our friend Rex Ferry always says, "There is not a substitute for doing the time."

With classroom curriculum, though, and with so much complexity and rapid-fire change, we have to be careful in selecting subject matter that will be effective, relevant and give would-be startups a clear picture of what a contractor has to do to be successful.

My experience with the 64 students in NorCal revealed four basic areas that absolutely must be emphasized before a person goes through with his or her startup. I feel these basics will never change.

ACCOUNTING

Don't let anybody kid you when they say they are in the business for the love of the industry. Of course there might be some love involved, but they are in business to *make money*. And money is the thing that has to be raised, earned, collected, managed, spent and saved.

Top notch accounting by a top notch accountant is of first and foremost importance in the handling of money. Knowledgeable construction accounting can literally save a company piles of money.

Whether he or she is in-house or a private consultant, the accountant should be selected according to his or her knowledge of construction. Retention, percentage of completion taxation, and long term receivables are unique to construction and should be understood and handled by the accountant and the contractor. In addition to these industry-specific topics, the startup candidate should also finish the course with a full understanding of the Profit and Loss statement and the balance sheet.

How much cash is needed to start and where do I get it will always be the number one question that has to be answered for the startup candidate. By using numerical pro-formas, students can experience a variety of different financial scenarios of startup, showing how much capital is needed to start a one-employee shop, a five-employee shop, or a twenty-employee shop.

Additionally, the startup candidate must understand the risk and reward in putting up that cash himself. Since most candidates have most of their net worth in their home, he or she needs the right information to decide whether to "bet the farm" on a business that has monumental risk but also the possibility of substantial reward.

On the subject of money, a bank and banker should be selected that understands contracting. The bank must understand that contracting receivables have a much longer timeline than the typical business. The big one, the indispensable line of credit from the bank, should be negotiated with a fair interest rate that will carry the contractor through those long periods of collecting the construction accounts receivable. The relationship with the bank almost becomes a joint venture between the contractor and the bank.

A startup contractor WILL FAIL without good accounting, cash management and banking.

MANAGEMENT

Your company is your people. They are the face of your company and create the brand and reputation of the firm. Who you initially select to be on your startup team can literally be a make or break endeavor.

Selecting, supervising and motivating people is a large and complex area of study in and of itself.

Of critical importance is that everyone on the selected management team – for that matter, everyone in the company from the office staff to the warehouse crew – should have one main guiding objective: **production efficiency in the field with a low composite wage rate.**

We all laughed in the early 80's when non-union contractors hit the scene and had field personnel with very little training. Successful non-union contractors knew what they were doing, though, and worked with lower composite crew wage rates and focused all of their management efforts into facilitating field production and efficiency. Don't bog the field down and consume labor hours with non-installation tasks was their mantra.

Their main thrust was to office-produce detailed installation drawings derived from the contract drawings. These detailed drawings enabled their field personnel to pre-plan the labor and material logistics and concentrate solely on installation efficiency. The field installers then had very little time spent on analysis and learning the contract drawings. One experienced field supervisor could direct five to ten lower paid installers. And we all thought our business was brain surgery, only to be handled by crews of experienced and highly-paid electricians. The non-union business model soon proved us wrong and became very profitable to the non-union contractor. And we stopped laughing.

Eventually the union contractor admitted that his old model of just turning a set of contract drawings over to the field and letting them "run with it" was grossly inefficient and uncompetitive. The new non-union model of the office staff concentrating on pre-planned field efficiency was slowly but surely taken on by our side and field efficiency *and* profits started to increase.

Today smart contractors pre-plan their jobs utilizing detailed installation drawings along with material prefabrication and material kits. These drawings feature colored, three-dimensional, computer-driven pictorials derived from the contract drawings, again leading to efficiency and profits.

A startup contractor WILL FAIL without this management philosophy.

SALES

Whether a contractor chooses to pursue private work and has a sales staff, or pursues public work and concentrates his staff with estimators, sales and acquisition of contracts are key areas of business success.

Either of the two models of acquiring contracts requires the use of an efficient and user-friendly computer estimating program. The computer-driven estimating program will be just as valuable as the first conduit bender that is purchased. The advent of these electronic estimating programs in the 1980's decreased the amount of estimating time by at least 50 percent, so while it can be a big ticket item for a startup, it is an absolute necessity.

Having a few main clients with contracts in hand on day one is a huge advantage for startups. In fact, it is almost a must! In the dog-eat-dog world of construction sales, it can be very daunting, frustrating and expensive for your sales staff to convince prospective customers to sign up with a startup contractor. And being a startup contractor with no work can also be a death stroke.

Once you obtain the contract from the customer, the sale of the next contract from that customer is usually based on the performance of the previous contract. Customer bases and repeat business are established through performing at a high level on past contracts.

The NorCal NECA chapter class curriculum included a session presented by the president of Rosendin Electric. He discussed salesmanship, ethics and the path to repeat business with loyal customers.

A startup contractor WILL FAIL without sufficient sales.

CONTRACT LAW

Contracting means utilizing the complex world of contract law. The startup should have more than just a basic understanding of the language of the contracts if he is going to sign his name to them. A subcontractor can get himself into extreme danger by signing a document that leads him into doomsday scenarios and unplanned obligations.

Startups need to be aware that most contracts that subcontractors are asked to enter into are often written for the benefit of the general contractor and/or owner and to the extreme disadvantage of the subcontractor. Insurance, method of pay, construction disputes and scope of work are some of the basic areas that should be understood and approved before the document is signed.

The other contract that a startup may enter into is with the IBEW. That document has just as many obligations as a construction contract. Pension liability, work rules, travel constrictions, crew mixes, and hiring and firing should be thoroughly understood in the labor agreement before signing.

The NorCal NECA Chapter curriculum included having local union representatives address the students and present the advantages and obligations of becoming a union electrical contractor. In addition, NorCal had the local pension administrator address the students as to the benefits and obligations of entering into the IBEW pension program.

Remember: even for all of Judge Judy's theatrics, she ALWAYS reduces the dispute to what was documented and signed on paper before she renders a decision. And of course that is 100 percent true with construction contracts.

A startup contractor WILL FAIL if contract law is not understood.

IN CONCLUSION

National NECA's online Contractor 101 goes into great detail on many facets of contracting, but we must be honest and admit that online classes offered by colleges and other private institutions have shown a very low graduation rate. There is no substitute for face-to-face classroom instruction.

The decision to go into contracting will probably be the most important decision that person will ever make. Whatever form of training or mentoring that goes on, though, the startup has to be fully armed with these foregoing basics to be able to compete against experienced and successful companies right from the start.

Electrical contractor failure rates have been at an all-time high in the past four years. That surely can be alleviated with the right kind of assistance from NECA and/or the Academy.

A rigorous startup training program can help reduce failure rates in another way, too, as illustrated by a former student of the NorCal Chapter class who, when interviewed two years after the class, said, "That class was wonderful. I enjoyed every moment of it. It actually saved me from disaster because you convinced me NOT to go into contracting."

About Robert Daoust

After receiving a degree in business management from San Jose State University in 1965, Robert Daoust entered the electrical contracting field as a journeyman electrician in 1968. He then began his own contracting education, both at Chabot College in 1969 and under the tutelage of those he worked with at Del Monte Electric Co., Inc. In 1980, he became the sole owner of Del Monte Electric, leading the company until 2000 when he continued his guidance as a member of the company's board of directors. He has been an active member of NECA since 1985, particularly in the NORCAL Chapter where he has assisted in roles including President and Governor of the Chapter, and innovator and teacher of the "How to Get Started in Electrical Contracting" class that is the basis of this paper. These days, his leadership skills are utilized as coach for his grandson's youth basketball team. You can reach Bob at wndsong50@aol.com.

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