A REACH FOR THE ENTIRE PACKAGE

In Evansville, contractor Fred Hormuth has achieved nearly full Division 9 capability but the local market currently limits his ability to bid the full package.

It wasn’t exactly all or nothing for Indiana contractor Fred Hormuth but he’s brought it as close as he can.

As president of Hormuth Drywall & Painting Services, in Evansville, Fred has sought over the years to develop a company capable of bidding an entire Division 9 job. Except for ceramics and tile work, he could do just that—if a number of market factors wouldn’t keep getting in the way.

It’s not so much that the Hormuth company couldn’t bid the work. It’s just that current market conditions in the Evansville marketing area won’t allow him to take full advantage of his capabilities . . . conditions such as the union versus non-union battle, general contractors doing the specialty contractor’s work, easy entry of new contractors into the market, the usual negotiating hangover left over from a series of huge power plan projects that’s left the local manpower pool in a shambles.

The list could go on, pointing up to the fact that in Evansville, subcontractors are digging hard for work and bidding furiously for everything they get.

For the 56-year-old Fred Hormuth, who started his construction career as a 12-year-old “gopher” working for his father, the current situation is just one more obstacle in a long, successful career. Born in Dade City, FL, while his parents were vacationing there, Fred was the son of the late Marion V. Hormuth, an industrial painting contractor who started the Evansville company in 1929, and the late Viola Weyer Hormuth.

By the time he was 12, his father had him working as a painter’s helper. In 1942 the Hormuth company moved into drywall. Hormuth was actually the second company east of the Mississippi to possess a set of Ames tools. It was Fred’s job to hook up the batteries for the old hoppers using a Ford starter for pumping.

After graduating from Evansville Memorial High School, Fred obtained a degree in accounting from St. Edwards University, Austin, TX. A couple of years in the Army followed, during which time Fred married the former Mary Ann Pate, of Humble, TX, a graduate of the University of Texas. Fred and Mary are parents of four daughters.

Following his discharge in 1956, Fred went into the construction business fulltime. By 1960 his father had retired to operate a motel in Florida and Fred completed the conversion of the Hormuth company, always a union contractor, from an informal operation into a modern, accounting responsible corporation with an emphasis on following the market. For a number of years, Hormuth operated a paint and decorating store but recently began a de-emphasis of the store’s operations in favor of concentrating strictly on construction.

As a result of Fred’s efforts, even without the store, the company is capable of taking on any task in Division 9, except the ceramic and tile options.

A 25-year member of the Association of Wall and Ceiling Industries-International, Fred has served on AWCI’s board of directors for five years as well as the Painters’ committee, the Convention committee, and Technical Subcommittee #6—acoustical.
DIMENSIONS: Few subcontractors the wall and ceiling industry have the complete Division 9 capability that your company has. Did you pursue this as an objective, a firm plan of diversification?

HORMUTH: I’ve always had an interest in diversifying to smooth out the work flow. But, no, we didn’t set out to become a Division 9 company.

We looked for work where we can get it. By that I mean we just kept looking for business and developed our capabilities as we followed the market.

DIMENSIONS: Do you feel your approach is the best way for a contractor to diversify?

HORMUTH: It was best for us in our market. I wouldn’t even begin to suggest what’s best for another contractor.

From my own experience and observation, I think most contractors follow the kind of a progression that we did. It’s nice to have a capability in some area, but it’s vital that you have the market to sustain yourself, too.

We didn’t start out with a master plan. As a subcontractor, it’s important to keep in tune with your market. I follow the market and take advantage of opportunities as they present themselves.

DIMENSIONS: I should imagine that you get into a lot of bid packaging, don’t you?

HORMUTH: Oh, of course. Like any contractor I like to bid the package because it gives me better control over my work scope.

These days, though, it’s almost impossible to land a full package bid. In painting alone, we may have 20 contractors picking off the painting section, and stiff competition in every other area.

DIMENSIONS: I should imagine that you have some pretty strong requests to break out your prices when that happens?

HORMUTH: Yes, there’s that plus one or two other contractors who will also be bidding some type of package.

When others bid so low on separate components it’s very difficult to bring together a package that will make it beneficial for the GC not to want to break out. In a few areas your own figures may be a bit over or under and the management efficiencies you’ll bring with a package bid don’t justify the sections where you recoup your profit.

DIMENSIONS: Have you given up on packaging bids or are you still going after such an award?

HORMUTH: I won’t give up any market. But realism dictates that when the bidding is this tight and tough on each specialty that we find it had to get a package bid that will be low enough to warrant a job award.

DIMENSIONS: You’ve alluded to the fact that Evansville isn’t one of the country’s better contracting markets right now. What are your customers . . . general contractors . . . doing to respond to such a slowdown in the market?

HORMUTH: What you’d expect of a general contractor. The GCs end up doing more and more of the work on each project themselves. I’ve seen a lot of drywall and light gauge steel being installed by crews under the general contractor.

DIMENSIONS: Is this an occasional thing among the GCs or does it reflect some kind of trend?

HORMUTH: For the most part it’s merely a response to the current market situation. But we’re running into it more than I want to see.

It isn’t too tough to understand. Every contractor wants to keep his management team together, even in bad times. When you have a GC with six or eight superintendents on the payroll and not working then it would be more advantageous cost-wise to go ahead and do the work yourself, right?

It’s an effective way of cutting losses. Shifting the loss would be a better phrase. What they’re doing is also an effective way to cut us out of our normal specialty work.
DIMENSIONS: If what the GCs are doing isn’t a trend, are there any marketing shifts underway that you define as a trend? What is happening here, aside from the fact that business is down, that will be deeply influencing your market in the next few years?

HORMUTH: Well, the direction of work in this area is definitely shifting. You certainly can’t discount the move toward non-union contracting. It’s real and it’s happening.

For awhile, too, I thought the GCs were heading toward a status as brokers but the work slowdown changed that. As I said earlier, when volume is down they’ll take on more of the subs’ work to keep their overhead paid . . .

DIMENSIONS: And painting? Your company is heavily into that trade and it would be rather difficult for a GC to get involved there, wouldn’t it?

HORMUTH: The problem with painting isn’t so much that the GC is going after this; he isn’t. The problem here is that painting is so easy to get into as a contractor. You don’t need too much equipment or have too much capital behind you to start up.

All of these new contractors-most of whom aren’t really familiar with job costing—are bidding against you and the job goes to whoever makes the biggest mistake. The prices that you run up against are unbelievable.

You can’t describe these prices as competitive because they often don’t even relate to the work that has to be done.

DIMENSIONS: And the GC will go after that low ball price, right?

HORMUTH: That’s what has been happening. The GC must go with these
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new people without cost knowledge even when he knows he’s accepting trouble. His competition will use them otherwise.

In two or three years they’re gone. In many cases, he’s gotten out of paying and managed to take over the job with the painting contractor becoming captive.

Then again with easy entry into painting contracting someone else springs up to take their place.

DIMENSIONS: That’s a bit different than a market where jobs are—if not plentiful—a least more available?

HORMUTH: I should say. When times are good and new jobs are coming out regularly, the specialty contractor finds his services pursued.

You can even live with the competition no matter how outrageous it is because everyone can’t bid every job. When the GC is fully occupied, he doesn’t want to perform any of the sub’s work because it’s more beneficial for him to know his costs on the job and use his manpower that way.

DIMENSIONS: Then comes the pinch—

HORMUTH: —as soon as you get a pinch—when the jobs are not coming out—the cost cutting and bid shopping take over in earnest and it’s lowest price time regardless of ability—and only if the GC doesn’t feel that his own crews can handle the work.

DIMENSIONS: The Hormuth company has been a union contractor from the beginning. I assume you are still a union operator and intend to remain one?

HORMUTH: Yes, we’ve been union from the start, almost 58 years, and we’re still union. Who knows where we’ll be a year or two from now.

The unions can’t do much about a depressed market. But they could make some contributions toward helping us to remain competitive. The non-union subcontractor is no longer a
fringe threat, but a solid marketing force. In all honesty, I don’t feel that the unions even see the handwriting for the current situation.

Union leadership has a tendency to take the attitude of “wait and this thing will blow over as it’s done in the past.”

DIMENSIONS: Are you actually losing the work to the non-union operator, or is the competition much fiercer?

HORMUTH: Non-union prices today are competitive and the merit shops are getting the work. That isn’t my opinion: it’s a matter of hard, cold record.

In our negotiations we’ve emphasized to the unions that once union contractors lose the work they just don’t get it back.

DIMENSIONS: That’s had no impact apparently?

HORMUTH: None that I can detect. Most of the new contractors coming on stream are non-union. That should tell something to anyone observing. Thus, with an unyielding union versus non-union competitive situation, with GCs trying to do more of the work themselves, and with a group of new contractors entering the market who don’t know their own costs but bid anyway.

Sort of gives you an idea of the kind of market challenge we’re facing right now.

DIMENSIONS: It may not be nice to say but many GCs don’t mind a sub failure?

HORMUTH: No, not at all. Often, a GC can just take over the job and the failing contractor goes to work for him as an employee.

DIMENSIONS: Where does all this leave the market? What do you see down the road?

HORMUTH: Well, that would have to depend on the market. As I said, the market here isn’t that big and I don’t believe it can survive as a union versus a non-union area. One of us is going to have to take over. This is not a large metropolitan market so the scale of the market will swing to either one or the other.

Right now the situation isn’t all that favorable for a union contractor.

DIMENSIONS: If you’re in negotiations right now, the answer may be in the final agreement, right?

HORMUTH: We’re in negotiations now but the consensus is that little progress is expected. The unions have pretty much taken the position that they can’t combat the non-union trend and thus can’t do much to help us fight the situation either.

DIMENSIONS: So you’re treading water, so to speak?

HORMUTH: For the last two years we’ve been in a state of limbo, living on hope that the current bargaining effort will hold the key, give us some help to mount a competitive counter against the non-union advances.

DIMENSIONS: I take it that hasn’t happened?

HORMUTH: Not so far. At the same time the large users are trending toward non-union also and—

DIMENSIONS: What large users are you referring to?

HORMUTH: I’m talking about General Electric and Alcoa . . . large corporations. They are all trending toward non-union.

DIMENSIONS: Coupled with that trend, how much impact have all these power plant projects left on the local manpower market? Often they leave work practices, rates, overtime . . . that
sort of thing . . . in a shambles—and expect the local contractors to put things back together.

HORMUTH: You can say that again. In this area alone they have built five large power plants in the last 20 years. Those projects have virtually pushed the local labor market here beyond economic reality.

The mechanics are accustomed to the work practices on these projects, the readiness to run lots of overtime, and varying productivity demands. People get accustomed to this kind of working environment and with work assured the unions have pushed wages to their limit. These power plants are now all completed.

We didn’t have much choice but to go along with the big users when these projects were underway but now we have to draw the line. There aren’t any more big power plants and people have to forget all those big user benefits.

DIMENSIONS: Where is the Hormuth company’s market? I take it you don’t travel all that much?

HORMUTH: No, I don’t like to stretch out too far. My company’s marketing area is about 60 miles away. In the past, we’ve traveled a time or two but generally you get more headaches than it’s worth.

DIMENSIONS: What’s the problem as you see it, with traveling? Some contractors thrive on it.

HORMUTH: I don’t think there’s any hard and fast rule for traveling. The key—and the hard part—is to get someone capable to run the job.

Your top people don’t want to spend six months away from home so it becomes very difficult. You have to find someone who is willing and capable.

DIMENSIONS: —that’s not easy, is it? You wind up with a different kind of leadership than you’re accustomed to?

HORMUTH: Pretty much so. You do need a different kind of leadership for jobs outside your area.

I realize other subs do this and do it profitably. They’ve set themselves up for that kind of situation. Furthermore, they’ve done enough jobs on the road that they can call on management and crews who are geared for traveling.

DIMENSIONS: On another subject, you must have a challenge when it comes to estimating all the different kinds of work in Division 9 work. How have you set your estimating up?

HORMUTH: It’s not that difficult. I have a top, experienced man in
painting. He’s J.W. Brown and “Brownie’s” been with the company for years. There isn’t a painting job that he can’t handle.

I do the new job takeoffs myself . . . at least I have been doing most of them. I’m now working my son-in-law, Glen Modesitt in as an estimator. He’s doing floor coverings, wall coverings, and small jobs right now and we’ll introduce him to other kinds of work as he develops.

DIMENSIONS: Who does the selling, you or the other estimators?

HORMUTH: Well, Brownie does his own selling. His contacts go back 50 years so it would be silly not to utilize all those relationships he’s built up over this time.

He follows up his own leads, makes the contacts, and gets the information he needs to proceed with a job.

As a matter of fact, he’s so good that we have him do all the supervising of painting work on new construction also.

DIMENSIONS: Sounds like you follow the management practice of when you have good talent give it room to show itself.

HORMUTH: Is there any other way? That’s the way the book says. And it works.

DIMENSIONS: Still, someone has to have overall responsibility and you don’t strike me as one who would give that short shift. Who handles the job control aspect?

HORMUTH: I do that myself. I have my own system and I post all labor and material costs. I know where the job is every step of the way.

Every job has to be reviewed in its totality and then broken down with report systems set up to keep you on track. Job control is just another way of saying profits: you keep a good control on your work and your only problems will come from other sources.

DIMENSIONS: Is your estimating still manual? I haven’t heard you refer to a computer?

HORMUTH: Basically, we stick to a manual system when it comes to estimating although our accounting and payroll functions are on computer.

I’ve not gone to the computer for estimating and job control because of the many phases we bid.

DIMENSIONS: Then you have been reviewing various estimator control programs? What do you find good—or bad—about them?

HORMUTH: I’ve been checking out systems for five or six years now. But I’ve just never seen anything that would fit all the areas we are estimating, and I’m not yet willing to bend my company’s way of doing things to fit in with a programmer telling me
how I have to do it to use the particular system.

Some of these systems cover certain sections and some others. To me, it seems you’d really need two or three systems to cover all the work you bid. That’s not an estimating system: that’s chaos.

**DIMENSIONS:** You’ve hit on the key problem with computer estimating. When you go to a computer system, you must essentially conform to the programmer’s idea of what procedures constitute good estimating.

**HORMUTH:** Well, a lot of estimating systems do allow you some flexibility... some adaptability... in setting up your estimating computer operation.

But it is true that you have to conform to a lot of new rules and restrictions with any computer program. After all, another individual wrote the program and you have to “follow the road” to get there. That’s just an understanding you’ll have to accommodate if you intend to convert your estimating operation to a computer.

**DIMENSIONS:** What’s your approach to manual estimating? How do you go about it?

**HORMUTH:** I’m rather conventional. I start with my own 18- or 24-column worksheets and take off the complete job as I go. These days plans have so many details that you’re literally forced to work out the job in your mind as you take it off.

My major complaint against computer estimating is this: I believe that computer estimating diminishes the one vital element in estimating: getting a thorough understanding of the job, becoming familiar with every detail in the drawings.

**DIMENSIONS:** How about material ordering? Who does that?

**HORMUTH:** Whoever takes off the job determines which materials are needed. An estimator ordinarily should do this because it is a waste of time to have someone estimate and someone else do the material ordering.

**DIMENSIONS:** Sort of repeating?

**HORMUTH:** That’s exactly it. Another person would have to go back over the plans to determine how much paint or wall covering is needed. The estimator already has those answers—and a much better understanding of where things fit than someone who’s merely interested in the material list.

**DIMENSIONS:** Wrapping this up, Fred, where do you see the construction industry going in the next five years?

**HORMUTH:** Locally, we’ll first have to complete our negotiations. I don’t think any contractor in the Evansville area can make any definite plans until this issue is finalized.

Lately, I’ve deemphasized the retail decorating store so any decision will be in terms of contracting.

As for contracting, I think things will hold together through 1988 with the Presidential election and all. In 1989, we could very well be in for some severe setbacks.

**DIMENSIONS:** How about new technologies. For instance, exterior insulated systems?

**HORMUTH:** Yes, that’s a new technology that’s caught on across the country. We’ve taken on the exterior insulated finishing system ourselves and have done some nice jobs with it.

So far, we haven’t locked up with any one manufacturer but it’s a good business and I can see solid growth. What makes it so attractive, especially to architects, is the design flexibility. You can do some very interesting things with the system, new construction as well as rehab.

Whether it’s a new technology or an existing one, you can be fairly certain of one thing: conditions are going to stay pretty much what they are and the competition will be fierce.