

# 5 Keys to Starting & Managing a **Commercial Construction Company**



# Overview

## How to Start a Commercial Construction Company: What You Need, Things to Know, and How to Proceed

Starting a commercial contracting business can quickly become overwhelming. Running a start-up commercial construction company requires foresight and careful planning. If you act unprepared, fail to know what you should, or neglect to adhere to your business plan, you can expect uncertainty from the onset. On the other hand, if you have what you need, know what you need to, and understand how to proceed, the road to success in the commercial construction industry is wide open! There are five essential elements of starting and managing a successful commercial contracting company:

### Being Financially Prepared

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What roles do credit and capital play in building a successful construction firm?

### Making Meaningful Connections

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How can you build credibility with top General Contractors & secure great projects?

### Ensuring Thoroughness & Accuracy

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What bidding and contract best practices must be mastered?

### Effectively Monitoring Costs

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How can you best track project costs and labor?

### Leveraging Construction Technology

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What solutions can help you to ensure efficiency as you scale?

# 1. Be Prepared Financially

Capital is the foundation of a start-up commercial construction company's growth and expansion and determines its path and direction. When determining the feasibility of starting a commercial construction company, make finances your principal concern. During the planning stage of your start-up, use the majority of your time developing a financial management strategy. Then, follow the plan with strict discipline as you grow and develop your company. By the same token, have the flexibility to modify your financial strategy when necessary. There is no aspect of your commercial construction company that finances will not influence. Money management will determine everything from your employees' wages and salaries to your net profit. It is the deciding factor that determines which jobs you can bid on and what kind of risk you can assume. Odds are, your company's financial profile will be divisible into two parts: capital and credit.

## The Role of Capital and Credit in a Commercial Construction Company

Potentially, there are two sources of capital for a commercial construction company: personal investment capital and business credit. Whether you decide to work with a bank to finance your commercial construction company in the beginning or you use your own funds, you must have enough capital or credit to operate until your company begins producing profits. That is to say, you must have sufficient capital to cover your overhead: salaries and wages, tools and equipment, materials, and operating costs. One of the biggest factors you need to consider when estimating how much time will be necessary to make your company profitable — as opposed to merely solvent — is retainage.

## Retainage Amounts and How They Affect Overhead and Profit Margins

In the commercial world, even after the project is complete, customers typically hold back a percentage of the bid total. The sum held back is called retainage. The owner holds back the retainage amount until the general contractor — your customer — turns over the entire project to them, the satisfied customer. Typically, the retainage amount is roughly 10% of the bid total. The reason that 10% is significant is because it is often equal to a commercial construction company's profit margin for a job. Because payment of the profit portion of a job is delayed by retainage, a commercial construction company must have the capital to continue operating long after the last job is complete. It is not uncommon for several months — even years — to pass, following the completion of a job before a customer produces the retainage monies. From time to time a commercial construction company can make a case for a lower retainage amount during the contract negotiations, but a commercial construction company must be prepared for any amount of retainage.



## 2. Make Connections and Build Relationships

You will be surprised at how quickly opportunities come your way once you begin making connections and fostering relationships within the commercial construction community.



But, don't depend on phone calls and emails to make an impression. Beat the bushes. Attempt to visit every commercial general contractor in your area. Take business cards and be sure to hand them out. Even better, provide VIPs with brochures with photos of some of your work. Don't be shy about rattling cages. Meet development firm owners and chief estimators in person. Looking a potential contact in the eyes, smiling cordially, and explaining that you are just getting started and would like a chance to bid on some of their smaller construction jobs gives you a substantial edge.

Meeting development firm's owners and chief estimators in person, if you make a positive impression, means they'll consider you before the commercial contractors who've simply asked to be added to the firm's bidders list. Find upcoming projects by subscribing to news services. Keep your nose to the grindstone and sift through the old standbys that regularly make requests for bid proposals (RFP). Those include [Dodge](#), your local builders exchange, your local [ABC](#) Chapter, and ConstructConnect. Such services keep you abreast of new projects that come up for bid in your local market.

### Selling Your Bid and Following Up Regardless of the Outcome

If you've made a point of meeting every general contractor in your area, you will begin to see their names appearing on the bid lists you find in news services. When you come across a contact you recognize in news service RFPs, make follow up phone calls. Let the firm know you are interested in a job. Ask a couple of insightful questions about the job, the answers to which are not included in the request for bid proposal. Then, whether you get the job or not, follow up again. Let your contact in the development firm know that if anything changes, you're available to help. One word of caution, resist the temptation to go too big too fast. Learn the ropes on smaller jobs first. Prove yourself on a couple of small construction jobs and build development firms' confidence in your work.



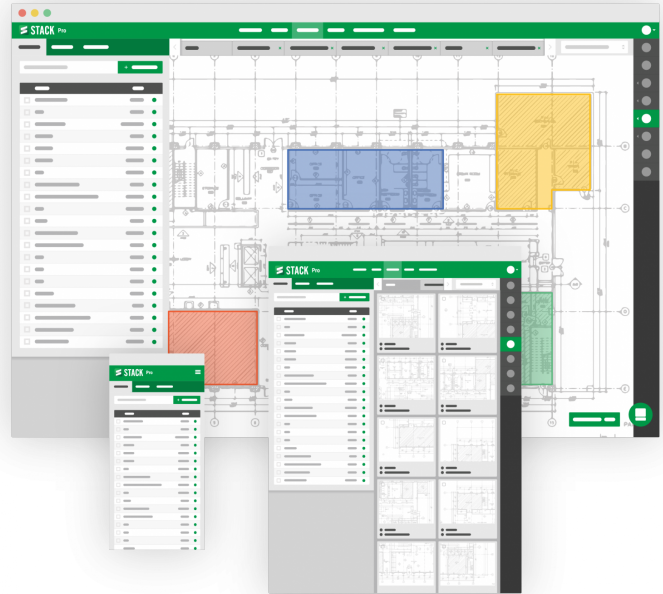
### 3. Check, Re-Check and Triple Check Your Bids

Getting the bid right is essential to getting a job right.

First, understand the elements of the contract. When you receive a contract, read and reread and re-reread it again. Pour over every detail. Then, begin developing a material takeoff (MTO) and compiling an estimate.

The MTO and estimate are the essence of your bid. Make certain you have all the necessary materials, tools, and equipment for the job. If you find something that you can't afford to contribute, talk to your contact at the development firm about the miss before signing anything.

Double and triple check your estimate before submitting a bid. Then, if you're awarded the job, check your estimate again before you sign a contract.



#### What's a Material Takeoff (MTO)?

Material take off is a term used in engineering and construction, and refers to a list of materials with quantities and types that are required to build a designed structure or item. This list is generated by analysis of a blueprint or other design document.

If you are awarded the job and sign a contract, make certain you, your superintendent/crew chief, and your crew are ready before stepping foot on the site. It is not uncommon for contractors do everything right during the construction bidding process, then make the mistake of thinking the planning portion of the job is over. Focus on the job details and determine what is required to successfully complete the job prior to sending your crew to the site. If you are missing tools or you overlook requisite materials, you waste money on idle time — big money in some cases — as your crew waits for your to get your ducks in a row.

## 4. Monitor Costs and Labor

Once your crew is on site, immediately begin accounting for every dollar. Especially with respect to labor and materials costs, measure actual progress vs. your estimate. Do so on a weekly — even daily — basis.



If you've failed to estimate a job properly, the mistakes will show up early. If you catch them quickly, you can often find new ways to adjust. That will allow you to turn the job around before you start accruing losses. If you wait until the job is finished to begin tallying costs, it's far too late to make changes that might keep you in the black.

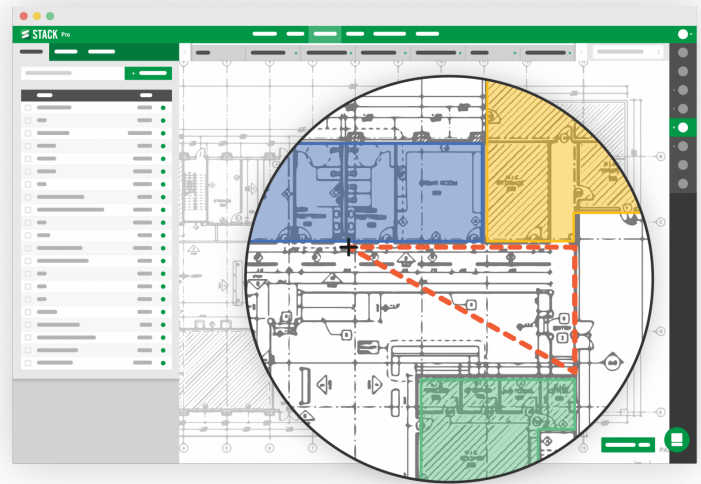
Something to always keep in mind is that the superintendent/crew chief is the lynchpin connecting you with your crew(s). Use an experienced superintendent or crew chief to monitor your labor. An experienced leader who will make sure your crew shows up on time, is ready to work, and performs to your standards is worth their weight in gold! Nothing eats away at your profit margin faster than the wrong person leading your crew.

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## 5. Use the Best Technologies Available

The purpose of all construction technologies should be to save you time and to increase efficiency.

STACK Takeoff and Estimating software dramatically reduces the amount of time required to bid a job. STACK construction bidding software helps you generate takeoffs and estimates fast. The capacity to quickly add materials and labor costs means more time to bid more jobs as well as concentrate on the jobs you have underway.



### Get a Head Start with the Best Construction Tech - for FREE!

Whether you're new to construction or an industry pro, you've got to bid more to win more. STACK makes it easy to bid more work, in less time - all while helping to keep your team aligned with real-time collaboration tools. Create a free account at [www.stackct.com](http://www.stackct.com).

There are also reporting and field management solutions. Raken for example, produces clear, valuable insights for the office from in-depth daily reports compiled in the field. Technologies like Busy Busy allow you to track time and equipment and follow the progress of a job. And, Cloud technologies allow you to take marked-up plans with you on your phone or other connected device.

There is more to running a commercial construction company than financial preparedness, building connections and relationships, submitting accurate bids, monitoring costs and labor, and using the best technologies. But, those elements are the foundation of every successful commercial construction company.

Running your own commercial construction business requires a lot of attention to detail and hard work. But, with a little forethought and the right people and technology in place, you can build a successful business that will grow and flourish!