Notebook...

Business Advice for the Asking

More than 12,000 volunteers in the Service Corps of Retired Executives (SCORE) are ready to help you solve your business problems

by Kathy Price-Robinson

When Los Angeles-area remodeling contractor Alan Underwood found himself working too many hours on the job site, and too few hours at his desk developing a business and marketing plan, he asked for help. The way Underwood figured it, his 12-year-old business wouldn't budge past its $200,000 average yearly volume unless he could liberate himself from the day-to-day job tending and rustle up more business. Without a change, he would stay stuck.

But finding someone to ask for advice isn't as easy as it sounds. Professional business consultants charge big bucks, from $50 to $350 an hour. Other remodelers in the area are likely to be competitors and may not be forthcoming about how their business works. As for national networking groups that offer peer advice, those with the disposable time and money to get involved are already at a higher level than Underwood.

Underwood solved this dilemma by contacting the Service Corps of Retired Executives, or SCORE, a 34-year-old organization associated with the Small Business Association. All told, there are 12,400 volunteers (mostly retired executives) in 385 chapters who crave the opportunity to impart their wisdom and business advice. And it's all free.

Underwood was teamed with retired contractor Harold Hammerman, a SCORE counselor. For marketing, Hammerman steered Underwood away from a mass mailing and toward "the cheapest thing you can do": distributing 2,000 fliers within a five-block radius of his latest building site, installing job signs, and holding open houses at completed jobs, with the homeowners' permission.

According to Hammerman, marketing was not Underwood's only issue. "He has to have some capital to sustain himself," Hammerman said, suggesting that $50,000 to $150,000 in capital would help the business grow. The capital could come from a bank loan or line of credit, or barring that, from a partner with good credit or money to invest, such as Underwood's foreman.

Underwood would be wise to listen carefully to Hammerman, who has accomplished a lot in his 84 years. He created Allied Builder's Corp., a publicly owned company that grew to 145 remodeling franchises worldwide. He wrote a book, published by Craftsman, called *Running a Remodeling Business*, and he's the namesake of a major NARI symbol of distinction, the Harold Hammerman Spirit of

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L.A. TIMES

When Alan Underwood (right) needed business advice, he was teamed up with Harold Hammerman, a retired construction executive and a volunteer counselor for the Service Corps of Retired Executives. The 34-year-old organization, which is associated with the Small Business Administration, provides free business advice to anyone who asks.

Business Advice for the Asking

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Education Award.

According to Hammerman, a Beverly Hills resident who lectures frequently and gives monthly workshops to contractors, the four questions contractors most frequently ask him are:

How do I get leads? While some people say all their work comes by referral, Hammerman called that "hogwash." He maintains that all companies spend money on marketing, from handing out business cards, to maintaining a Web site, to lavishing end-of-the-job gifts on clients. Leads cost money, Hammerman said, and marketing costs should be figured into your operating budget. According to Hammerman, the average lead costs $150, and the average salesperson sells one out of seven leads, which adds up to $1,000 in marketing costs per job. If someone claims to be selling more than one in five jobs, Hammerman said, "he's either a liar or selling too damned cheap."

How much can I mark up my bid over hard costs and still get the job? In Hammerman's mind, a 50% to 60% markup will cover your salary, overhead, and 10% to 15% profit. "You've got to know your costs," he said. "If you can't figure out your overhead and your salary, you'd be better off going out and getting a job."

What about my contract? "When I give a two-week training course," Hammerman said, "I spend one whole day on contracts. Write your contracts like a lawyer's standing over your shoulder. I'm not talking about one page. I'm talking about six to ten pages."

How do I make a sales presentation? Hammerman suggests this "time clock," which starts when you ring the client's doorbell:

1. Show your presentation kit with photos and letters of reference (15 to 20 minutes).
2. Inspect the site and find out what the client wants (20 minutes).
3. Determine if the work can be done and if the client can afford it (30 seconds to 5 minutes).
4. Do the drawing, either at the site or at your office (30 minutes).
5. Do the cost breakdown, on the spot if you're experienced, at your office if you're new (30 minutes to an hour).
6. Close the sale (30 seconds).
7. Write up the contract in the office (2 to 2 1/2 hours).

Remodeling, Hammerman said, is a handholding business. Keep your customers happy, and let them know what's happening every day. Solve problems as soon as they arise; give in, don't litigate. "It all boils down to salesmanship," he said.

To find a SCORE counselor in your area, check your local white pages, call the national association at 800/634-0245, or get online counseling at www.score.org.

Kathy Price-Robinson, *a writer based in Arroyo Grande, Calif., has written about remodeling for nine years. She can be reached at KathyPrice@aol.com.*

The Mother of All Forklifts

Steve Wilson, regional operations manager for Carolina Builders, a large building material supplier in Atlanta, was looking for a way to reduce yard time for his fleet of delivery trucks. He teamed up with the local Linde-Baker dealer and came up with a one-of-a-kind solution: a giant forklift nicknamed "The Beast" that can load an entire truckload of materials in a single lift.

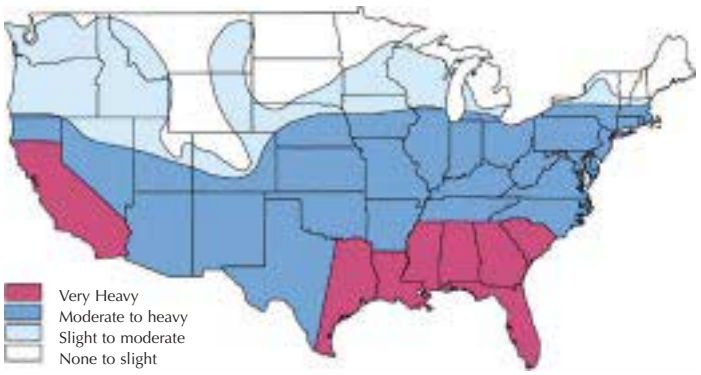
Wilson's company arranges the materials it delivers to building sites so that the crew can work the dropped load from the top down. The materials are stacked in the yard and loaded on trucks as they return from their last delivery. Previously, it took two forklifts 45 minutes to load a truck. With the Beast, Wilson's company has cut the time — and the cost — in half. And the yard crew has one heck of a forklift to drive around on.

A giant forklift nicknamed The Beast can load a full truckload of materials in a single lift.

CABO Limits Rigid Foam In Ground Contact

In a move to control damage by termites in the South and West, the ICC (International Code Council, formerly CABO) will include a provision in the 1998 I*nternational One-and Two-Family Dwelling Code*, due out in late 1998, that restricts the use of rigid foam insulation below grade in areas with a high probability of termite infestation (see map). The provision prohibits the use of "foam plastics," such as polyisocyanurate and extruded or expanded polystyrene, under slabs, and under or on the exterior of foundation walls, whether the walls are at the perimeter or inside the building. Foam plastics installed above grade cannot be installed within 6 inches of grade. An exception will allow insulated concrete forms (ICFs) to be used for foundations when the framing is of non-combustible materials (steel) or pressure-treated wood. It is not clear how the measure will affect buildings in which ICFs extend from the footings above-grade to the rafters.

Termite Infestation Probability Map



In an effort to reduce termite infestation, CABO's 1998 *International One-and-Two-Family Dwelling Code* will prohibit the use of foam insulation below grade in some parts of the country (red area on map). Studies have shown high rates of infestation in homes with buried foam insulation, and termites are known to be attracted to carbon dioxide, which is present in many foam products.

While there is no definitive explanation for the high incidence of infestation in homes with below-grade foam insulation, termite inspectors have reported that the cover provided by the foam prohibits them from observing the termite migration from the earth to the wood structure. In addition, recent experiments at Colorado State University demonstrate that termites, when faced with a choice of routes, follow paths in which the air flow contains higher concentrations of carbon dioxide, a product found in rigid foam insulation. Carbon dioxide is also a by-product of rotting wood, and the concentration of this gas is higher in termite colonies than in ambient air.

According to Dr. Neil Ogg, an entomologist and assistant department head at Clemson University's Department of Pesticide Regulation, "When placed below grade, foam insulation provides a superhighway from the soil, the termites' home, to the wood of the structure, the termites' food source." Ogg pointed to a Celotex Corporation study of 880 Florida homes with solid exterior insulation extending below grade. In that study, 92% of the homes were found to be significantly infested with termites after 10 years. No studies of similar homes without foam insulation over the same time period were available.

The effect of the measure on energy efficiency is difficult to determine, although the areas targeted by the new restriction, the South and California, are least likely to benefit from below-grade insulation. Check with your local code officials to determine how this restriction will affect building in your area.

What do clients really want?

In an article from the FMI construction management firm reprinted in *PHC Profit Report*, Cynthia Paul noted that contractors perceived clients' most important values as budget and schedule. The clients, however, identified the following, in order of importance:

1. **Personal attention**
2. **Dependability**
3. **Returned phone calls**
4. **Good communication**
5. **Schedule**
6. **No surprises**
7. **Budget**

Proposed Legislation To Shield GCs From Safety Liability

Proposed federal legislation will limit a general contractor's liability for safety violations committed by other contractors on the same site.

Who is responsible for job-site injuries? Common practice has pointed the finger at the general contractor regardless of who was injured on a site. Now, proposed federal legislation (HR 2879) will limit responsibility for contractors who "did not create a hazardous condition, had no workers exposed to the condition, and had no knowledge of the condition."

Though Section 5(a)(1) of the Occupational Safety And Health Act states that each employer "shall furnish to each of his employees employment and a place of employment which are free from recognized hazards," general contractors have long been considered the responsible party in cases where job-site safety violations have resulted in injury or death. Most construction sites, however, involve several different contractors and subcontractors. These multi-employer sites present difficult questions where safety violations are concerned. The new legislation stresses the importance of control and reasonable diligence when determining accountability for job-site safety violations.

Tax Talk...

Bad Debt Deductions

by Milton Zall

There is an important distinction between business and non-business bad debts and losses on equity investments. A business bad debt is one that arises from your trade or business when someone does not pay what is owed you. You can deduct any size business bad debt, even a partial debt. For example, if you did construction work worth $1,000 and your client sends you a letter saying he or she can't pay more than $500, you can take a $500 bad-debt deduction.

A non-business bad debt is different. Say you lend $10,000 to a friend. You can't take a deduction until the debt becomes totally worthless. At that point, it can be used to offset any capital gains you may have during that year. If you have no capital gains, up to $3,000 per year in non-business bad debt losses may be used to offset ordinary income.

In a recent tax court decision, a taxpayer tried to take a bad debt deduction for a loan to his girlfriend's corporation. The note was unsecured and was not personally guaranteed by the principals of the corporation. Subsequently, the corporation met with financial difficulties, and the lender filed the loan as a bad debt under Miscellaneous Deductions. The Court determined that the note did not represent a bona fide debt and that an unrelated party would not have made the loan on the same terms.

The lesson here is this: If you make a loan, draw up a note specifying the interest to be paid with a fixed maturity that is not subordinated to other debt, and with adequate collateral. The note should also bear the personal guarantees of the principals, and contain provision for collection. Record the note formally if necessary, and make sure the borrowing business carries the note on its books as a loan.

Photovoltaic Roof Shingles

by Dave Kaufman

A new technology called building-integrated photovoltaics (BIPV) combines standard roofing materials and PV technology.

In addition to traditional glass panels, other more common roofing materials, including metal, cement slates, and asphalt tab shingles, are being used as a base for PV panels that convert the sun's energy to electricity. Roofing contractors can install the PV panels with little additional training, although a qualified electrician should make the connections to the DC/AC converter and the main panel.

In terms of the overall cost of ownership, says Todor Galitev, an engineer with Atlantis Energy, a worldwide manufacturer of BIPV products, "It can be cheaper to install BIPVs on new houses where the whole-house cost is more than $175,000, electricity costs more than 9 cents/kwh, and energy mortgages are available." Covering the entire roof with PVs is not cost-effective, however, according to Galitev. Instead, the system should be designed to balance electric requirements with the projected payback schedule. The average PV system has a capacity of 3 to 7 kilowatts; at 7 watts per square foot, that works out to between 4 and 10 squares of PV roofing material. The balance of the roof would be covered with conventional roofing. The PVs can reduce electric bills by as much as 50% in areas where there is sufficient sunlight.

The latest photovoltaic (PV) innovations are panels that both generate electricity from sunlight and use conventional roofing materials to keep the weather out. Federal support for PV technology is expected to make the technology more affordable.

In addition, the PV system is connected to the main panel through a breaker that can be set up to feed power into the electric utility's grid. Recent federal deregulation of electric utilities requires electric companies to reimburse homeowners for this surplus electricity.

Historically, high initial installation costs have slowed the number of PV installations, but this is expected to change. Together with electric utility deregulation, the president's Million Solar Roofs Initiative, which sets a national goal of 1 million solar roof installations by the year 2010, has stimulated the PV industry. The Department of Energy (DOE) is coordinating the effort, which includes educating code officials and builders. PV prices are also expected to decline. The goal is to make PVs cost-competitive by increasing the public's awareness of the benefits of solar power, which will increase demand, thereby increasing production and lowering costs. By that time, said Peter Dreyfus, national coordinator of the Million Solar Roofs Initiative, "Integrating PVs in building construction will be the standard."

For more information on incentives in your area, check the Web sites at the DOE (www.MillionSolarRoofs.org) and the Solar Energy Industries Association (www.seia.org).

Offcuts ...

A new manual shows how to reduce sprains and strains. A six-step worker-participation program published by the Center to Protect Workers Rights covers setting up a worker-management committee, identifying the main causes of sprains and strains on the job, and implementing solutions. The 32-page manual, "Reducing Sprains and Strains in Construction through Worker Participation," is available for $5 by calling 202/962-8490.

Nearly 24 million houses in the U.S. are prime candidates for remodeling, according to *American Housing Survey*, because they are between 16 and 25 years old. Another 61 million homes are over 25 years of age.