

Crystal Ball Gazing

by Paul Eldrenkamp

Wouldn't you love to have a crystal ball that could tell you what your company will be doing in twelve to eighteen months?

"The future looks a little hazy ... wait, the picture is becoming clearer now ... I see great production efficiency, reliable suppliers, cooperative homeowners ... I see few change orders and a 33% gross margin."

It may sound far-fetched, but you can make just such a crystal ball simply by learning to spend a few minutes a month looking at data you already have. Spend a few more minutes a month doing what the data says you should do, and you'll have a reliable system for predicting and controlling your workload.

What To Look For

To assemble my crystal ball, I track several bits of data every month. It doesn't take long: Recording all the data mentioned below adds five minutes at most to my daily routine and represents 90% of the work. The last 10% is taken up by actually looking at and thinking about the data, and it has a payback way out of proportion to the effort required. Here's what I keep track of:

Revenue. My company averages between \$100,000 to \$120,000 per month in total revenue. Deposits are prorated to the month in which the work is performed using a percent-complete formula.

Number and dollar value of contracts signed. Typically, we do about 35 jobs a year. With an annual volume of about \$1,400,000, that's an average of three \$40,000 jobs per month. Averages can be misleading, however, because we may do only a few jobs each year in the \$40,000 range. More common are the 2 or 3 jobs for

\$200,000, 20 jobs for \$20,000 or less, and another 10 or so scattered in between those ranges.

Number and dollar value of sales leads. My focused marketing tends to generate high-quality leads rather than a large number of leads. This approach gives many industry consultants apoplexy, but I'd rather have 10 people call each month asking us to do their project than have 100 people call asking us to give them an estimate. The total value of this prospective work, however, needs to be between \$400,000 to \$500,000 per month. In other words, I like to see roughly four times more prospective work come into the office than I will actually sign. Any less than that, and I can't be as selective as I'd like; any more and I have to disqualify too many people. Disqualifying a lead can take time if you want to do it in a way that preserves the relationship with the person who referred that lead.

Three Key Dates

To get a sense of what the gestation period is once a job shows up on my radar screen, I track the date the prospective client calls the office, the date the prospective client makes a decision to hire us, and the date the work starts. (I don't know how long the client's been thinking about the job, or about my company, before they call — I suppose I should start asking).

Source of sales leads. I carefully track how people got my name according to categories which include: repeat work; referral from a past client; referral from a subcontractor; referral from an employee; referral from someone who considered hiring us but didn't (my personal favorite); and so on.

More important than categories, how-

ever, are individuals who refer leads. I can tell you exactly which ten people are my best lead sources. How do you think I respond when one of those ten people calls? That's a trick question: They almost never call because I call them first — just to ask how they are, how their kids are, and whether they need anything. And if someone drops off the list, I find out why.

Consumer confidence. I track the Consumer Confidence Index produced for my region by the Conference Board (212/759-0900; www.conference-board.org), which is the only external source I consult. Most external data sources are not useful, because the typical contractor operates in a micro-economy that barely shows up in most economic trend reports. For example, although my total market area covers 1 million to 1.5 million households, I only reach 1,500 to 2,000 of them. In fact, my remodeling "practice" actually consists of about 250 households and their friends. Any national trend is pretty diffuse by the time it gets to this group.

Reading the Cards

I compare each month's data with corresponding months for years past. Studying these figures over time, I've discovered that there are some trends I can use to predict and manage my work flow:

Peak sales. Sales leads peak for me in April and May, and again in September and October. The spring spurt results directly from wintertime cabin fever: People get tired of looking at the same old walls. In the fall, people seem to be gripped by some deep-seated hibernation instinct: Back from summer vacations, they want to get their dens ready for the cold weather.

What this information tells me is

that, given my job mix, I should be booked into December by the end of June. Here's my reasoning: April and May leads take a few weeks to bring to closure, but by June they have become contracts. Those projects will typically start in two waves, one in June or July and one in September. The September wave will carry me into December, at which point the contracts resulting from the September and October spurt of new sales leads will start kicking in. Obviously this is not a rigid cycle — leads flow in more or less throughout the year — but it's a pretty accurate description of a typical year.

Converting leads into contracts. My crystal ball tells me how long it takes to turn a lead into a contract. It has also taught me that I have near-total control over that gestation period if I choose to exercise it.

I used to marvel at how a design and construction contract that took six months to negotiate in boom times could take only a few weeks to conclude in slow times. I figured it had something to do with the economy, but I now understand it has mostly to do with me. When times are good and I have a backlog, there's no pressure to bring the design phase to closure until it gets close to the time to start construction. But if I have no backlog, I could whittle the time to design, specify, and sign a contract for a \$60,000 kitchen down to a week to 10 days with most clients (I know because I've done it).

Best sources. My crystal ball tells me what my best lead sources are. If leads drop off for two months in a row, I can crank up my marketing efforts toward

those best lead sources.

Historically, my single best marketing activity is to visit past clients to check out how their houses are faring. In fact, my visits to past clients work like a faucet: When I crank up the past client visits, leads increase; when I back off, leads decrease. If I observe a decrease in the flow of leads over a two or three month period compared with years past, I simply get on the phone and call a few people whom I haven't seen in a while. Often, they have more work for me. Even more often, I soon hear from a friend of theirs whom they just told about my little visit to check things out. And like magic, the lead flow-rate rises back up to its usual level.

A past-client visit is the single most consistently powerful marketing tool I have ever encountered. If someday the lead flow doesn't rise again — which hasn't happened yet, but certainly will one day — that will be my signal that my micro-economy is entering a recession. But because of my crystal ball, I will have 12 months or so to prepare, which may be enough advance warning to avoid a personal recession altogether.

Reality Check

When the Conference Board indicates consumer confidence is down, I start to notice a drop-off in my internal data a few months later. When consumer confidence climbs upward (as it has for six or seven years now), so does my data. This outside information serves as a reality check on what I perceive to be happening with my company. If my numbers show a recession looming but the Conference Board

shows continued high confidence levels, that may indicate I'm doing something wrong. In other words, consumers in general may not be losing confidence, but *my* consumers may be losing confidence in *me*, and I'd better find out why.

Scheduling. I know that on average every \$30,000 of revenue represents about a month of a lead carpenter's time. If I sign \$360,000 worth of work in one month, I've signed 12 months of work for my leads — each is now booked for about four months. This knowledge helps me calculate backlog pretty accurately, an essential planning and predictive tool. It also helps me do a reality check on my own schedule expectations. For example, if I schedule a \$180,000 project for three months, that's half the time my numbers tell me it should take. I'd better have a good sense of how we'll be able to be that much more productive.

Interestingly, my change order rate is directly proportional to consumer confidence levels. Change orders amount to around 4% to 7% of the contract price in slow times, but range from 10% to 15% in boom times. This means that a \$50,000 contract in boom times is tantamount to a \$55,000 to \$57,500 contract. That's handy to know when I'm planning the schedule or calculating how much work is really on the boards. If I have \$300,000 in backlog, I need to plan for \$330,000, or one more month of a lead carpenter's time. 

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