

ANSWERS TO Ten Tough Business Questions

For this article, we asked a dozen successful builders and remodelers from around the country to share their opinions on some of the business questions our readers ask most frequently. Here's what they told us.

STARTING OUT

What was the biggest obstacle to the success of your business and how did you overcome it?

"I was not marking up enough because I was too afraid of losing a job. If I didn't get the work, I felt rejected and resigned, but that was just stupid thinking. It's a business, not a popularity contest. Now I have a take-no-prisoners attitude and I don't reduce the markup for anything."

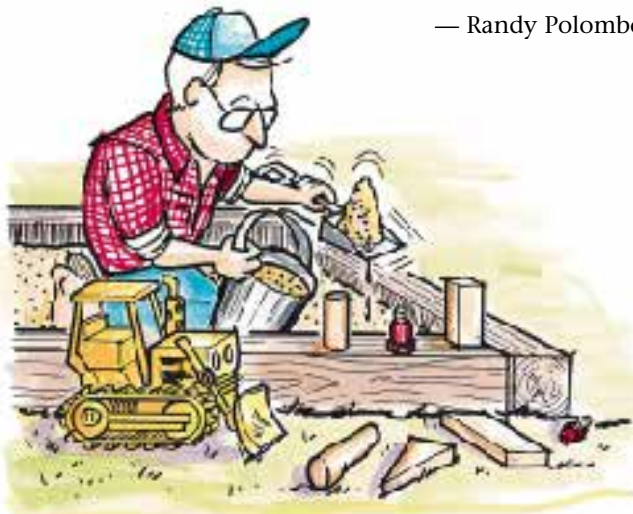
— Sue Cosentini

"Becoming a professional salesman, instead of a tradesman who was an 'order taker' for the homeowner's project."

— Steve Klitsch

"Thinking I had to do everything myself, which burned me out."

— Randy Polombo



"Delegation and trust. First I had to figure out what to delegate; then I struggled to find people I could trust. That has taken me years. Now we have a network of subcontractors, suppliers, and friends who are able to supply the dedicated and talented people we need."

— Michael McCutcheon

"I was overly optimistic, which means my estimates were too low. I overcame this by getting feedback on estimates from the field crew and by raising my estimated gross profit to cover slippage between my estimates and actual production costs."

— Paul Eldrenkamp

DELEGATION

Small contractors who do everything themselves often have trouble deciding which responsibilities to delegate first — bookkeeping, sales, estimating, field production, etc. What advice can you give to someone making a first hire?

"Bookkeeping is the easiest to delegate. Next is sales, although you have to choose between teaching remodeling to a salesperson or teaching sales to a remodeler. I would go with the salesperson. Design sense is key — if they're good at that, sales will happen in spite of themselves."

— Mike Weiss, Jr.

"If you're running jobs or actually doing the work, and if you want to grow, the most important hire is an office manager, because you can't do both."

— Glenn Farrell

"The lead carpenter concept has the potential to provide the small contractor with resources for reducing the frustration and stress so prevalent within the production phase of a project. Using lead carpenters also leaves the company owner with more time to attend to the overall daily management of the company."

— Bill Gaver

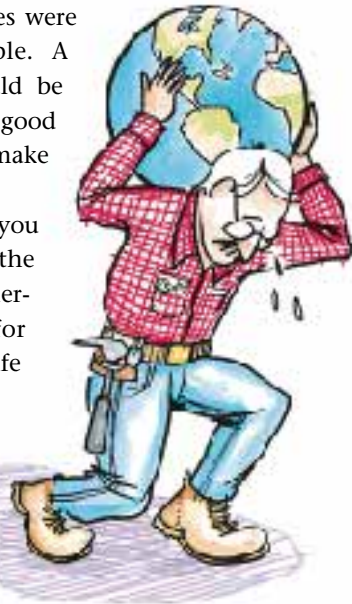
"Try a part-timer or moonlighter, who will not be dependent on your having full-time work."

— Chuck Green

"Our workload exceeded my abilities, so our first hires were more production people. A skilled bookkeeper would be the second choice — a good numbers person can make you money.

Delegate the things you enjoy least or that are the most frustrating and generate the least return for your time. For my wife and me, the first thing to go was payroll. The few hundred dollars we spend each year has been a small price to pay to rid ourselves of the frustration, time, and penalties (for missed or late payments) that we previously endured."

— Bill Medina



"I run a profit-and-loss budget for the new position to clarify how it will pay for itself."

— Paul Eldrenkamp

"Hiring and delegating are two different things. You can hire, but if you don't learn to empower your employees, they will fail at the job."

— Peter Feinmann

PERSONNEL

Good help is hard to find, and even harder to keep. How do you attract and keep long-term employees?

"We've had good success with an incentive plan that shows our employees that we care and that we are giving them all we can. If the company meets a minimal profit goal (5%), everyone gets a cash distribution based on years of service and salary. After that,

if the company exceeds the planned profit goal (10%), everyone gets an additional cash incentive based on a formula. We also reward employees for years of service with paid trips."

— Bill Medina

"I hire people who have been on their own, so they understand the value of building a business. Then I give them lots of respect and responsibility, and I back them up with drawings and documents — lots of information. Most important, I always ask their advice and collaborate with them on their projects."

— Sue Cosentini

"We built our reputation on fine craftsmanship, so we focus on keeping finish carpenters. We not only provide steady work, but we make the work interesting. The more highly skilled finish carpenters are, the more they want to be challenged, as opposed to just putting in baseboards and hanging doors. We're also flexible with their schedules and their families."

— Glenn Farrell

"I try to be the good employer I never had. I give vacations and health insurance, pay overtime, and I'm generous about employee time off. And I have never yelled at any employee."

— Chuck Green

"Keep employees by treating them as equals, not subordinates. Spend some time with them away from work, like going golfing or to a ballgame. Find them by asking your suppliers who's looking — they'll tell you who's happy and who isn't."

— Steve Klitsch



“Besides good pay and benefits, offer employees steady work and sincere appreciation for a job well done. Create a team atmosphere with regular staff meetings where they can learn what you’re up to in the office. Be enthusiastic about the future of the company and let them know their part in that future.”

— Mike McCutcheon

“It’s important to identify your expectations and to see that they are shared and implemented by all. This helps develop a sense of personal pride, positive company and employee recognition, and a perception of professionalism, not only within the company but in the community.”

— Bill Gaver

“When you advertise, use your company name; otherwise, good prospects may not answer for fear the ad was placed by their current employer. Trust your people, be sincere in your praise, and provide practical but thoughtful incentives, like a gift of a new saw. Also, let employees know what the true cost of running a company is, like who pays the payroll when the company is losing money.”

— Mike Weiss

“Good job descriptions with specific goals; good training for specific skills, like management or sales; letting employees learn from their mistakes; teaching time management; yearly evaluations to set new goals; and team building — the team is greater than the individual.”

— Peter Feinmann

“Employees stick around because of my high-quality work and the overall high level of enthusiasm in my company. I also boost morale whenever I can — for example, I have a job-site kitchen-in-a-box that we use for coffee and lunches. We have better lunches on site than most offices, and it makes the crew feel special and important.”

— Byron Papa

“I don’t expect my employees to stay that long. Rather than whine about it, I capitalize on it by actually encouraging my employees to prepare for going out on their own someday. This motivates them to learn and take responsibility, which pays dividends in productivity and trust. When they do finally leave, I now have a subcontractor I’ve trained for three or four years. I know what he’s good at and which jobs I don’t want him to touch.”

— Rick Stacy



SUBCONTRACTORS

Do you work with the same subs all the time, or do you shop every job? What are the pros and cons of each of these sub management strategies?

“We work with the same small group of subcontractors all the time. This reassures our clients that they are getting the quality service they expect. We develop relationships with two or three subs in every specialty so we have a choice. Then we spread the work around between them according to their schedules and the kind of work they do best. If they’re too expensive, we’ll try to find out why, rather than automatically shopping the job.”

— Mike McCutcheon

“We stick with the subs we have as long as possible. We only shop once in awhile to make sure they are in the ballpark. But they don’t have to be the low bid — in fact, they usually aren’t.”

— Howard Ferree

“Stick with known, trusted subs. Show them loyalty and pay them what they are worth. I worked awhile for a company that always shopped for a low-ball price from subs — ‘to keep them honest.’ But the subs felt no loyalty and when we were in a pinch, they weren’t as willing to help because they knew we’d blow them off on the next job if they were \$100 too high. We also ended up with a lot of inferior work from subs we hadn’t worked with before.”

— Rick Stacy

“I work with the same subs because they are reliable and they look out for me. It’s hard to screw up when you have that many eyes checking your work. The

remodeling business is too much like brain surgery with a conscious patient to insert an unfamiliar sub into the mix. I think it is a huge mistake.”

— Sue Cosentini

“Follow-up service and warranty work depend on your subs’ commitment. Cultivating strong relationships with subcontractors who recognize the importance of being associated with a well-managed company will lead to their going out of their way to maintain the goodwill of the homeowner.”

— Bill Gaver

“Subs have the same opinion of contractors who always shop as remodelers do of clients who ask for three or four bids on every job. Keeping good subs takes the same effort as keeping good employees.”

— Mike Weiss

“When you find good subs — ones who do good work at a value — you learn to keep them. But it pays to have more than one good electrician, for example, because then you still have choices.”

— Byron Papa

SUPPLIER TAKEOFFS

Do you allow suppliers to prepare takeoffs or estimates?

“There is a sign at our supplier’s office that reads, ‘Our estimates are free, our mistakes are not.’ If I’ve got to eat a mistake, it’s a whole lot easier to swallow if it’s mine.”

— Howard Ferree

“We sometimes allow the lumberyard to do the take-off, but we check it before we have them price it out. We also give specs to our subs for plumbing, electrical, heating, drywall, and insulation. They provide a quote — more like a contract than an estimate.”

— Glenn Farrell

“The contractor has sole responsibility for the bottom line. To depend on a supplier for estimates is an invitation to financial disaster.”

— Bill Gaver

“We allow our supplier to do takeoffs, but we check for accuracy. If you tell your supplier how you want them to handle things like waste and contingencies, they can become the most accurate estimator outside your own shop. You can handle more work with this arrangement, too.”

— Mike Weiss



PRICE SHOPPING

Do you shop prices with different suppliers or do you use one supplier for every job?

“We stick with one supplier for most materials, but we go to specialty suppliers for things like windows, doors, siding, and cabinets.”

— Howard Ferree

“We use one lumberyard for every job. As a good client, we get taken care of — they make sure we get good lumber, not just the top ten boards off the lift.”

— Glenn Farrell

“We ask the two lumberyards in our town to fax us price sheets once a month to help with our estimating. We don’t shop them, however, and we never play one supplier off against the other.”

— Bill Medina

“I used to price shop, but now my time is too valuable. I buy 90% of all my material from one local lumberyard, not a national chain. I have a relationship with them that is perpetual and professional. I can’t get that at a chain store.”

— Steve Klitsch

“If the supplier is also quoting one of our competitors, we’ll shop suppliers. If I’m exclusive with them, however, I tell them so and go with their prices, sink or swim.”

— Mike Weiss

BIDDING

If you bid competitively, what criteria do you apply before agreeing to bid a particular project?

"I don't bid jobs that are not referred by a previous client or someone who knows us. And I don't bid on jobs that have more than three other contractors looking at it. I always do a long phone interview first."

— Sue Cosentini



"When we're asked to bid, we indicate that we may be interested in meeting the potential client at the construction site to discuss the project. If there's mutual interest, we will prepare a quotation. But we don't bid — it's not in the best interests of the homeowner."

— Bill Gaver

"We are trying to break the habit of detailed bidding. As a design-build firm, we will give preliminary pricing, but if we are not selected to develop the project, we bow out."

— Mike Weiss

"We bid for architects, but only if there are three or fewer bidders, and only if we have the opportunity to meet the owner in person."

— Randy Polombo

"We avoid open bids because, although people often say they are not going to select on price, they do. In their mind, they believe they will get the same project in the end, so they take the lower bid. Most of our work comes from architects and referrals. If

they're getting bids from a company whose work is not comparable to ours, I won't bid. It takes time and money to bid a job. If you know in advance you won't be the low bid, and if you don't have the chance to explain the difference in quality, there's no sense in bidding."

— Glenn Farrell

MARKETING

What marketing methods have been most successful for your company?

"All of our work last year came from referrals. We also use job-site signs, and I network with people in related industries, like real estate brokers, insurance agents, and termite inspectors."

— Steve Klitsch

"I rely heavily on referrals and repeat business. So all my marketing efforts are directed toward customer service — doing little repair jobs, for example. I stress the quality of my work as well as my experience and background to give the customer confidence and to justify a price that may be higher than others. I send out estimates with a one-page company brochure and a list of references and customer comments. I like to include a handwritten note with the package for a personal touch. I let my package do the talking and it works — I get about 75% of the jobs I estimate."

— Rick Stacy

"Initially, we developed a unique logo, plus site and truck signs. We also printed an emergency telephone number card that lists our services on the back. Beyond that, we seek out third-party credibility by releasing photos for publication in special home



remodeling newspaper inserts. But by far, the strongest marketing tool is referrals from satisfied clients. They become our sales force.”

— Bill Gaver

“My aim in marketing is to try to give the client something printed so they can take it with them. We distribute a brochure to clients and architects. We’ve also just developed a Web site and we list the address on our business cards. People can look at the Web site and see what we do.”

— Glenn Farrell

FEE FOR SERVICE

Do you charge for estimating and/or design services? How do you calculate the fee, and is it rebated to your client if the project gets built?

“I don’t charge to estimate small remodeling jobs, but I do charge for big remodels and new houses. The fee is modest (\$250 - \$350) and only pays for a fraction of my time, but it heads off window shoppers. I’ve found that serious prospects are understanding about the fee and more than happy to pay it.”

— Byron Papa

I use a three-step fee schedule: ‘Services at No Charge,’ including initial meeting, site visit, and rough cost estimate; ‘No Cost if Selected,’ with an hourly rate and a not-to-exceed sum; and ‘Services to be Paid by Client,’ with specific services, such as architectural or engineering services, tied to specific costs. This last step requires a 50% deposit to initiate work, with the balance due upon completion.”

— Bill Gaver



“We’re a design-build company, so estimates and designs are two of the products I have for sale.”

— Mike Weiss

“I charge a fee for design and estimating, and I don’t rebate this money. My fee is 3% to 4% of the projected budget.”

— Peter Feinmann

“I’ve tried, but no one in New York will pay.”

— Randy Polombo

“I charge \$50 per hour for design. If I sell the job, I roll that expense into the project, but offer the client a rebate. Most estimates are free, but I charge when the client is speculating on a real estate investment.”

— Steve Klitsch

“We charge for our design service, and it is not refundable or credited back to the project. I also include a nonrefundable fee for the preconstruction conference in my proposal.”

— Bill Medina

“I don’t charge for estimating yet, but I’ve been charging for design for several years on design-build contracts.”

— Chuck Green

“We don’t charge for projects when we know we have the job and we’ve worked for the client before. But we do some consulting work, including helping with the permitting process or feasibility studies. Our fee is \$60 per hour with no rebate if we get the work.”

— Glenn Farrell

“I charge for design. I collaborate with an architect because I believe proper proportion and detailing is important, and architects know design better than I do. The fee is based on the project cost, but we bill hourly and try to stay within the budget.”

— Sue Cosentini

“I don’t charge for estimates, but the time is always figured into the price, so I only lose if I don’t get the job. I’ll do minimal sketches for permits for free, but I charge for detailed plans. And I only provide them if I’m going to do the work.”

— Rick Stacy

“I wish I could charge for estimates, but no one expects to pay for an estimate, and all of the contractors in the area are willing to do it for free.”

— Howard Ferree

OVERHEAD AND PROFIT

When presenting an estimate, do you show your overhead and profit numbers to clients? Please explain why or why not.

"It depends on the type of contract. I like cost-plus-fixed-fee deals, and in that case the client sees my numbers. But if it's a fixed bid, I don't show them."

— Byron Papa



"I show overhead and profit as an operating expense, but I burden my labor so my gross profit number is lower. I show this to design-build clients who need this information to feel comfortable with our pricing. It has rarely been a problem."

— Peter Feinmann

"We show these numbers only on time and materials work. Most people don't expect to see profit from you any more than they do when buying a car or furniture, or when paying a doctor for surgery."

— Mike Weiss

"I never disclose any of my costs to clients, except for a special-order item. When you buy a new car, do you get a breakdown of overhead and profit? No, you just get a list of options with corresponding prices. That's what I do — a price for the basic project and a list of options."

— Steve Klitsch

"I will often share my numbers with a prospective client, but only after I have a gut feeling that they are sincere and not shopping. I've always felt that honesty is the best policy. I don't like to hide the numbers and I don't have a problem telling clients what I need to charge to stay in business."

— Bill Medina

"No, because the high percentage of markup necessary in residential remodeling only produces a red flag with the homeowner. The alternative — artificially inflating line items to reduce overhead and profit percentages — isn't very sound business either."

— Bill Gaver

"I usually submit a schedule of values that adequately substantiates costs without showing overhead and profit. It would be just one more thing for them to obsess over and get anxious about. Instead, I rely on good marketing and my sales package to make them confident that they're getting their money's worth."

— Sue Cosentini

"I don't show these costs, although occasionally I'll explain for every two hours I'm on the job, I spend one hour on paperwork and upkeep. I don't dicker over the price either, unless the client wants ideas for legitimate changes to bring down the cost."

— Rick Stacy

"I focus on what they are getting instead of the insurance, taxes, bookkeeping, and other stuff that they never see."

— Howard Ferree



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