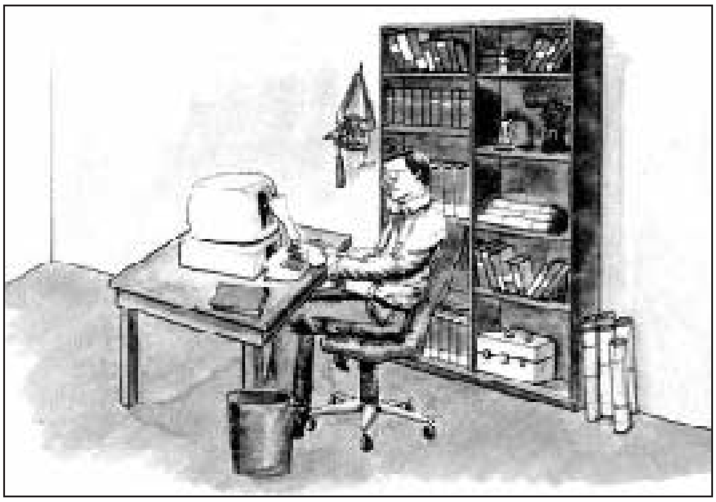
Hanging Up Your Tool Belt

by Linda Case



How to survive the two toughest stages in the growth of your remodeling business

Remodeling companies, like children, have personalities, idiosyncrasies, growing pains, and stages. Just as a toddler's or teenager's behavior is predictable, so too are the stages of your company's growth. Knowing that you're going through a difficult transition — and that it's perfectly normal — helps a little, but getting some advice on how others have gotten through it is even better.

Two very common stages of business growth are (1) when it's time to hang up your tool belt, and (2) when you need to hire a salesperson or production manager. Be aware that these transitions are dangerous; many remodelers end up losing their businesses at just these points.

Stage One: Time to Hang Up the Tool Belt

Realizing it's time to give up swinging a hammer is one of the earliest and most difficult transitions. Let's say you're small; you do about $100,000 to $200,000 of volume a year. You still work a significant number of hours in the field with a tool belt on. But you want out. Your body is beginning to send you the message that it's a limited, not a limitless, resource. You've hit the upper limits of how much work you can sell as well as how much money you can take home, because there are only so many hours in the day. You want to expand and hire others to do the physical part while you supervise and sell. But it's not that easy when you look at the numbers. The biggest barrier is finding the money for your salary once you're no longer working as a carpenter and crew boss.

First you need to assess your strengths and weaknesses in light of the four major focuses of any remodeling company.

*Marketing***:** If the *It's time to hang up my tool belt* scenario fits you, your company has probably needed about $150,000 of work a year to run smoothly. Those jobs haven't been brought in by any organized marketing effort, but rather by referral from one client to the next. Satisfied customers do your marketing for you.

Selling: Since you work diligently (after all, it's your own business and reputation that are at stake), your services are a very good buy for the consumer. You're personable, capable, conscientious. You work from home, which keeps your overhead very low. If you underestimate the labor costs on a job, you simply work longer hours to make up for it. Thus, you haven't needed real selling skills. Between your low price and high praise from former customers, you are very likely to sell 75% of the jobs you price.

Production: Production is your strong point. You are both production supervisor and lead carpenter on your jobs. Since you also bid the project and sold it, you have been in on discussions with the client from the beginning. This keeps communications straight.

Business management: This may be your Achilles' heel. You may not know all the local, state, and federal regulations that affect you. Your contracts are simple one-page proposals purchased ready-made, and you carry change orders around in your head. However, success is stalking you. Your good reputation is beginning to pull in more inquiries than you can handle in either sales or production.

Replace Yourself in the Field

You have two options. The first is relatively uncomplicated: you can refuse to grow. The good news is that you can raise your prices, hand pick the very best of the leads, and let the others fall to the wayside. The bad news is that your fortunes depend on your good health and ability to continue doing physically demanding work.

The second option is to ride the growth wave. This will eventually help you to hang up your tool belt, but it raises the stakes and much of what you'll be doing will be risky and unfamiliar. Here are some of the things you'll want to consider:

Step 1. First you'll have to replace yourself in the field. This is probably your first big hiring decision, so take your time. What you're looking for is a skilled lead carpenter. You'll phase yourself out of the field over six months to a year, which will give you a chance to thoroughly train your new hire.

Pitfalls. There are two major errors to avoid here. First, don't hire a lead carpenter who has technical knowledge, but no managerial skills. If you do, you'll be creating a monster. You'll get a carpenter who, instead of being independent, is in constant need of your help. Second, be aware of how hard it can be to turn over the reins to someone else. The art of delegation is a fine one, but you can't be successful in business without learning it. And you might as well learn it with your first major hire.

This means carefully setting goals with your employee and giving him some leeway in achieving them. You have to give your new hire permission to succeed *and* to fail as well. Since you're doing the training and monitoring the progress, things can't go too awry.

Step 2. As you move out of the field, your salary becomes overhead or part of the cost of sales; when you were still working with your tools it was a direct job cost. In order for the company to carry you in overhead, your volume will have to increase, and this work needs to be done at an adequate markup.

Here's a "for instance." Let's say you hope to do $300,000 in volume. You want to pay yourself $30,000 and end up with a 10% ($30,000) net profit. Your other overhead is very low at 10% ($30,000). Therefore, you need 30% ($90,000) gross profit, and that converts to a 43% markup on your hard costs (in this case, $210,000).

Pitfalls. Again, there are two major pitfalls. First, you may need to sharpen your labor estimating skills. In the past, it was easy enough to work extra hours without pay if your estimate was low. Now you must pay an employee, and that can throw a huge wrench into your financial plans. As a precaution, consider taking a crash course in estimating, buying some manuals, and adding some extra contingency money to your bids until your range of accuracy on labor is within 1% to 3%.

Second, selling jobs at a 43% markup is certainly not as easy as selling jobs where you subsidized labor overruns and marked up perhaps 15% to 20%. You now need some real selling skills. You have to be able to convince the potential buyer that buying from your company is a good decision, that you are reliable, pleasant to work with, and deliver excellent craftsmanship.

Many remodelers have trouble convincing *themselves* that they are worth the increased charges. But this is the first step to convincing others. In fact, your overhead will continue to go up as a percentage of your sales volume as you get larger in remodeling, so you might as well get used to it now.

Step 3. Because you need to increase your volume, you should start doing some simple marketing like using site signs, sending "thank you" notes for every referral, staying in touch with former clients, printing up fliers and brochures, and doing some home shows.

Pitfalls. Effective marketing — the kind that produces quality leads inexpensively — is a year-round task. If you wait until you need your next job to do this marketing, you'll be pushed into advertising. Advertising produces lower quality leads at a higher cost.

Step 4. As your company grows, office systems, bookkeeping, contracts, and job costing reports all become more crucial. The major difference between a $150,000 company, a $500,000 company, and a $1 million company comes down to increased systemization. This helps others carry out your vision, and allows you to better predict your ability to deliver and achieve your goals.

Pitfalls. Production people like you hate paperwork; real work is done on the job site. Moving from the field to the office can be a difficult adjustment, but the sooner you understand that you make your money in remodeling with a pencil rather than a hammer, the better off you'll be.

Step 5. Communication becomes increasingly important. Where once you sold the job and then delivered it, you now will sell and someone else will produce it.

Pitfalls. Immediately, this requires more complete plans and clearer specifications. Without them, you'll end up spending much of your time straightening out errors and answering questions.

This important transition of leaving field work is usually gradual for the remodeler. Although you can keep your business life fairly simple at this stage, it's crucial that you plan carefully and stay on top of it since each future stage will be more complex and the financial ante will be higher.

Stage Two: I've Got to Hire a Salesperson or Production Manager

This is another fateful moment in the growth of a remodeling business. Let's say that your remodeling company is selling and producing about $500,000 in projects. You wear all three major hats: You're the top (and only) salesperson, the production supervisor, and the administrator. You probably have a part-time bookkeeper or spouse who pitches in to help. But you're still beat. Your week is 65 to 75 hours. You're late doing everything. Quality is slipping, but not because you don't care. It's because you can't be everywhere and do everything the company needs.

You are ready to hire your first management employee who will take over either production (the actual building) or your selling duties. By now, the experience that you've had hiring and delegating to production employees will be of immense help in learning to shift a major portion of your workload to someone else.

Making a Good Hire

Your new salesperson or production manager should be able to fully take over all sales or production in a $500,000 company. In general, a good, full-line, remodeling salesperson should be able to sell $600,000 of volume, and a good production manager should be able to handle $600,000 to $700,000 of work as a traditional superintendent. If the company uses well-trained lead carpenters who earn bonuses based on job profitability, a sharp production manager should be able to oversee as much as $1.2 million.

Here are some of the steps and precautions that will help get you there:

Step 1. Make sure your new salesperson or production manager is an A+ employee. No remodeling company can survive for very long if either sales or production is crippled by a bad hire.

If possible, look for a remodeler (with strengths in production or sales) who is leaving his own business. Former remodelers have the advantage of understanding the entire business.

Pitfalls. Even if you make the perfect hire, your new employee will still require a lot of training in the way your company does things. That means for awhile you will be busier than before you hired him. For the first month this training should be very intense. For three months consider that employee probationary; keep up the training and give him lots of feedback. But remember: you probably won't think he's doing the job as well as you did it.

Step 2. Although you're turning over this phase of your job to the new employee, you're not turning over all the control of it. You'll want to monitor his work, and that means much more documentation, which may be a change from the seat-of-the-pants methods you're used to. You didn't have to answer to anyone. The new employee has to answer to you.

Pitfalls. Taking over part of the boss' job is an unenviable task. Write out a clear job description for your new employee. That will help you clarify just what you are turning over, and provide the new salesperson or production manager with a road map to follow.

Step 3. Do some simple budgeting to assure yourself you can pay this second management person (you are the first). Will your current markup at your target volume cover your overhead and provide a net profit for your company? If not, you will either have to raise the volume or the markup or both. Either that or you'll have to find a way to reduce costs.

Pitfalls. At this stage it's crucial that you abandon the "I'm only providing a job for myself" business mentality. You owe it to your business and to your employees to make a net profit that you can invest in the future and use to bridge cash shortfalls. Quite simply, you have to replace seat-of-the-pants management with good future planning.

Step 4. You will also need a strategy to develop additional volume. Budget for simple marketing that will generate enough leads to produce the extra work. That marketing needs to continue throughout the year even if you reach your target number of leads. You'll also need to set up simple ways of tracking the marketing. By keeping data on number of leads, source of leads, lead costs, and sales costs you'll be able to budget better and market smarter.

Pitfalls. As your marketing increases the number of leads coming in, it's easy to treat these leads with equal attention. Learn to qualify leads so that your time is spent on the ones that are likely to bring in work.

Step 5. You may remain extremely busy because you are not using your time as efficiently as you could. For two weeks keep a time card of all you do; break it down into 15-minute increments. Then analyze that list and find someone else to do anything that can be done by a person who makes $15 an hour or less. Thus drafting, bookkeeping, running to the lumberyard, typing a contract, etc. should all be farmed out to employees or freelancers.

Pitfalls. This not only requires good delegation skills but may also mean that you have to give up some of the things you've always reserved for yourself because you really like doing them.

Step 6. At $500,000 you'll probably have a number of field employees and a full time bookkeeper/ secretary/ assistant. Set a goal of no more than one field employee per $100,000 in volume and work to make that output higher every year.

Pitfalls. Production will ultimately be the make-it-or-break-it part of your business. Assuring good client relations and a well-crafted product is ultimately the hardest part of remodeling and should be looked on as the part of the business all other parts serve. Consider giving your lead carpenters a performance bonus based on how their labor costs match those in the estimate. Create a full loop where everyone, including carpenters, helps to feed data into estimating, and then track those estimates against actual costs.

Step 7. Also plan to invite a computer into your business life. If you are running your business properly, you are producing more and more data on lead production, lead cost, job costs, production output, sales goals, etc. The earlier you computerize, the easier the transition from paper to computer will be.

Pitfalls. Net profit shouldn't go into your pocket (although it's tempting). It should be used as seed money to help your company grow. Switching to computer is an excellent example of spending money and time now — without immediate return — in order to reap later benefits.

When you are inside your company riding the growth wave and trying to cope, the changes can come quickly and seem almost random. But from outside they are predictable and the relationship between them is easily seen.

"Growing" your company is never easy. But if you plan carefully you'll gain the necessary management experience as the company increases its volume. Each new stage in the life of your company is a challenge that can prepare you for even greater ones down the road. ■

Linda W. Case is president of Remodeling Consulting Services, in Silver Spring, Md., and is a nationally known writer, speaker, and consultant for the remodeling industry.