

Clients and Their Budgets

by Paul Eldrenkamp

In remodeling, the punishment can routinely outweigh the crime. Take preliminary budgets, for instance. If you forget to ask one question — what a client's budget is — you'll waste hours planning a project that will never be built because it costs twice what the homeowner can afford. Just as bad as suggesting a preliminary budget that's too high, because it may disqualify you from a job that you're actually a really good fit for. The worst case, however — and possibly the most common — is to venture a budget that's too low, then have to backtrack later. Not only does this undermine the client's hard-won trust, but if the true cost of the project comes out too late in the process, either you'll find yourself facing a gaping hole in your schedule or you'll be locked into a project that you know will lose you money.

Five seconds saying the wrong thing shouldn't cost you five months of profit. Fortunately, there are ways to avoid this problem; first, by improving the accuracy of your initial estimates, and second, by better managing client expectations regarding the reliability of those initial estimates.

Pricing Homework

Before meeting with a prospective client, go back through similar past projects and gather as much cost information as you can. For instance, if you're going to look at a bathroom job, review as many completed bathroom projects as you can to find out how much they cost to produce. Make adjustments for whatever profit and overhead you're charging these days, then generate a range of costs from the cheapest to the most expensive bathroom. Finally, make sure you have a good idea of what you were able to give past clients at both ends of the range.

For more complex jobs, you may need to develop price ranges for several types

of projects — kitchen makeover, bay window, powder room, family room addition, master suite — that can be combined into an overall project cost. Over time, you'll remember these cost ranges without having to review any paperwork, but there's no harm in carrying around a written list of price ranges for the most common types of projects.

Show Me the Money

In the meeting, don't do any talking about money until you've asked thoughtful questions about the project and listened hard to the answers. This will not only build credibility, it will help you size up the job so you can match it to a price range for similar past projects.

If you're uncomfortable talking about money, don't be afraid to admit it: "I don't really want to discuss budget, because we've had a really pleasant time talking and I'm worried I'll spoil it. But if we don't discuss money now, my fear is that I may end up wasting a lot of everybody's time."

Sometimes I try humor: "I want to give you some idea of cost, but the problem with these preliminary budgets is that if I aim too high, you'll never talk to me again and you'll avoid eye contact if we meet on the street. But if I aim too low, I'll look like an incompetent crook later on."

Don't name an actual number, though, until after you've asked the homeowners if they had a budget range in mind. In my experience, they will volunteer that information about a third of the time. The rest of the time, I have to put the first numbers on the table. If it's just a bathroom, I might say something like, "The last six bathrooms of this scope that we did cost between \$12,000 and \$16,000. How's that general range sound to you?"

If the job is more complex, I will sit

down and put some low-end and high-end price ranges for the various project components on a pad of paper, like this:

	Low	High
Kitchen renovation	\$30,000	\$60,000
6' x 10' bump out	\$15,000	\$25,000
Add powder room	\$5,000	\$10,000
Totals	\$50,000	\$95,000

I do the math in plain view, then I simply say, "This is what several similar past projects cost. Where in that range were you hoping to fall?"

Putting some numbers on the table in an honest, matter-of-fact way generates responses from which I gather a mother lode of information. Ashen-faced silence means it's probably time to beat a diplomatic retreat. If clients lean forward asking to hear the line-item breakdowns, it's usually a good sign that though I'm higher than they expected, we're only a few iterations away from an agreement. Mild shrugs and a question about tile often means they've already hired me, and they'll pay what it takes. Sometimes I get answers to questions I forgot to ask: "Oh, but all the other contractors we're talking with said it would be one-third less than that." All the other contractors? Oops.

Budget Rules

But the most important part of all this is that I never leave a first sales meeting without knowing what the client's budget is and how it compares with what I think the budget should be. Here are some major traps to avoid while putting together this initial budget:

Resist any temptation to low-ball. Client empathy, fear of appearing overpriced, fear of losing the job, high need for approval — these can all make you chicken out and give cost ranges lower than you know they should be. The

truth about cost will come out sooner or later, and the sooner it comes out, the less damage it will do. Better a small pain now than a big pain later, I always say.

Once at a piano lesson I stumbled over a spot and said, "Damn, I always make that mistake." My teacher just looked at me and said, "Then why do you practice it that way?" His advice: Stop just before the problem spot, take a breath, and don't play a note — however long it takes — until you're sure it's the right note. When talking budget with a client, do the same: Stop, take a breath, and don't name a price until you're sure it's a right price.

Build in a safety margin. A range of prices is useful to convey uncertainty regarding actual project costs when you're still early in negotiations. But you still need to make sure the high end of the range is high enough. If the project has a lot of components or any significant unknowns, I will do the line-item breakdown as described above, but I will add one last line. It's

usually 20% or so, and I tell the client that it's an "idiot estimator slush fund." I could call it a "contingency fund," but that sounds too clinical and precise for such an early stage in the negotiations. I think it's best to use humor to communicate the imprecision of these price ranges — even if I'm the only one laughing.

Be clear about the price range. Tell the client, "You will remember \$50,000. I will remember \$95,000. If you want me to remember something else, you'd better tell me now." I also tell them that there will be upward pressure on the price. (Think about it: Working with even dollars, on a \$12,000 job, there are only 12,000 chances for the price to go down, but there are an infinite number of chances for the price to go up.)

Manage expectations. I always explain that though we have a target budget, there will be times when the estimate is 20% over that amount. I tell them flat out that those will be the most awkward moments, because then the focus will shift to everything they're *not*

getting, rather than all that they *are* getting. I also tell them that it's far better to have those awkward moments before there's a big ugly hole in the side of their house than after.

Deliver on the budget. I assure the homeowners that no matter how things go, I will present at least one project proposal that meets the budget range we've agreed on. It may not include all they asked for, but it will be a buildable project representing a noticeable improvement over the house they have now.

Bringing up budget at an initial sales meeting represents a moment of truth. How you handle that moment will determine whether you stay in control of the project and continue to provide a professional service to the client, or instead lose control and spend the rest of the negotiations avoiding the oncoming steamroller.



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