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Keys to Making Your Remodeling Business More Profitable by Independence Day



Here's one consultancy's guide on how to boost profits

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Will Rogers, the great American philosopher, once said, "Business is a matter of dollars and cents; if you don't make a few dollars, it don't make much sense." With more and more low-priced competitors entering the industry, making solid profits in the residential remodeling industry is a challenge. By focusing on five areas, you can increase profitability even in an environment where customers are increasingly looking to save money by finding lower cost solutions.

Those five areas are:

1. Reducing costs
2. Selling add-ons
3. Raising prices
4. Billing procedures
5. Tracking results

Let's examine each of these in turn.

Reducing Costs

It's costly to become complacent in our industry. Just like the evil cell phone companies, some contractors take advantage of their long-term customers by charging them more to make up for the discounts and concessions used to bring in new customers. In the instant feedback world of Yelp, Angie's List, and Facebook, just one long-term customer discovering this discrepancy could kill a company's referrals and reputation. Contractors with the right processes and pricing continually make decent profit on every sale and every remodeling job.

This should be true of your vendors. In order to keep your costs down and pricing consistent, contact your vendors and two of their competitors every six months or so. Ask them to furnish the price and terms they want on the products or services you routinely buy. But be careful here. The goal is to keep costs reasonable, not play everyone against each other in a race to the bottom. We've heard too many horror stories from dealers who have jumped ship for a few pennies only to lose business when the vendor didn't have the part in stock. It doesn't matter how cheap the price is if they've got nothing to sell. Use the same judgment you would want homeowners to use when they choose to buy from your dealership.

Take a few minutes to list all the ways your company can reduce costs. Be sure to consider:

- Maximizing equipment by getting the most continuous use out of it.
- Consider leasing items instead of buying to conserve cash.
- Use existing parts, tools, and equipment before buying new ones.

Selling Add-ons and Accessories

A percentage of every new job sold includes sales, administrative, and management costs. When you offer additional products or extra services ("add-ons") at the same time, your overhead usually remains constant while your profits increase.

A few ways to sell more without increasing overhead include:

- Selling extended (additional 2–5 years) service agreements
- Selling expendable items (year's supply of air filters, water filters, replacement bulbs, pool and spa chemicals, floor cleaning products, etc.)
- Selling additional accessories (portable air filtration, spa and pool maintenance kits, spa tables and hand rails, welcome mats, high-traffic area mats and rugs, outdoor heaters, BBQ kits, etc.)
- Selling specific service contracts through partners (rain gutter cleaning, window cleaning and maintenance, pool and spa service, etc.)

Raising Prices

The best, but sometimes most challenging, way to increase the profitability is to increase volume and scale. So many contractors who aren't priced correctly find themselves "hooked" on growth and under pressure to sell more and more products while landing the next big job so they can pay for the last one. Depending on economic trends, it can be extremely difficult to sustain rapid growth, and a downturn in the economy can spell disaster for a company that has overextended themselves.

While growing sales is important, your first consideration should be on increasing profit margins, not volume. It's important to resist the urge to lower prices in order to sell more products and increase remodeling job bookings. The "make it up on volume" strategy has created business killing cash flow issues for far too many companies. In fact, you should seriously consider raising the prices you are currently charging for your products and services. The prices charged to customers should be based on two elements: the value the customer receives and the profit your business needs. We typically have a good feel for what we "need" to make on the job, but tend to forget about the value our customers receive.

In our free enterprise system, the more value you provide, the more you can charge. The biggest misconception when it comes to pricing is that consumers are price sensitive and low prices are what it takes to make sales. The truth is, *people are value sensitive*. The amount they are willing to pay increases with the value they receive. You can increase value by:

- Showing customers how they will gain greater comfort, reliability, peace of mind, safety,

- and an environmentally efficient solution for their home.
- Providing world-class service to everyone who interacts with your company, anywhere. This level of service is key to distinguishing yourself from the big box home improvement stores.
- Training employees to do it right the first time.
- Assuring everything the customer sees is spotless and professional in appearance. This could mean your showrooms, vehicles, uniforms, and in the customer's home after the job is complete.
- Following up to insure each customer is totally satisfied before, during, and after the remodel.

Customer satisfaction is just the beginning in today's world. You've got to make sure your customers are delighted enough to remember you next time their friends ask if they know anyone who could do what you do.

Remember, your total cost of doing business must be built into your pricing. To establish the right selling price, determine from records and forecasting your estimated: revenue, overhead, sales expenses, labor costs, non-billable time, annual equipment replacement cost, and desired profit. When any one of these items changes significantly, your price should change. It's tough, but focus only on what you need to make a profit. Don't take into consideration where your competitors are priced. They're probably bankrupt bound anyway.

Billing Procedures

Too many contractors never get paid for all the work they do. The two biggest reasons are:

1. The invoice the customer receives doesn't reflect all charges due.
2. The customer's invoice isn't sent immediately after the work was completed.

Train your billing people. If you're like a lot of the contractors we've dealt with over the years, there tends to be some turnover in this department. It's important to get these people up to speed as quickly as possible. Put together some kind of regular training webinar or seminar for your billing people. This can be a webinar you deliver online, an online training video, or an event you hold periodically.

Before the seminar or webinar, outline what you believe is the best billing procedure. Don't be afraid to dream and list a few radical ideas. A major goal of this training is to help the billing people understand what charges should be included in every remodeling job invoice, regardless of the size of the job. Reading P.O.'s, work orders, and proposals is the easiest way to increase profits. During the training session, show examples of P.O.'s, work orders, and proposals and discuss legitimate charges that can be easily overlooked during the billing process. Also review all of the ways field employees fail to account for all of their time or materials they use on a job. Encourage discussion and solicit input. Afterward, incorporate your outline and the good ideas of others into a written "Billing Procedures Guidebook" and share that with all attendees.

Your billing guidebook should also include a breakdown of all parts and materials used on routine jobs. This of course varies on the type of job being performed. If a common part is missing on a work order/service report, the billing people will be alerted and can eliminate a potential profit loss before generating an invoice.

Human nature being what it is, many people feel that if you're in no hurry to send them a bill, they're in no hurry to pay it. Furthermore, in today's economic environment, some customers are

looking for ways to not pay at all. To combat this situation, you must invoice customers immediately after the work is completed. Studies show that if you wait longer than 48 hours to send an invoice, you have eliminated the “sense of urgency” that proves you’re serious about collecting what’s due. Being a fanatic about billing is more important than ever.

Tracking Results

If you’re not doing it already, take the time to calculate the gross profit for every job. If a job doesn't meet your profit requirements, immediately determine why. Every job that does not meet minimum profit requirements must be sent to management for review. This is also one of the easiest ways to spot a problem with a field employee’s ability, skills, or productivity, a salesperson’s sales and estimating skills, or a billing person’s understanding of the billing requirements.

When you begin to initiate procedures and track results, you create accountability at every level of the organization. Accountability is one of the keys to making employees responsible for the company’s profitability.

Implement just one of these five ways to increase profitability and see what results you can achieve in the next 60 days.