

Design Fees for Remodelers

by John Cargill

To avoid long hours without pay, ask for a design retainer after presenting rough drawings and a ballpark estimate

There is nothing more frustrating to a design/build remodeling contractor than spending 15 or 20 hours with potential clients—coaxing budget information from them, suggesting approaches and products, developing drawings, and generally holding their hands as we're expected to do—only to be told "Sorry, but my husband and I have decided to build a new house instead," or "We've decided to have Contractor B do the work you drew up because his price is \$1,100 less." All you can do is smile weakly and suppress the impulse to say, "Lady, I'd have given you \$500 two weeks ago to know this."

New Approach

In the last few years, I have been using a system that eliminates some of this risk. It's helped me sign nearly 80% of the clients I work with on a design, and pays me for part or all of the time I've put in on the other 20%.

Here's how it works. Once I've spent just enough time with potential clients to get an idea of their budget and the changes they want made, I prepare rough drawings and a ballpark estimate (I guarantee that it will be within 10% of the eventual price). Based on this, I ask them for a retainer of three hundred to several thousand dollars so I can proceed with a detailed estimate and a full set of plans and specs. The retainer is applied to the final draw of the construction contract if I end up doing the work, but it stays in my pocket if they drop the project or go elsewhere.

The beauty of this approach is that in presenting myself as a professional, I get treated like one, right from the start. It also puts me in control of the process. I was a remodeler for quite a while before I realized how important it is to be in control. My business life was built around what others asked of me. If the clients wanted the estimate a certain way, I gave it to them. If they wanted to see hard-to-find finish materials early in the planning process, I delivered. I gave



Remodeler John Cargill, right, discusses design options with two potential clients. After he produces rough drawings and a ballpark estimate, he asks for a retainer before progressing with a full set of plans and a detailed estimate.

them anything I thought would inspire their confidence, including detailed, original plans that I spent hours on. Sound familiar? When all this time leads to a signed contract, it's worth it. But when you see the plans that you sweated over and never got a dime for being built by another contractor, it feels a lot different.

Initial Contact

The first step in using this approach is to carefully qualify your leads on the

phone. A lot of remodelers respond to almost any inquiry by making an appointment with the caller. But it's important to realize that you're committing a *minimum* of ten hours of your time in sketching, estimating, drive time, and subsequent appointments by doing that. Spending between 10 and 30 minutes on the phone asking the right questions can save you that time if the caller just isn't ready, is working with an unrealistic budget, or is just shopping. I also use this initial contact to explain how our company

handles design/build and our policy on retainer fees.

Assuming that this "lead" is a good one, I set an appointment time that allows me at least one to two hours with the client. If you have a showroom you might want to make the initial appointment there, although I prefer the job site. I think people feel more comfortable talking about their personal habits and budget expectations (information you have to get in order to produce a good design) on their own turf. Also, it's a lot easier to talk about changes when you're standing in the "before" picture and can measure for fixtures, appliances, etc.

At this first meeting, I walk through the house with the client looking at the scope of work. Much of the time should be spent listening to what the client needs and wants. I keep careful notes and update them if new decisions are made in the course of the appointment. I also keep a running total in my head of approximate costs to make sure that the client's budget matches what the work will really cost. If I see things getting out of hand, I'll let them know a ballpark figure right away so I don't have to hit them with what amounts to a huge letdown later on.

You really can't proceed effectively without a clear notion of what the clients can afford. With some clients, I find it most effective to ask outright "What is your budget?" But with others, you have to probe more cautiously. Some clients hear these questions as "How much do you think this project is going to cost?" Since my clients are typically 30% to 40% under when it comes to guessing what things will cost, it's important not to mistake their "estimate" for their budget. Try to walk away with as clear an understanding of their real budget as possible.

Once I've felt the situation out and explained design-build again, I tell the client that I will need to take some measurements before I leave. I then set up a

Cargill Design/Remodel

John R. Cargill IV
Certified General Contractor

We hereby express our interest in pursuing a project at the above address. In consideration of that interest we engage Cargill Remodeling to define and clarify a project consistent with our design requests and budget expectations.

We understand that a designer in the office of Cargill Remodeling will produce a floor plan, preliminary specifications, and a budget range.

The development fee will be applied towards a construction contract, and should we elect not to proceed, the fee is non-refundable.

Project: _____

Target budget: _____

John R. Cargill IV

Date: _____

Development fee: _____

Special note: Because the development fee does not reflect the full cost associated with the definition of the project, all sketches and specifications shall be retained by Cargill Remodeling.

The author uses this preliminary contract to collect a retainer fee that covers him in developing finished drawings, specs, and price.

ing that this is a custom plan fitted to their budget, needs, and desires. I listen and watch carefully when I'm presenting the drawings. Clients don't necessarily speak up if the design isn't what they had imagined, or if they haven't been clear about their budget with me and the one I'm presenting is too high. If I sense they're uncomfortable, I remind them there is flexibility at this point and get right into exploring alternatives with them. Often the client does more designing than we give them credit for.

On most of my jobs, I can make the necessary adjustments to the rough sketches and the ballpark estimate with the client at this second appointment. And in most cases, they are pleased with what I've presented and have developed some trust in me.

The next step is to ask for the retainer. I explain again they are paying for my time as a professional to develop a complete set of plans and a price that is within their budget, and that the money will be applied to the final payment if they proceed with construction. I also give them an idea of how I arrived at the ballpark estimate to reassure them I have done my homework, and that the final price will be within 10% of the ballpark estimate (if it's not, I return the retainer to them).

I don't have a set retainer amount. It depends upon the client and the work. The larger your company appears to the client, and the more established you are, the easier it is to ask for a substantial retainer—\$1,000 to \$2,000. However, starting out with a small retainer—\$300 or so—is less risky, and it's better than none at all.

The contract that spells out the retainer is just one page (see Sample Contract, above) and is quite simple. I remind the client that this isn't the construction contract, just a go-ahead for me to develop a full set of plans, specs, and estimate. Then we read through it together.

Once they've signed, I go right ahead with developing the final estimate and plans. It's important to remember that you don't have the job yet. That's also the reason for not leaving the budget or sketches behind, which the retainer contract makes clear.

Sound simple? Applying new approaches to your business is never easy. But this is one that works for companies of almost any size. I started using it when my volume was just \$131,000 annually (I should do \$325,000 this year), but I picked it up from a firm that does over \$3 million.

Like any new business approach, you should check with your attorney to be sure that state laws allow you to collect a retainer for design work. And you should remember that this method isn't foolproof. Asking for a retainer can run a client off to one of your competitors who doesn't require a retainer. But the few times this has happened, I've wondered whether I'm losing a qualified client or a price-shopper who just wanted to pick my brain.

You can also get a retainer, put in all the work, and still lose the client. Even if you receive \$1,000 retainer, "your" client may go with a competitor who is willing to come in \$1,500 below your price in order to keep his guys working. That's a \$500 savings for the clients even after forfeiting the retainer. But I find it doesn't happen very often. And when it does, there's not much you can say but "that's life." ■

John R. Cargill IV has owned his own design/remodel firm in Columbus, Ga., since 1980.

second appointment to approve the sketches and budget that I will base the final estimate on. I schedule this appointment on the spot, and write it down in my book with the client watching. I try to keep the time fairly short between these two meetings, although I have to give myself enough time to squeeze in the rough estimate and drawings—about four to six hours work—along with all the other demands of my schedule.

If the house is vacant, I arrange to come back when I can check things out without interruptions. Otherwise I do the measuring during my first appointment. So I won't have to wing it, I use a check list to jog my memory. A combination of photos and graph paper help me record the details. Some of the key locations and measurements I take are:

- Height of floor from grade
- Slope of grade away from house
- Style, size, and location of existing windows, including height above floor
- Style, size, and location of existing doors
- Ceiling height
- Size and location of radiators/ducts
- Location of main electrical service/sub panels
- Existing roof pitch/covering
- Width and type of siding
- Location of existing water lines and sewer
- Location of heating/cooling systems and possible tie-in points
- Location of possible obstacles such as gas, electric meters, hose bibs, well, septic, etc.

Two other things I keep an eye out for that can trip you up later are code violations and how local zoning requirements affect the existing house and proposed changes.

Ballpark Estimate and Drawings

The size of the job has a lot to do with how long you need for a preliminary estimate, but generally estimates take me three to four hours. This is only a "ballpark" figure in terms of the exact scope of the work, not in how closely I figure labor and materials on the preliminary plan. I do a material takeoff that is pretty

much down to the penny, although I'm not as careful with quantities at this stage (I round off high).

For subs, I fill in figures based on going rates. That's usually close enough. For example, in my area, it cost between \$100 and \$125 to relocate an hvac opening; \$350 to \$450 to paint walls, ceiling, trim in an average room; a electrical service upgrade runs \$900 to \$1,200. I typically use the higher of the two prices to cover the "I forgot," and then add my markup.

In fact, I tell my clients, "With a ballpark estimate, I would rather give you a high number to work down from than give you a lower one and keep adding to it." They appreciate this. When you add on to the price or say that something will be extra, clients get the feeling that there's no cap, and they get anxious.

Drawings

Although I try not to spend more than two or three hours on sketches at this stage, I also don't want to leave too much to the imagination. First, I work up a 1/4-inch scaled drawing of the existing floor plan with stuff that I know will be torn out drawn a bit lighter. With this drawing taped to the drafting table, I roll out 12-inch tracing paper over the scaled floor plan. Using a soft lead 7mm pencil and scale rule, I do quick, free-hand "sketches" of the new work. When I see a dead end, I just roll out more paper, and start again until I get it right.

Once you have the basics sketched on tracing paper, you have to make a judgment call about how much further you want to go at this stage. I've shown clients everything from the bare bones tracing paper sketch to neatly drawn, color renditions. Time, client temperament, and a sense of how much more this plan will have to evolve before the client is satisfied will help you decide what to present.

Second Appointment

For this appointment you have to take off your design hat and put on your sales hat (hat changing comes naturally to small contractors). First, I present the sketches and ballpark estimate, explain-