



PROFITING FROM Insurance Work

Last year, our area was hit with its worst hail-storm in 100 years, damaging residential and commercial buildings to the tune of more than \$35 million. Overnight, the storm created hundreds of potential customers who needed a contractor to repair the damage. We are a quality remodeling company with a good reputation.

by David Bowyer

We normally look down our noses at insurance work, because the insurance companies often require the customer to submit two or three estimates for the work to be done but usually approve the estimate with the lowest price regardless of the contractor's reputation or the customer's preferences. Since it's our policy not get involved at all if a prospective customer is looking for the lowest possible quote, insurance work has never been part of our marketing plan.

Soon after the storm, however, our phone started ringing with calls from past customers who wanted us to fix the hail damage to their houses. I finally called my own insurance agent (I had to talk to him anyway, because my house had been hit, too). "Jim," I said, "we're avoiding all this insurance work because there's usually no money in it, but my phone is ringing off the hook. How can we do this work, satisfy our customers, satisfy the insurance companies, and still make a reasonable profit?"

In a disaster situation, my agent told me, the "low estimate" format is not the way most insurance companies choose to go. Local offices are swamped with claims, and they want to get them settled quickly. Instead of requiring the insured to round up several estimates, they send an adjuster to each claimant's house to estimate the repair cost. The adjusters work from their own estimating manuals and cost databases, with established standard rates for nearly every kind of replacement and repair. Once the repair estimate is done by the adjuster, any legal contractor who can do the job at that price can have the work. When I heard this, I decided to look at a few repair jobs and see if my company could make money on them.

Continued

In the insurance game, thorough estimates, clear contracts, and production efficiency add up to profits

Fudge by the Square Foot

On the first few jobs I estimated, I quickly learned that the adjusters' estimates were running low when it came to the actual scope of damage. There were a lot of square-footage and linear-footage mistakes — curiously, almost always in favor of the insurance company.

Time after time, I'd sit with a customer and start calculating the extent of damage to the home. "Your house is so many feet long, so many feet wide, 2-foot overhangs, 1-foot gable extension, 6/12 pitch roof" (hit a few keys on the calculator) "the roof area of your house is 2,240 square feet. The insurance company estimate only has 1,960 square feet. I wonder which part of the roof they don't want me to fix?" And the client would say, "Well, they said this was to replace the whole roof."

Siding was just like roofing: Take a two-story house with hail damage to the west side. I figured the surface area at 756 square feet. The adjuster had allowed only 672 square feet. On the phone with the adjuster, the conversation would go something like this:

Me: "We both agree that only the west side of the house got hit. You show 672 square feet of siding to be removed and 740 (640 + 10% for waste) square feet to be installed."

Him: "Right, 42 feet long, 16 feet high."

Me: "Where do you get 16 feet? That's a two-story house."

Him: "Right, 8 feet per story."

Me: "Wait a minute. You're forgetting the height of the floor joists and sub-floor. Those outside walls are more like 18 feet high, not 16 feet."

Him: "Oh yeah. That's right. Let's call it 18 feet. Change the allowable amount from 672 square feet removed and 740 square feet installed to 756 square feet removed and 832 square feet installed."

Beyond the obvious goofs, there was a whole raft of little (or not so little) extras that routinely did not make it onto the adjusters' estimates. For instance, with hip roofs there's a much greater standard waste factor than applies to a gable roof because of the

angular trimming at both ends of each course. Although that adjustment is printed in black and white in the insurance company adjusters' manuals, they often didn't include it. The same held true for second-story and steep-pitch adjustment factors, the removal and replacement of shutters, electrical fixtures, utility service lines,

dumpsters, and on and on. They'd forget to mention it, but if you knew to ask for it you got it.

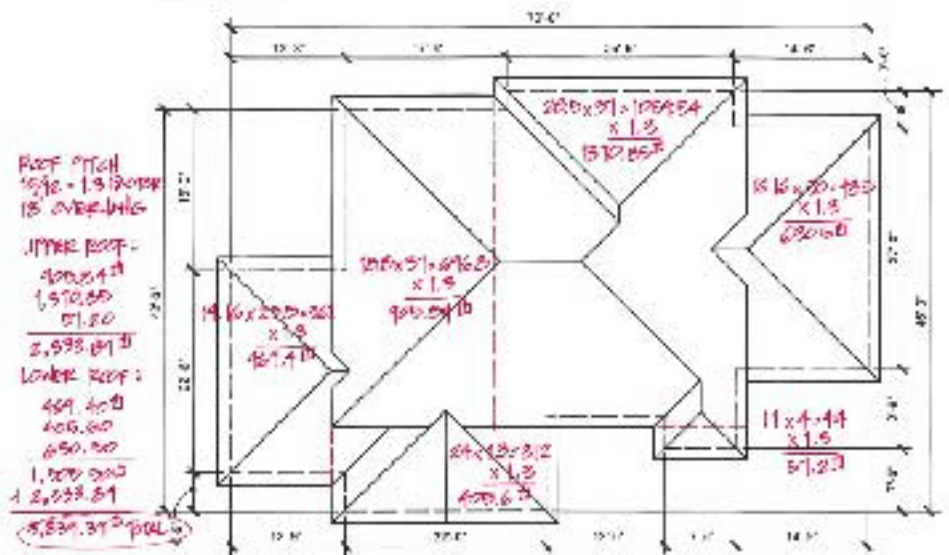
Advocating for the Customer

Most of my clients' homeowner insurance policies entitled them to full replacement of what was lost or damaged. As their contractor, I saw it as my

Roof Replacement Takeoff



ROOF PLAN



The author used a computer-aided drawing (CAD) program to generate supporting documentation for his careful estimates. First- and second-story roof areas were shown in a plan view, with square-footage calculations noted (above). The author also provided a

professional responsibility to use what I knew about estimating construction to make sure that they got full and complete compensation for what was damaged by the storm.

Once I had figured out what was going on with most of the adjusters' estimates, I knew how to lock in the sale of most of these insurance jobs on the first call. Right up front, I would show the potential customer several original adjusters' estimates from other homes

in their neighborhood, and then the revised estimates for the same homes done by me and approved by the insurance companies. I told every customer: "I will go over your estimate with a fine-tooth comb and make sure they've included everything, and I will take the responsibility to get the revised estimate approved by the insurance company. Then we'll do the job for just what they will pay — no more and no less. If that is acceptable to you, we can go forward

from here; if it's not, we politely decline to look at the job."

Once I had shown the potential customer a couple of the other original and revised estimates, they would just hand me their insurance folder and say, "Go for it!"

Over the course of more than 30 jobs (and counting), our average customer had the original estimate increased by over 50%. One job went from \$7,000 to \$27,000, and there were others just like it.

TAKEOFF COMPARISON

ALLOWED REPAIR COSTS*		ADJUSTER'S TAKEOFF		AUTHOR'S TAKEOFF	
Item	Allowance	Quantity	Cost**	Quantity	Cost
Remove Shingles	\$.40/sq. ft.	3,130 sq. ft.	\$1,252.00	3,838 sq. ft. [1]	\$1,535
Replace Shingles	\$1.05/sq. ft.	3,600 sq. ft.	\$3,780.00	4,261 sq. ft. [2]	\$4,474
Allowance for Hip Roof	\$.23/sq. ft.	not noted	-0-	4,261 sq. ft. [3]	\$973
Steep-Pitch Allowance	\$.15/sq. ft.	3,600	\$540.00	4,261 sq. ft.	\$639
Second-Story Allowance	\$.15/sq. ft.	not noted	-0-	2,334 sq. ft. [3]	\$350
Remove/Replace (R&R) Drip-Edge	\$.78/linear foot	not noted	-0-	50 linear feet [4]	\$39
R&R Power Vents	\$100.00 ea.	1 ea.	\$100.00	1 ea.	\$100
R&R Pod Vents	\$27.23 ea.	4 ea.	\$108.92	4 ea.	\$109
R&R Aluminum Fascia	\$2.27/linear foot	42 linear feet	\$95.34	42 linear feet	\$95
R&R Gutters and Downspouts	\$3.42/linear foot	76 linear feet	\$259.92	302 linear feet [5]	\$1,033
R&R Wall Lights and Fixtures	\$83.24 ea.	1 ea.	\$83.24	1 ea.	\$83
R&R Window Skins	\$80.00 ea.	not noted	-0-	11 ea. [6]	\$880
R&R 9'x7' Garage Door	\$552.42 ea.	1 ea.	\$558.01	1 ea.	\$552
R&R 9'x16' Garage Door	\$760.35 ea.	1 ea.	\$760.35	1 ea.	\$760
Paint 9'x7' Garage Door	\$46.43 ea.	not noted	-0-	1 ea. [7]	\$46
Paint 9'x16' Garage Door	\$63.04 ea.	not noted	-0-	1 ea. [7]	\$63
Paint 9'x7' Garage Door Trim	\$25.76 ea.	not noted	-0-	1 ea. [7]	\$26
Paint 9'x16' Garage Door Trim	\$33.58 ea.	not noted	-0-	1 ea. [7]	\$34
Fill and Paint Garage Head Trim	\$95.00 ea.	1 ea.	\$95.00	1 ea.	\$95
MISCELLANEOUS					
Medium Dumpster	\$200.00 ea.	not noted	-0-	1 ea. [8]	\$200
SUBTOTAL			\$8,702.78		\$12,087
Contractor's Overhead	10%	not noted	-0-	1 ea. [9]	\$1,209
Contractor's Profit	10%	not noted	-0-	1 ea. [9]	\$1,209
			Total	Total	\$14,505

*from insurance adjuster's estimating guide **undepreciated

Firing Up the Computer

With such a volume of calls coming in, I could not spend hours of every day on the phone haggling with adjusters. I decided to make my first shot count. I have been using computerized spreadsheets and 3-D CAD to do my estimates for a couple of years, and it was now time to put the crank to it.

The first step was to get the unit-pricing information I had from the first three or four insurance adjusters' work-

[1] The author's estimate of shingle area is higher than the adjuster's because the adjuster did not account for roof overhangs.

[2] The amount of shingles to be replaced is greater than the amount to be removed because the author has applied a waste factor to account for shingle off-cuts. The waste factor used by the author was lower than that applied by the adjuster — the author could have increased his estimate.

[3] The author has applied adjustment factors for material waste on hip roofs and added labor cost for second-story work on a portion of the building. These "adders" are allowed in the insurance company's estimating manual, but were not applied by the adjuster.

[4] Damage to the drip-edge was not evident from the ground, but the author noticed it when he climbed on the roof. Insurance adjusters do not always bother to get on the roof.

[5] Damage to the gutters on the downwind side of the roof could not be seen from the ground because it was caused by hail striking the inside of the gutters from above. Adjuster did not mention this damage, but the author noticed it during his rooftop inspection.

[6] Damage to the metal cladding of windows was only noticeable if you looked closely. The adjuster didn't; the author did.

[7] Adjuster did not include the cost of painting the new garage doors.

[8] Adjuster did not include the cost of a dumpster. "You only get it if you know to ask for it," says the author.

[9] A 10% charge for overhead and a 10% allowance for profit are key to the author's ability to do insurance work at a profit. This cost is allowed whenever a single contractor's work involves three or more different trades, but adjusters' estimates seldom mention it.

sheets into the computer. As soon as I put together that database for my estimating spreadsheet, I had a good idea what the allowable rates were for about 90% of the work that needs doing on a hail-damaged house. Just by inputting the unit amount of the damaged areas, I could whip out a fully detailed and itemized estimate on any house in half an hour.

After that was set up and running, I developed a standard proposal form that only needed minor modifications from customer to customer. Once the estimate was ready, I could complete and print a proposal in less than 15 minutes.

While at the customer's house on the first call, if we agreed that I would do the work, I would hand-sketch the perimeter floor plan with measurements, noting which areas and items were damaged. Back at the office, I would work the sketch into my 3-D CAD program and generate the perimeter plan of the house. I would print out the affected elevations to exact 1/8-inch scale, and I would do a three-dimensional full overview from the side the storm came in on. On those images I would do the actual calculations for the square and linear footages, noting every item — every vent cover, light fixture, shutter, screen, the whole nine yards. This took one or two hours, depending on the size of the house and how many sides were affected.

Then I would fax all of these documents to the insurance adjuster with a standard cover letter: "Dear So and So, I have examined the such-and-such house at such-and-such a location. There are some differences between my figures and yours. Please review my estimate, and if you disagree, I would be glad to speak with you over the phone or meet with you at this location to double-check these figures. If you agree with my figures, please write 'approved as submitted,' sign and date the proposal, and fax back to me."

Nearly every proposal came back with "approved as submitted." Those that did not were usually settled with a five-minute phone call, and on only two of them did I actually have to go

out for a reinspection.

I'm sure my computerized estimates, drawings, and proposals were the key factors in getting the response I got. Doing them by hand would have been much less effective and much more time consuming.

Careful Contracts

Even after the proposal had been approved by the insurance company, the work did not always go according to plan. In one case, my guys called me from a job saying, "Dave, there's two layers of shingles on this roof — we're going to need some additional money to take off the second layer of roofing." I called up the adjuster and told him we needed to revise the estimate.

This time I got an adjuster who I had not dealt with before, and he handed me the line: "Don't you have a signed contract with the customer to remove and replace the entire roof?" — implying that I was locked into a contract, and that he didn't care if there were two layers of roofing there or not. He figured it was my problem now.

Well, I didn't fool around. I said (expletives deleted), "Listen, I have an agreement to remove one layer of roofing and put on 2,200 square feet of shingles — nothing more, nothing less. He said, "How do you think you are going to get off just one layer of shingles?" I said, "I don't know, but I'll tell you this, my customer deserves better treatment than this from his insurance company." Thirty seconds later I had the customer on the phone and told him what the insurance company's position was. Fifteen minutes later I got a call from the regional manager for the insurance company, offering to help us figure out how much extra money we would need.

The key to handling those occasional disagreements was to have a proposal that specified every item to a specific unit. If the estimate showed 1,200 square feet of siding to be removed, the proposal stated "we will remove up to 1,200 square feet of siding." I never made the specification by stating the "entire side" or "all of the

damaged area.” If additional damage was found or additional work was required, there was never any question about whether it was or was not included.

Making Money

When we first looked at this market, the hardest thing to adjust to was the dollar amounts the insurance companies allowed per specified unit for the repairs. They were well below the unit-price numbers in most standard remodeling estimating manuals or programs.

Take vinyl siding, for instance. Walt Stoeppelworth's *1996 HomeTech Remodeling and Renovation Cost Estimator* gives a figure of \$3.08 per square foot for materials and installation of 8-inch double-4 vinyl siding (with a 50% markup included). The insurance companies were only allowing \$2.28 per square foot for materials and installation, with 10% overhead and 10% profit included. Logic and a little quick math would seem to indicate that at \$2.28 we would barely break even. Even so, when we calculated the gross profit margin on our first storm job, it was about the same as we make on a typical room addition. Frankly, we're still surprised we did so well.

There are two primary factors that made these jobs as profitable for us as they turned out to be. First of all, we took the jobs as the general contractor. If you cover three of the trades, the insurance company deems you a general contractor and allows you an additional 10% for overhead and an additional 10% for profit. Siding and roofing, for instance, are two different trades; gutters and downspouts are another. Windows are another trade, broken lamps and electrical fixtures are still another, and so on. We needed that 20%, so our standard proposal clearly stated that the only way we'd take the job was if we worked as the general contractor.

The other factor was the economy of scale and repetition. Our efficiency in siding and roofing jumped dramatically when compared with a typical remodeling job, where the unit amounts are

typically smaller and set-up and wrap-up times are a much larger percentage of the total labor time. Exterior replacement and repair work is almost like new construction.

For ordinary remodeling work, we take all our hard costs and multiply by 1.55, so we're working with a gross profit margin of about 35% (a little low for our size, but we get by).

We ended the year with 27 storm damage jobs completed at gross profit margins at least as good as our average remodeling job, and we did it at pricing levels that would have scared us to death to even think about as full-line remodeling contractors.

Marketing Magic

While we were learning the ins and outs of insurance repair work, we were developing some very happy customers.

I'm sure my computerized estimates, drawings, and proposals were the key factors in getting the response I got. Doing them by hand would have been much less effective and much more time consuming.

We had not only gotten them more than they had expected from their insurance companies, but it was obvious that we were doing good work and we were not cutting any corners. At staff meetings, in the coffee shop, after church, or at parties, when the talk turned to the hailstorm damage, our customers couldn't wait to brag about how well we'd done for them. The next day the phone would start ringing at my office again — another two or three insurance jobs!

In addition, I was amazed by the number of people who turned to me and said, “Well, listen, we've been thinking about a remodeling project for years, and while you're here you might just as well have a look.” Over the course of the summer, I picked up a

half-dozen kitchen and room addition jobs that way. One storm damage customer who saw me visiting the site asked me about doing a 16x28-foot room addition. I listened to his wish list for the room, looked at the area where he wanted the addition and told him it would probably cost \$45,000 plus or minus 10%. He said, “Okay, can you start as soon as you finish the storm damage?” Two days later we signed the contract and I got the deposit.

The Competition

The storm that hit our area in northern Indiana pulled in roofing companies from as far away as Texas and Colorado. A lot of strange companies turned up in town, and horror stories of substandard work with illegal labor were being told everywhere.

One out-of-state roofing company

even purchased rights to use the name of a local roofing firm, but the crews were all from out of state. They didn't do bad work, but it wasn't great, either — and they sure won't be around next year if there's a problem.

It was actually quite easy to turn that kind of lowball competition to our advantage. I could tell all my customers that the work would be done by the same local people that always do our work — and that we would be around next year and the year after if there was any problem. The anxiety my clients were feeling about their damaged house was turned into relief and confidence.



Dave Bowyer is designer and sales manager for Peacock & Co., a South Bend, Ind., remodeling firm.