

# Working With Subcontractors

**Well-managed subs can free you to focus on your strengths**

by Bobby Parks

**M**ost builders and remodelers use a mix of employees and subcontractors on their projects. It's just not feasible to have trades in house and on the payroll for work that's performed only periodically. And even though many contractors consider themselves jacks of all trades, bringing in the right pros with specific skills can improve the quality of a job — and is often more cost effective too.

Although I'm a carpenter by trade, I run my business, Peachtree Decks and Porches, almost entirely with subs. Unlike most deck builders, I don't do even the carpentry work in house. I have only one employee, an office manager. With this model, I can focus on the parts of the business where my efforts generate the best money: selling, estimating, and designing (**Figure 1, next page**).

My decision to subcontract out labor rather than hire employees benefits my business in many ways. Specific trade skills are just a phone call away, and it's easier to control project costs. Plus, subs increase my production capacity, expand the range of products I offer, and allow me to be a turnkey contractor — even on complex projects, I can get all aspects of the job done.

If you build simple decks, you don't require much in the way of subs — maybe an electrician for lighting and a plumber to handle gas lines. But even if you don't use subs often, it's a good idea to establish relationships with trades in case of an emergency. You never know when you might cut a wire, need a gas line capped or removed, or have some other problem. My carpenters once ran a lag screw through

a customer's water line at 4 p.m. on Christmas Eve as she was cooking dinner for out-of-town guests. Having good relationships with a plumber and a drywall sub paid off big time.

On more complex projects, several subs may be needed, as is the case for the many custom porches my company builds. I use subs for roofing, gutters, screens, painting, electrical, stucco, drywall repair, concrete, tile, and stone work (**Figure 2, next page**).

Using experienced, quality-oriented subs makes my jobs look better and run smoother, with fewer callbacks. Good carpenters deliver my quality standard. Good painters put a long-lasting finishing touch on my projects. Good roofers reduce the chance for leaks, good electricians reduce the chance of sparks, and a good concrete finisher reduces the likelihood I'll have to redo something that's cast in stone.

There is a learning curve to effectively managing subcontractors, and there are potential disadvantages to using subs, including quality issues, unreliability, inconsistency, and in some cases, negative perceptions of your company. Here's how I address these.

## **Estimating With Subs**

For most decks, I use pricing models to establish costs and a sales price. This streamlines the proposal process and generates quick labor pricing for subcontractor agreements that are based on the type and size of work performed.

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**Figure 1.** Subcontracting all the construction tasks allows the author to focus on his strengths — selling, designing, and pricing.

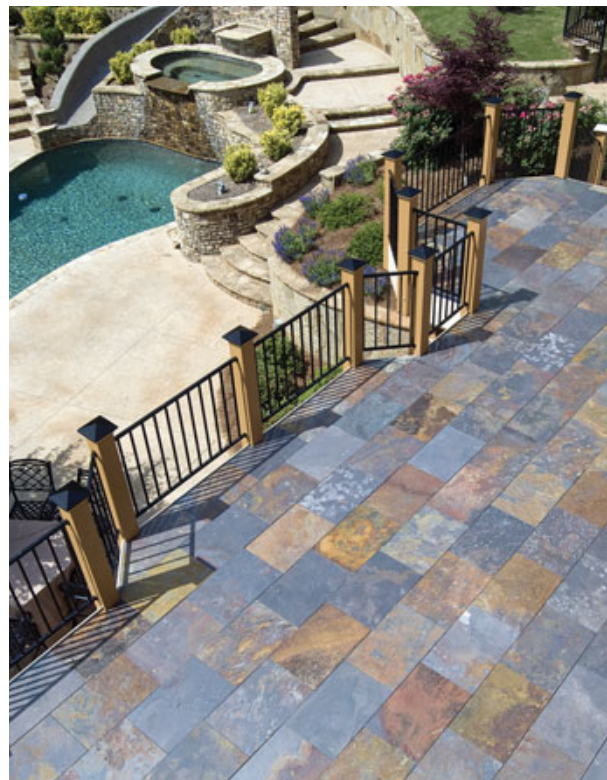
I create my pricing models using average labor and material costs. The heavy lifting happens up front, when I do a line item estimate for a particular type of work. Then I break that number down into square- and linear-foot prices that I use to estimate successive jobs. To streamline the bid process, I negotiate pricing structures with my regular subs that they agree to commit to. This works for them too — if they had to go to every prospect's house and give me an estimate every time I needed a price, it would get tedious and expensive.

I use different approaches with different trades. For example, most of my porches are of a similar size, and I pay my roofing sub and gutter sub a per-job cost. Some roofs will be slightly larger or smaller, but as long as it averages out, both parties are happy. If a job is significantly different than average, the sub and I make a pricing adjustment.

My concrete sub has provided me with a pricing schedule that includes a job minimum. Unless there are grade or accessibility issues, I can estimate most projects without having to call him. Electrical work breaks down to line items — so much per light, per outlet, and so on — sometimes combined with a base price per job.

Occasionally, a larger project will require a firm estimate from my subs, but the established prices work in most cases and save a lot of time (**Figure 3, next page**).

Some trades I don't work with all that regularly, and I don't always know their pricing. But much can be



**Figure 2.** Most deck builders specialize in carpentry. If that's true for you, having relationships with other specialists, such as tile setters, can expand your offerings.

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discussed and estimated over the phone and through e-mails that include photos, particularly on smaller projects. The dollar amounts that these subs account for are generally marginal.

### Create a Pool of Subs

Whether your company is large or small, you should develop relationships with subs you use regularly. You'll learn what to expect from them, and they from you. I like



**Figure 3. Complex projects like this screen room begin to look more like remodeling than deck building. A stable of good subs enables the author to take on a wide range of jobs.**



**Figure 4. Most deck projects aren't large. To build subcontractor loyalty, pay well and on time, and run an organized job where the sub can make a profit.**

to subcontract out to small companies so I have a good idea who will be working on my customer's house.

Using a large subcontracting company that has several crews can mean a different crew shows up each time, but that doesn't have to be the case. Though my electrical contractor has numerous crews, he always puts one of two crews on my projects, because they are familiar with my expectations. I have confidence in their work and how they'll conduct themselves.

Since the core of deck building is carpentry, carpenters are without question the most important subs I use. They have a direct effect on my reputation. It's crucial to establish relationships with carpenter crews that know your standards of quality and operations.

I also prefer carpenters to display some loyalty when it comes to contracting deck work. In other words, I don't want a crew building decks for me this week and for my competition the next. It doesn't matter how many houses and additions they frame, trim, or side for other contractors. But having a carpenter sub that builds for more than one deck builder presents potential image issues.

### Make It Worth Their Time

The biggest challenge with subs is that they earn a fixed amount of money for a job. The sooner they finish, the more they make; the longer it takes, the less they bring home. Subs that don't see the big picture — that I could be a long-term source of jobs for them if I like their work — may rush and cut corners, which compromises the quality I promised the customer. Subs have to understand that if they are going to work with me, they must provide the quality that I've sold to the customer.

As a deck and porch builder, I don't do very large jobs (Figure 4). Because of this, I end up paying, on average, a higher cost per square for roofing or per linear foot for gutters. Subs have operational costs just like you do, and they have to make money on the small- to mid-size jobs that you provide or you'll be finding different subs every couple of months. Simply put, you have to make it worth their time, and that doesn't just mean you have to pay them a decent rate. Being organized is equally important.

You have to be able to manage subs well. Clearly communicate your expectations. Make a schedule and keep subs informed of any changes, so they'll know when they're at bat. Make sure the job is ready for them when they show up. If you are providing material, takeoffs must be accurate and deliveries coordinated. Make sure customer decisions are made ahead of the work schedule to prevent holdups. If subs end up doing tasks that you missed or underpriced, be fair with them: Don't ask them to work

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for nothing. The bottom line is you have to do things that help them move faster and be efficient — and not do things that cost them time and money.

And yes, you need to pay competitively, treat your subs with respect, and provide them with enough work to keep their interest. It may take a while, but you will eventually put together the right teams that support your company's reputation.

### Cover Yourself

Employer-employee relationships have legal and tax ramifications, and the IRS and your insurance company both look carefully at who's a sub and who's an employee. Require all subs to fill out an IRS Form W-9 ([www.irs.gov](http://www.irs.gov)), and have detailed written agreements with subs that cover specific pay and work expectations. The more detailed the agreement, the better off all the parties will be. Be sure to consult your accountant or attorney.

It is important to understand IRS requirements regarding subcontractors. The IRS uses 20 factors to determine that status for tax purposes and can impose penalties on contractors who classify as subs people who should be treated as employees. You can review detailed information about making this determination on the IRS website

at [www.irs.gov/faqs/faq/0,,id=199637,00.html](http://www.irs.gov/faqs/faq/0,,id=199637,00.html). Also check your state's requirements.

Require all subs to carry workers comp and general liability insurance. They should provide an insurance certificate with you listed on the form. Check periodically to be sure their insurance is current. Check with your own insurance carrier to find out what they require your subs to carry, so that you don't get charged after your own annual insurance audit.

### Good Subs Enhance Your Reputation

Being a good sub goes beyond being a good workman. I look for people who understand my requirements and can communicate them to their employees. Anyone I put on a job represents me and affects my reputation. If a sub's employee gets caught peeing in the bushes, guess who's going to receive a call? In the customer's eyes, subs are your people, so it's essential that subcontractors know what you expect and where the lines are. It should be understood that the sub and his employees will conduct themselves in a professional manner and will be respectful to the customers, dress appropriately, and watch their language.

Some customers start out with the perception that because I subcontract out the carpentry, I'm just selling them a deck and then hiring anyone I can find to build it. They think that there will be quality and consistency problems. Also, competitors who build with employees try to use that perception to sell against me.

It can, in fact, be easier to train and manage employees than subs, because you have more direct control over individuals on the job. However, I rarely have trouble with my subs. I might have issues if I used different subs all the time, but I work regularly with a small pool of subs. I use this fact to gain the customer's confidence that I will deliver the quality they expect. I make sure the customer knows that my crews know my system and aren't new to the game.

Regardless of whether you use subs, employees, or a mix of both, your customers should get a quality job without requiring therapy sessions after you're done. ❖

*Bobby Parks is a contributing editor and a deck builder in Alpharetta, Ga.*

## Outsourcing as a Form of Subcontracting

Outsourcing non-construction aspects of your business is another form of subcontracting that may make sense for you. For example, I may pull permits from 13 different municipalities through the course of a year. The process for most is quite involved, and just knowing where to go to apply can be a challenge. Spending half a day or more driving, paying to park, filling out paperwork, waiting in line, and going over details with a plan reviewer takes time and patience. Second trips are often required to pick up the permit. My time is better spent focusing on other aspects of the business, so I use "permit expeditors" to pull all permits. They are specialists who know the systems and have established relationships with people in multiple jurisdictions. They pull permits for contractors for a reasonable fee.

Accountants and payroll centers are other forms of outsourcing that many contractors take advantage of. The first is a necessity for most contractors. If you have employees, the latter offers the obvious benefits of handling payroll complexities.

It's even possible to hire your labor through a "temporary agency" and request the same people regularly. Using workers from an agency removes a lot of red tape and responsibility; the agency even handles their insurance. However, it may be challenging to build a reliable workforce using temps.

Other services you might consider outsourcing include marketing, website development, and scaffolding services.