

TOP 10 PROFIT EATERS

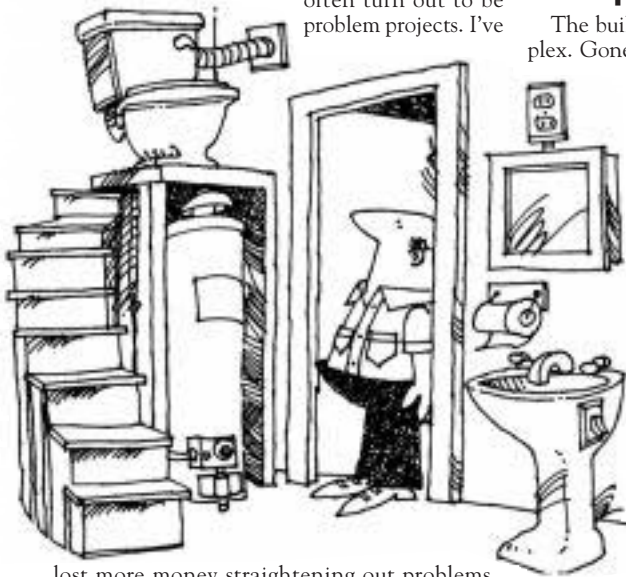
BY PETER FEINMANN

From planning mixups to picky clients, here's where remodelers lose money and how to plug the leaks

All of the ways builders have found to lose money fall into one of two categories. The first is errors that cost money directly, like tear-outs, callbacks, and reorders. The second is mismanagement that leads to indirect costs, like lost time and duplicated effort. After six years as a remodeling contractor specializing in kitchen and bath work, I've come up with ten ways you can lose money when you think you're making it. Some are obvious, some are not, and all can be remedied. But you have to recognize the problem before you can fix it.

1. Poor Planning And Design

Whether a remodeling project is designed in-house or by an independent architect, proper planning and complete design details are crucial to a successful project. Too often, builders start a job before all of the details are worked out just to "keep the guys busy." In my experience, these often turn out to be problem projects. I've



lost more money straightening out problems stemming from incorrect layout than any other aspect of a remodeling project.

This is especially true of kitchens and bathrooms, where the most important work happens in the first several weeks of the job. If a carpenter has to lay out a kitchen or bathroom without a detailed tile, fixture, and electrical plan, for example, it can result in disaster. Outlets end up in the middle of the expensive hand-painted backsplash tile the client ordered from Italy, the toilet is roughed in too close to the pedestal sink and tub, and the light switches take a bite out of the door casings.

To combat these kind of oversights, our company has developed a standard specification form for kitchens and baths. For each important element in the plan, like cabinets, countertops, and light fixtures, the form describes such things as the name of the supplier, the style or type, the

model number and color, and other important characteristics. This information ensures that the carpenter on site has everything needed for proper layout and installation. It also serves as a product selection record in case questions arise later. When details are thought through at rough-in, the rest of the job is just filling in the pieces of the puzzle.

2. Duplication of Effort

The building business is becoming more complex. Gone are the days when one person could do all of the planning, selling, estimating, administrating, and marketing while keeping the books and working in the field as well. There are just too many details for any one individual to manage well and profitably. And homeowners, who have less time themselves and are better educated than they were 20 years ago, want accurate information and dependable service just as much as competitive pricing.

One solution to the increasing demands of managing a small construction company is to "pass the baton" to a lead carpenter. This means transferring control of the project from the person who does the estimating and makes the sale — usually the owner of the company — to a key production carpenter who runs the job.

But if you only commit halfway to a lead carpenter system, the duplication of effort can be expensive. If you spend hours on site managing your lead carpenter or handling some aspect of the business that you can't quite bring yourself to relinquish — like dealing with the subcontractors — you're wasting a lot of money. A good lead carpenter can take responsibility for organizing and supervising subcontractors, ordering materials, handling daily contact with the client, solving problems, and even collecting money. If you turn over only partial control of one or more of these functions, you create a mini-bureaucracy that stifles production and wastes everyone's time.

3. Lack of Labor Cost Control

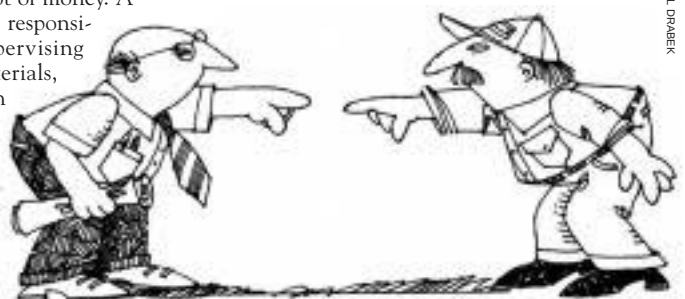
A lot of people talk about how much time and money are wasted "go-fering" materials or in coffee breaks that extend beyond 10 or 15 minutes. These things do cost money, but the amount pales when compared with the money lost because no one on the job site has a clear notion of the time estimated for labor. If you send a lead carpenter onto a job with a plan and specifications, but without a schedule, you're providing only half the tools needed to get the job done on time. If carpenters have no guidelines for estimated labor, then there is no accountability for time spent on any particular task.

Our company uses a job task sheet that carpenters fill out every day. It makes everyone responsible for the amount of work they accomplish each day, and it helps with future estimates by comparing actual time spent on the job with what was allowed for in the labor estimate.

4. Finger-Pointing At the Architect

Even though we're a design/build company, a portion of our work implements designs generated by architects or independent designers. For many builders, these jobs often deteriorate into finger-pointing and a tug-of-war.

The adversarial relationship between designers and builders robs you of profit by making it difficult to resolve problems, which means more time wasted in meetings that don't accomplish anything. And the inability to get along with the designer also makes it impossible to substitute less expensive materials or methods, even if



ILLUSTRATIONS BY DANIEL DRABEK

they don't sacrifice quality.

The first step toward meeting on an equal footing in circumstances like these is to develop relationships with designers and architects who want to work with a quality builder. Look for people who respect the skills and experience you bring to a remodeling project. Don't be shy about making suggestions, but be diplomatic. And it doesn't do any harm to acknowledge a designer or architect who produces good construction documents and takes care of the details.

5. Not Providing for Hidden Defects

Sometimes when you agree to move a window or flush-frame a beam, you discover a concealed vent or heating pipe that requires more work than you planned. When this happened to us in the past, we usually ended up paying the costs of dealing with concealed problems because we don't like to hit the client with extras, especially at the start of a project.

These days, however, we include a "hidden defects" clause in our contracts. It serves two pur-



poses. First, it reminds me to discuss with the client the possibility that hidden conditions may affect our work and increase the cost of the job. Second, it protects us against having to absorb costs that are beyond the scope of the work.

Hidden Defects

Feinmann Remodeling warrants that it will use its best efforts to discover any hidden conditions prior to the commencement of construction. However, any hidden conditions not reasonably discoverable prior to the commencement of construction which in any way interfere with the safe and satisfactory completion of the work will be corrected at additional expense to the Owner. Feinmann Remodeling will submit a Change Order documenting the reasonable costs of repairing such hidden defects prior to continuing work.

A "hidden defects" clause helps to set client expectations about unforeseen cost increases, and protects builders from having to absorb unanticipated expenses.

6. Maverick Subcontractors

How often has your lead carpenter done a great job of managing both the clients and their tricky kitchen project only to have the tile setter or painter come along and create a bad situation in the final stages? Most builders use subcontractors for trades like plumbing, electrical, and painting, but fail to follow through and manage these subs well. Your subs may come back promptly to repair their work, but it will cost you time and energy to patch up their mistakes with your clients. The more time you spend mending fences on a job under construction, the less time you have to sell new jobs.

Good communication helps us ensure that our subcontractors support our company's standard for quality. First, we make sure our subs understand the job so they can price their work fairly and not have to worry about making up the cost of something they missed. Second, we give all our subs a complete schedule of the project so they can coordinate their work with ours. Finally, we work hard to educate our subs to the attention to detail that is Feinmann Remodeling's trademark. This includes sending them a copy of our company newsletter and setting a good example on site. After seeing the pride we take in our company image and the work we do, they get the message.

7. Wrong Deliveries and Misorders

Materials that are either misordered or incorrectly delivered are another cause of lost profit. Even though your clients may want to purchase their own windows, doors, or bathroom fixtures, it almost always creates problems when they do.

With the exception of appliances (which are usually warranted separately), we insist on ordering and supplying all of the materials for a job. We also seek out suppliers who give us good service and good information, and who help us educate ourselves and our clients. The lowest price doesn't always mean the best value. By not shopping the job, we develop a relationship with our suppliers that results in fewer incorrect and incomplete material orders. It also guarantees fast action to correct mistakes when they do occur.

8. Ignoring the Building Department

How many times have you attempted to pull a building permit, only to find out that some structural element is incorrectly defined or that you need a survey? Problems with the permit process cost money because they delay the start of the job and demand a lot of immediate attention, taking time away from other work.

Permit problems can also consume cash directly. We had a close call a few years back. We had just closed in a porch as part of a kitchen project in a town that didn't require a permit for this kind of work. When we started a similar job in a neighboring town, we assumed we didn't need a permit. After making a hefty deposit to order the kitchen cabinets (which have a long lead time), we discovered that we needed a permit after all. It took a couple of frantic days to resolve the problem and protect

the cabinet deposit, but it could very easily have gone against us. Had we taken more time to check out each town's requirements, we could have avoided the whole mess.

9. Poor Client Management

We all know that an unhappy client can cost us money by withholding final payment. But unhappy clients can also chip away at profit by picking on little things and draining away time allotted for the rest of the job.

We pay close attention to managing our clients, beginning with a preconstruction conference. At this meeting — between the lead carpenter, the production manager, and the client — we establish realistic expectations about the schedule, discuss interruptions to their daily routine, and set procedures for working through problems and mistakes. We also set limits for our own behavior and routines, like which rooms are off-limits and which entrance we should use.

Once the job begins, we continue to manage our clients by checking their "temperature" regularly. When we notice a client becoming disturbed with us (as opposed to the remodeling process), we discuss strategies to get them back on board. This may mean extra cleanup or taking more time to explain details. Sometimes just a little more personal attention is all it takes to reestablish your hard-earned trust with a client.

10. Not Bidding For Profit

If you don't understand how to figure your overhead, and if you are not job-costing to determine how profitable your jobs are, then you may not be making a profit, which is worse than losing part of it. Start getting educated. Remodeling has become a 100-billion-dollar industry and people with MBAs and financial backing are entering the arena to take advantage of the opportunities. If you don't want to invest the time and energy it takes to keep up with this kind of competition, then go to work for one of them and make a better living. The alternative is to learn as much as you can about the business end of construction and start managing your jobs for profit. Then go enjoy your next vacation. ■

Peter Feinmann is the president of Feinmann Remodeling in Arlington, Mass., a design/build company specializing in kitchens and baths.

