

Interview: High-End Remodeling: Building on Customer Satisfaction

Approach remodeling clients with the same care and thoroughness you have for your projects

by Paul Spring

Many of the remodeling dollars being spent these days come from the so-called move-up or luxury market where clients expect a high degree of service and organization from their builder. California contractor Deva Rajan has just this kind of clientele and has earned a reputation for doing, as one colleague put it, "elegant business."

He concentrates on three areas of residential remodeling: complex structural repair (foundation work, hillside stabilization), high-end kitchens (\$40,000 and up) and baths, and general remodeling (additions, expansions, second stories). He runs four crews, and shares the office with a full-time office manager and his son Abe, who handles both estimating and project management. His dollar volume last year was just under \$1.5 million.

Rajan has spent nearly 35 years in design and construction, starting as a laborer during summers off from college. After graduate school in design at U.C. Berkeley (and summers as a carpenter) he taught for several years at the college level. In his first ten years as a contractor, he concentrated on remodeling. In the 1970s Rajan took charge of the historical restoration of a Russian fort north of San Francisco, and then remained in that area for nearly ten years doing new construction and spec building. He has since brought his company, Canyon Construction, back full circle to full-time remodeling.

JLC: How do you find your clients? Do you advertise?

Rajan: We stopped advertising about three years ago; we rely on referral and repeat customers completely now. But what we've done with that advertising budget is put it into a very thorough callback program that costs the client nothing. We go back three different times after we've completed the job: at 30 days, six months, and a year. We inspect our work, and take care of any problems the client might have without their having to call.

JLC: Is this one of the reasons clients come to you?

Rajan: I think it's part of it. Like 98% of general contractors, we're interested in providing our clients with quality materials, good craftsmanship, and reliable subcontractors. But we also try to give them an unusual degree of service based on very thorough supervision and communication right on through to the end of the project. The teamwork approach that we use with design professionals and subs, and the care we take with estimates, scheduling, and the work itself is all part of it.

JLC: What's your first meeting with a potential customer like?

Rajan: In some cases we bid a project along with other contractors without even meeting the client as pretty cold stuff. We'd like to get away from these entirely.

The second type of project comes from the clients themselves. They may have plans developed by an architect or a kitchen designer, or they may not have gotten that far yet. I take my son, who is our estimator and project manager, to the site with me to meet with the clients. We spend a lot of time just listening and asking questions about how they see the project.

We enter these numbers and subcontractor bids into our computer as they come in. We end up with a 12 to 15 page print-out.

JLC: How do you present the bid?

Rajan: We block out an hour or two with the couple as never just one of them – and go through it very thoroughly.

This is really a pivotal meeting. They already have a first impression of you, and now they are really geared up to check you out. The key thing to them is the numbers: They want to know if you're in the ball park. Assuming you are within 10% of the other bidders, the game is still wide open.



Remodeling contractor Deva Rajan, at left, offers clients an unusual degree of service. Last year, his dollar volume was just under \$1.5 million. His son, Abe, at right, handles both estimating and project management.

JLC: Do you suggest they look at some of your past work?

Rajan: We leave them a reference packet that includes ten pages of clients, at maybe 15 names per page as really stuffed. What often happens in our community is that the prospective clients will thumb through and find someone they know, and at that point you know you're way ahead.

JLC: What's the next step?

Rajan: We arrange for a walk through with the subcontractors who will be key to that project. It almost always includes the plumber and electrician, but we may also ask the roofing contractor or painter, and frequently the cabinet sub. It takes about an hour, and required the free run of the house. It gives our subs a chance to answer any questions they have: drain pipe sizes, entry service for power, things like that. At the same time, we're looking at the job for access excavation problems, etc.

JLC: How long will you spend preparing the estimate?

Rajan: For a \$250,000 project, the estimate will take at least a week. We'll spend five solid days doing material takeoffs and thorough labor estimates.

We rarely get a project because we're low bidder.

JLC: How much detail do you give the client in your estimate?

Rajan: We literally give them everything. We use the 16 CSI codes as a format for our estimates. The first page of our bid is a summary – totals for each of the categories with our contingency, sales tax, and contractor's margin listed below that.

The second page is broken down into materials, labor, and subs. Again it's a summary page, so they can see where the costs are for each of the CSI categories. At that point we explain our markup categories: contractor's margin (10% profit, 10% overhead) and builder's contingency.

The pages that follow are detailed extensions of each one of those 16 categories. For example, category #3 is Concrete, so this page lists each sequential step in the work – form work, rebar, placement, stripping, etc. – and details the cost of materials, labor, and subcontractor. Backing that up are the labor and material takeoffs.

JLC: You mentioned a figure for "builder's contingency;" what's that?

Rajan: Some contractors refer to this as their risk. In remodeling, no matter how well we estimate or how much experience we have, there are always surprises waiting in the walls – pipes we can't see, more wire, less wire, whatever. But customers hate surprises; everyone hates surprises.

We take this right to the client by saying, "As seasoned builders we know that we'll run into things that we can't anticipate. We will catch any of those problems that come up and absorb them in the contingency you pay us as part of the contract."

JLC: How do you figure the contingency?

Rajan: We know from keeping statistics on our past jobs that our material estimates can be off by as much as 5% one way or the other. Some of this is due to price fluctuations; the rest is accounted for by waste or small mistakes in estimating. So we add a 5% contingency on materials to cover us.

On our own labor we figure 10% for discrepancies in crew performance, unpredictable field conditions, weather, and things like that. Finally, for subcontractors we add in 5%. This one puzzles some clients. But even though you get firm numbers from subs, they still manage to come up with a few extras.

JLC: Don't clients hesitate at paying the extra cost?

Rajan: Sure, we hear objections like "Shouldn't this be a part of your overhead or profit?" But on the whole, it's turned out to be a kind of selling point for us because clients are very afraid of surprises – afraid that they are going to be killed in extra work orders. The builder's contingency gives us a chance to say, "We won't charge you for a pipe that's discovered in the wall that we didn't see. We will charge you if you want to add another light or a larger window that's not in the drawing."

JLC: Do they ever suggest that they keep whatever is left of the contingency money at the end of the job?

Rajan: We hear that occasionally from a client or their architect. I explain that this arrangement would be an "owner's" contingency, which would mean that they are the risk takers, and that they would also be responsible for costs that exceed the 5%-10%-5%.

JLC: Are there other concerns you try to deal with at this stage?

Rajan: Clients are almost always anxious about how long the project will take or how many weeks they'll be without a kitchen. We now give them a complete scheduling document with the estimate, but almost anything that suggests you've thought through the project in terms of its duration is a marvelous sales tool.

JLC: If you're not relying on being low bidder, what else do you do to win the contract?

Rajan: We're basically presenting the reasons our company is going to be better to work with. One of these is the quality of our subcontractors. We just started using actual biographies of our subs, and it's worked very well. When clients realize that you have selected the best subs there are, their confidence in your ability to build their dream grows.

This is particularly important after you leave and they begin to review the presentations of the other contractors.

JLC: What else?

Rajan: I think our own confidence in the numbers is very important. Being willing to talk about cost in very certain terms removes the lingering doubts in the client's mind about whether you're

shooting from the hip. Because at this stage, the client is looking for little pockets of guessing, cheating, or whatever they suspect might be going on. The fact that we are disclosing the numbers – all of them – is what leaves little room for these thoughts.

We will even pull out a subcontract for some part of the job and then go back to our estimate to show that they are the same right down to the dollar. It all reinforces that the numbers are real.

JLC: But don't you often find out after all this work that the client just can't afford the work the way it's drawn?

Rajan: Sure, the initial document almost always yields some surprises or draws some gasps. We look at the estimate as a working document that can be adjusted very easily, especially with computers. When the client says, "We didn't know that granite countertops were going to be that expensive," we explain how easily we can make substitutes. That's part of our job, as we see it – to fit the project to their budget. This puts us both – the client and the contractor – on the same side of the table. And that's so much better than the traditional adversarial position.

JLC: Do you find a lot of resistance from architects when you close the distance between contractor and client?

Rajan: There's a growing willingness on the part of architects to work with builders on a shoulder-to-shoulder basis. There's still a residual element that feels responsible for protecting the client from things getting wildly out of hand, but that's probably healthy. You don't want to work with an architect who just lies down and lets you walk all over him. He's no help at all when it gets tough.

JLC: How many meetings are usually required with a client before you end up signing a contract?

Rajan: It varies, but for a \$250,000 project we've found it takes about five meetings for everything to settle down. Maybe by the third meeting they've decided to go with us, but it will take another two meetings before everyone is really comfortable with the price and the scope of the work.

JLC: Is it really worth all that time?

Rajan: Sometimes it doesn't seem like it, particularly if the project doesn't materialize after all that effort. But in sticking it out, we often find other bidders dropping away, or growing impatient and showing a side that makes the client uncomfortable.

JLC: With all of the time and attention you give to clients before they sign the contract, don't they feel abandoned once the work begins and you're not on site?

Rajan: We handle that by trying to get everyone involved. On a larger job, we hold a preconstruction meeting with the architect, client, subs, and foreman. One thing that's accomplished is a chance for the subs and the architect to go over quality standards with the client listening in. Painting is a good example. We use phrases like apartment grade, standard grade, or custom finish. The owner is usually eager to know the difference and that gives the painter a chance to really talk about his work.

We also ask the clients to talk about why they're remodeling, and describe their vision of the finished project. What happens at this meeting is hard to describe, but the result is that our subs and foreman end up feeling much more committed to the job.

JLC: Isn't this also a chance for the different trades to anticipate problems and

discuss scheduling?

Rajan: Definitely. The heating guy may say "We absolutely have to get our stuff in before the plumber; get us in there first." Or the electrician may ask the cabinetmaker to leave a raceway for his wiring in an island.

We also bring a preliminary schedule to the meeting – just a bar chart based on initial impressions and our own experience of what needs to come before what. Then we talk about whether we have the durations and sequence just right.

JLC: How do you handle the inevitable complaints and change orders as the work progresses?

Rajan: It depends. If the client has established a good relationship with the foreman and he has the maturity to handle it, we go with it. But a lot of stuff can pass through the cracks because the foreman isn't on the job near the end when it's mostly subcontractors.

This is where having a project manager in the office is so critical. Because he's there from the beginning with the clients, he has established a relationship with them and knows what they want. (This also makes it pretty difficult for clients to invent stories about what they've been promised.)

In our case the project manager, Abe, is also our estimator, so he really knows the work, the crews, and the schedule, and he is in a position to resolve problems before they grow.

JLC: So is your role mostly sales?

Rajan: My major work is screening projects and talking with clients; I guess you could call it sales. I also review everything: estimates, scheduling, assignment of manpower on projects, hiring, everything.

A few years ago, I thought what I had to do was step back from the business. I tried that for awhile and found that it lets you build a larger company, but you lose that essential contact with the clients. In our case, we have to deliver that; our clients come to us for that. So I've stepped back in.

JLC: Do you think remodeling contractors are taking that direction generally?

Rajan: I think what we're going to be seeing in the next decade is general contractors having less and less crew – carpenters, laborers, and so on – and more and more subs. This will result in larger companies, or at least loose partnerships of generals and subs which may even include things like profit sharing.

JLC: Is that where Canyon Construction is headed?

Rajan: We will be putting an effort into working even closer with our subs. And not just plumbers and electricians. I see us using general contractors as subs – foreman who have come up through our ranks, gotten their license, and come back to work with us.

It's difficult at the age of 30 to start a business from scratch. You may have complete skills as a craftsman, but to put all the elements of the business together and get good jobs is very difficult.

What we can offer a really hot general contractor, age 30, who wants to do good projects and be his own boss is to team up with him. We'll take care of the organizational and business support (accounting, billing, all that stuff), and provide good jobs that will bring him that paycheck every week. And he gets the gravy by being able to concentrate on the work itself. ■