Cash Flow: Construction’s Critical Element

Diversification, Cash Flow Management Spell Success For Expert Drywall

Phil Ramey Learned Collections by Door Knocking and Now His Company Remains Profitable as it Eyes New Challenges

He learned cash management in the toughest of all schools: knocking on the doors of the deadbeats and collecting straightaway.

It was a technique that his boss and mentor, the late Wayne “Hard Rock” Blanchard, figured was effective for showing a young man what was important in a construction business.

Apparently Phil Ramey learned his cash flow lessons thoroughly. Today, the 44-year-old native of Seattle, WA, owns Blanchard’s company, Expert Drywall, Inc., Woodinville, WA, with partner Conrid Metcalfe, and the firm is as profitable as ever. Furthermore, it’s on a careful diversification move that will shelter the business from construction’s normal yo-yo cycle.

Headquartered in an attractively landscaped 5-acre suburban enclave, Expert Drywall performs some $9 million a year in drywall, framing, sprayed fireproofing, insulation, and demountables. The company expects to move to new, larger accommodations sometime this year.

Son of the late James Ramey and Ethel Chatwell Ramey, Phil went to work for Expert Drywall while working toward his economics degree at University of Washington. He progressed from odd jobs and “gopher” work into estimating and then Hard Rock’s version of collection training.

When he graduated from college in 1967, Hard Rock offered him a future and Phil, none the worse for the wear and tear of house-to-house collections, opted for a construction career. By 1972, Hard Rock fulfilled his promise and named Phil as a full fledged partner.

In 1979, Hard Rock called it a career, bringing in Conrid Metcalfe, an experienced, talented field supervisor as the other partner. Together, Phil and Conrid have rocketed the company beyond what even Hard Rock, who died in 1980, had anticipated.

Long active in industry affairs, Phil has continued Expert’s membership in AWCI. A member of AWCI’S Board of Directors, he has served on such national committees as publications and national affairs, and is also a long time member of the Northwest Drywall Contractors Association of which he is past president as well as the Northwest Wall and Ceiling Contractors Association and the Northwest Wall and Ceiling Bureau.

DIMENSIONS: Obviously, Expert Drywall is well diversified in construction services but when did you move your company into interests outside of—or rather related to—construction?

RAMEY: We decided about three years ago to diversify into outside areas. As a result we set up a development company and built two buildings as income producing properties.

Our present facilities include some 2,400 square feet of office space and 24,000 square feet of warehouse, and we’re a bit strained for additional space. That means diversification right now is a good strategy for us because it not only gives us stability outside the construction field on a long range basis, but will provide expansion room. We’re doing some development on our properties here, building two

Continued on page 12
structures. A 45,000 square foot office and warehouse we’ve just built will be leased out, and will allow us to occupy some 6,000 square feet of office space ourselves.

DIMENSIONS: Do you have your goals mapped out for some years in the future, or are you moving swiftly for the next year or so?

RAMEY: We’re target complete lease-out by the end of the summer, but we’re actually moving slowly until greater business activity in the area picks up. There’s still more property that we’re looking at with an idea toward development, but that will come in the next few years.

At the same time, we’re also looking at diversifying our construction operations a little more, too. We hope to move into a couple of new areas but we’re not ready to disclose those plans yet. We don’t want to be in more than one new area at a time.

DIMENSIONS: Get the one new area on a profitable basis before biting off another chunk, right?

RAMEY: That’s right. It’s easier—and more profitable—to put all of your energy into a single new area before starting on another. It’s slow, but steady and controllable . . . just the way we like to proceed on important things.

DIMENSIONS: You mentioned waiting until business activity picks up. Is the level of business in this market still depressed?

RAMEY: It’s realistic to say that 1984-85-86 have been off years, but this will be a good business year for us . . . better than we’ve had for the past few years. Everyone has really needed to struggle to make a buck, but conditions like this produce a shake-out, and it’s been healthy.

Since the beginning of the year, there’s been more activity than in previous years and our backlog situation reflects this improvement. It’s not a bull market so margins are still a bit tight.

DIMENSIONS: I still recall headlines about Boeing’s enormous influence on the Seattle area, and how devastating a layoff was a few years ago. Is this influence still that great?

RAMEY: Boeing did indeed take a big dip and the subsequent economical devastation made headlines across the country. But remember, that was 15 years ago. Today, Boeing is back near the levels of its heyday while other basic industries have come into the area and stabilized industry.

If Boeing took a 50% cutback, we’d still feel it, but they’ve diversified, too, so the impact, while substantial, would not cause the havoc it did back in the mid-70s.

DIMENSIONS: Then the west-coast Washington market has changed radically, diversifying on a broad scale? What’s dragging down activity now?

RAMEY: Keep in mind that Washington is lumber country, and we’ve also been hit hard by the decline in timber sales. We’ve lost a lot of this work to the foreign market—especially Canada. The fall of the Canadian dollar has proved a bonanza to Canadian forestry with a direct big bite out of Washington’s markets.

DIMENSIONS: I should imagine that the weak dollar has had some influence, too? The Japanese Yen offers that country some mighty attractive investment options, doesn’t it?

RAMEY: Yes. The Canadian dollar fell some time ago and now the Japanese are becoming involved in all phases of U.S. industry. New development work around this area is in large part funded by Japanese investment.

DIMENSIONS: In tough times, contractors get a chance to hone their collection operations. As one who served an accounts receivable apprenticeship with door-to-door experience, how do you handle collections?

RAMEY: Cash flow is very important in any construction business. It always has been, and remains just as critical today—even more so with interest rates starting up again.

Our accounts receivable are the primary responsibility of our in-house controller, Larry Amundson. He produces a computer aging report twice a week complete plus a weekly cash flow analysis. Both reports are must reading for Larry and me.

To us—as to any prudent contractor—managing the cash flow is vital and dynamic area of all. If you don’t collect promptly and on time then you’re merely allowing other people the use of your money, and they’ll use it as long as they can. Why shouldn’t they: it’s just bonus money in their pockets.
If I earn the dollars then they’re mine and they belong in my bank account for my use—not the other guy’s. I don’t want anyone else using my money gratis.

**DIMENSIONS: Where do subcontractors lose control of their money? What areas need special attention?**

**RAMEY:** It slips through the cracks a hundred ways. The biggest leaks are lazy collections and retainages so someone else can walk off with your interest. Retentions—I mean when the GC holds on as long as he can as a deliberate strategy in order to siphon off your interest earnings and divert your working capital into his own.

**DIMENSIONS: What is the proper counter attack? After all, how does a sub stop...or at least minimize...this conduct?**

**RAMEY:** I don’t think we’re much different from other subcontractors. We expect payment within 30 days and start moving immediately. Our billing cycle is between the 15th and 20th of the month and I’d like to see my money by the following 15th. A 30-day payment cycle is tough to maintain, but we shoot for it.

Truth is, our target is 15-25 days and the pressure turns up if we don’t have it within 30 days.

**DIMENSIONS: How does a sub turn up the pressure?**

**RAMEY:** You just keep asking for it til you get it. I don’t believe you ever need to be embarrassed or reticent when it comes to collecting your own money. It’s yours: there should be no reluctance about asking for your money.

**DIMENSIONS: What’s your approach...what steps do you take?**

**RAMEY:** A personal call from Larry, probably by the 15th. If the money’s not in by that date then our first and firm question is: when can we expect it? We can be very persistent when it comes to getting a firm answer to that question.

**DIMENSIONS: In the area that a contractor defines as “common sense about collections,” sometimes that answer can’t be given...an architect or owner just won’t come across. How do you handle this?**

**RAMEY:** I’m aware of reality in such cases. Like other subs, we’re often familiar with the players, so we have a good idea if slow pay is a continual pattern...if a payment promise is beyond what’s expected. We verify any excuses given and several avenues are always available to check out a story. Was payment approved...when was it approved...were funds released?

Your company has an obligation to get answers to such questions.

**DIMENSIONS: Do you make the actual collection calls or do you delegate that function?**

**RAMEY:** No, that’s Larry’s job and he does it extremely well. If I have to I’ll make a collection call and arrange a pick-up.

**DIMENSIONS: Do you ever make the collection yourself?**

**RAMEY:** If I have to. It’s happened more times that I can count on these two hands.

**DIMENSIONS: Let’s talk about jobs that go sour. What’s your immediate response when a job goes bad?**

**RAMEY:** If a job goes bad—and this is usually the result of mismanage-

ment or even a matter of personalities on the job—then everyone usually makes a move to try and save it. Sometimes it’s everyone for himself, but the initial reaction is to try and save it.

**DIMENSIONS: I believe you mentioned the University of Washington Husky stadium job as a classic example of a job gone bad and construction at its best. Would you describe that incident?**

**RAMEY:** That job—and the way a disaster was handled—is a good example of why I’m proud to be in the construction business. Now, this wasn’t the classic sour job...but rather a misfor-

tune that sometimes occurs in construction.

Half of the structural steel was in place with erection, preparatory to setting heavy steel decking with cranes. Well, a lift of decking slipped off the crane and hit the roof then tumbled off.

Fortunately, no one was injured and a visible check showed no obvious structural damage. The next morning, though, sagging in some of the steel and roof showed that there had indeed been damage. When the GC saw that he cleared the area and immediately tried to get support lines up. Before this could be done the whole steelwork collapsed domino fashion into a heap.

**DIMENSIONS: Everything came down?**

**RAMEY:** Yes, the entire steel framework and everything attached to it crumbled.

This was in late February. It called for swift action. The GC got new steel on the job, rescheduled the work and we all got moving again. By mid-April we were almost back to the level of the original collapse. Working on accelerated schedules, we hoped to have the stadium ready for the fall football season.

It may be necessary to move the first or second game, but the Kingdome should be ready for use.

Now this is construction at its best. We had an unfortunate incident and good management kept it from souring the project.

**DIMENSIONS: The stadium was a natural disaster. What causes man-made disasters?**

**RAMEY:** Generally, I think, a job goes management sour when it’s underfinanced. You can’t discount bad management or a job that’s been grossly underbid. If a job is shopped, the subs are looking for ways to recoup, so the conflict is built into the situation.

**DIMENSIONS: And the results? The usual chiseling...backcharges...slow pay...that sort of thing?**

**RAMEY:** Pretty much so, yes. Backcharges, claim progress estimates are cut, change order bickering, slow pay...the list is quite long and not particularly creative.

**DIMENSIONS: Every subcontractor sooner or later gets into a backcharge hassle. What’s your sug-**
gestion for the best way to avoid—or win—such confrontations?

RAMEY: I find you make your best defense when you take care of the problem right up front. The standard subcontractor agreement has a clause which allows the general contractor to do cleanup in your area if you don’t do it at his direction.

We always want that section amended so we receive, hopefully, a 48 hours written notice. This precludes the GC from complaining to one of our foreman that we’re not doing it so he (the GC) can go ahead.

We at least want a phone call at our office.

DIMENSIONS: How do you approach your market, Phil? Are you substantially a bidding contractor or do you get your share of negotiated contracts?

RAMEY: We’re all bidding contractors, but we do indeed have a good body of satisfied customers with whom we’ve dealt over the years. Much of our work is on a select bid basis although we do bid a fair amount on the open bid market.

The challenge of the open bid market is that you have no control over the people you’re bidding against and it’s often quantity not quality. The numbers, as any contractor knows, are off the wall and totally unpredictable.

Of course, when times are tough you go out and find what’s available.

DIMENSIONS: Where is your market? Do you travel or do you prefer to remain in your own backyard?

RAMEY: We work predominantly in western Washington . . . that’s the west side of the Cascade Mountains. We sometimes do work in the eastern part of the state and occasionally in Alaska.

Conrid and I are fairly picky about work outside of our local area because of the control element. The farther away from home you go the more difficult it is to exert project control. Control is money.

DIMENSIONS: How do you handle strangers? I mean, what process do you follow if a GC unknown to you invites you to bid a job?

RAMEY: Well, for someone to invite us outside this local market area, we must know that customer directly or by reputation. To work for a GC that you don’t know and/or haven’t checked out is indefensible.

Checking someone out doesn’t take all that much time and effort: it’s actually amazing how swiftly you can get a line on any contractor. If some general contractor is shopping the word goes out, and we have better things to do with our time than to chase those kind of contractors around.

DIMENSIONS: You’ve been involved in construction since college days. What are the major changes that you’ve noticed?

RAMEY: I think business as a whole has become much more sophisticated. There’s better management in the industry now with better planning and follow-up.

You’ll generally find some talented people on every construction project these days. That wasn’t always true in the past: many were hip pocket operators who managed with “by heck and by gosh.”

As for new technology, sure there’s been changes, but mostly I believe you’d have to look at the shift to use all kinds of talent to help and plan a coordinated project . . . using people skills to get the job done.

DIMENSIONS: Seattle is a relatively strong union area. Has the construction industry here experienced the same union vs. non-union competition that the rest of the country has?

RAMEY: We’ve had our share of competition here, too. The non-union element is here to day on a good, firm competitive basis. It’s a serious concern in the area, and in the last two contract negotiations both the unions and management have had discussions.

DIMENSIONS: Have these discussions produced any covert response to the non-union challenge?

RAMEY: Not really. We’re still evaluating and deciding what we must do. A few contractors have gone double breasted, but not many.

A number of GC’s have gone double or flipped over to non-union. No one in the area is openly double breasted.

Most of the non-union are new companies, about 90% I’d estimate. Fact is, most new companies are non-union because not too many union shops have opened up.

DIMENSIONS: What’s the status of unionism here now?

RAMEY: I think this union vs. non-union confrontation has just about leveled off. The situation now might be described as being in limbo . . . giving us all a little breathing time. More work means the sharp competitive element is blunted.

If the market takes another turn, though, we’ll see which way things are going.

Historically, non-union contractors have been active in the residential markets. That’s where they are now, plus they’ve picked up much of the tenant work in the commercial market.

All in all, I’d say business is good, getting better and there’s enough work for both union and non-union.