

Getting Paid for Preconstruction Advice

by Dennis Dixon

It's not uncommon for the sales process to end with the builder or remodeler acting as an unpaid consultant to a potential client. Most play this game hoping that the goodwill generated by such free advice will give them an inside track to the final construction contract. It seldom works out that way, though; more often than not, the job goes to someone else.

That doesn't happen to me. The reason is that my estimating process includes a contract that compensates me for the consulting time needed to complete the clients'

plans and specs. I call the contract I've developed for this a professional services agreement, or PSA — and far from turning clients away, it has won me a good amount of business. In fact, half my construction contracts start with one. Here's how I sell and structure the PSA.

The Ideal Client

The first thing the PSA does is qualify potential clients. That's because the people who embrace the concept tend to be the easiest to work with.

The two least-desirable kinds of clients are price shoppers seeking multiple bids and “newbies” who haven't built or remodeled before. These people will always steer clear of professionals who insist on being paid for their expertise, preferring instead to milk every drop of free advice they can get before the information spigot is shut off.

On the other hand, people with experience in building and remodeling buy into the PSA concept quickly. Their priority is service rather than cost. They have had less-than-stellar experiences with other contractors and understand the value offered by a contractor with good communication, managerial, and paperwork skills. In other words, they're not bottom feeders; they realize that paying for real expertise will save them time, aggravation, and expense in the long run.

Note that even ideal clients may need to digest this concept when hearing it for the first time. If they ultimately refuse, however, they're really telling you that you don't want to work with them.

Selling the Concept

I usually bring up the PSA near the end of the first in-person meeting. During this meeting we discuss the project in general and ask each other questions, which gives us a chance to decide whether we want to

Key Clauses From Sample PSA

- The Specifications to be developed will become part of the Plans and the Construction Documents. Consultant (Dixon Ventures, Inc.) will provide an approximate construction price for the project based upon completed Plans and Specifications.
- Consultant will develop a Cost Estimate as the plans and specs are completed, based upon details, finishes, sizes, selections, and scope of work as directed by the Owner. Estimate will be delivered within 72 hours of Plan completion.
- The Architect is responsible for the accuracy of the actual blueprints. Discovery of design errors, omissions, and mistakes contained in the Plans is part of this process; the Consultant agrees to make good-faith effort to reconcile all issues with Architect and Owner for final clarification, but ultimately that is the responsibility of others.
- Construction of any kind is not part of these services or this agreement. Should client contract with Dixon Ventures, Inc., for construction of the residence, the cost of this agreement will be credited back toward the construction cost. There is no obligation on the part of the Owner to hire Dixon Ventures to build the project.
- Estimated cost for Consultant services is \$250 per hour, or \$17,500, for estimated project duration of 70 hours. A retainer of \$4,375 will be required to begin; an additional \$8,750 will be due after 35 hours, and the balance of \$4,375 on completion. Should work exceed the estimated 70 hours, additional time will be charged at a rate of \$85 per hour.

The author's PSA makes it clear he is to be paid for preconstruction consulting services, but that should he be awarded the contract, the fee will be applied toward the cost of construction. It also spells out the payment schedule for the work, just as any contract would.

work together. Questions I ask concern the project goals, the budget, and their quality expectations. (One potential client was an aerospace engineer who expected the same tolerances on his home framing as on an aircraft engine. Since I don't own a framing micrometer, I passed on that job.)

If we seem like a good mutual fit, the next step is to show the clients that their plans and specs need work before an accurate estimate can be generated. (This is always the case — no one has ever brought me an A-grade set of plans and specs.) For instance, a finished set of plans should have a schedule for each room that specifies everything in the room: the windows, the carpet, the fixtures, and the like. When we look at the plans and find such detail lacking, it demonstrates that the plans aren't complete. I also show them an example of my specifications, so they know what a complete set looks like.

I offer to work with them on finishing the plans and specs for a fee. As an incentive, the amount of the PSA will be credited toward the eventual construction contract, if it is awarded to me.

To help the clients understand the amount of work that needs to be done, I'll usually work through a specific issue with them — something very detailed, like the exact door hardware and accessories they want on their kitchen cabinets. Since it's rare that anyone else has drilled down this deep with them, the exercise really helps reinforce my value. When they ask me if there are any other issues, I'll answer, "Yes, it looks like there are 15 of them" (or whatever the actual number is). At this point, I'll tell them that further consultation will require a PSA and a down payment.

I furnish them with references — a typed list of three past clients that used the PSA and eventually hired Dixon Builders for the work. These past clients have agreed in general to speak with potential clients, and I make it a habit of personally alerting them when I give their names to a new prospect.

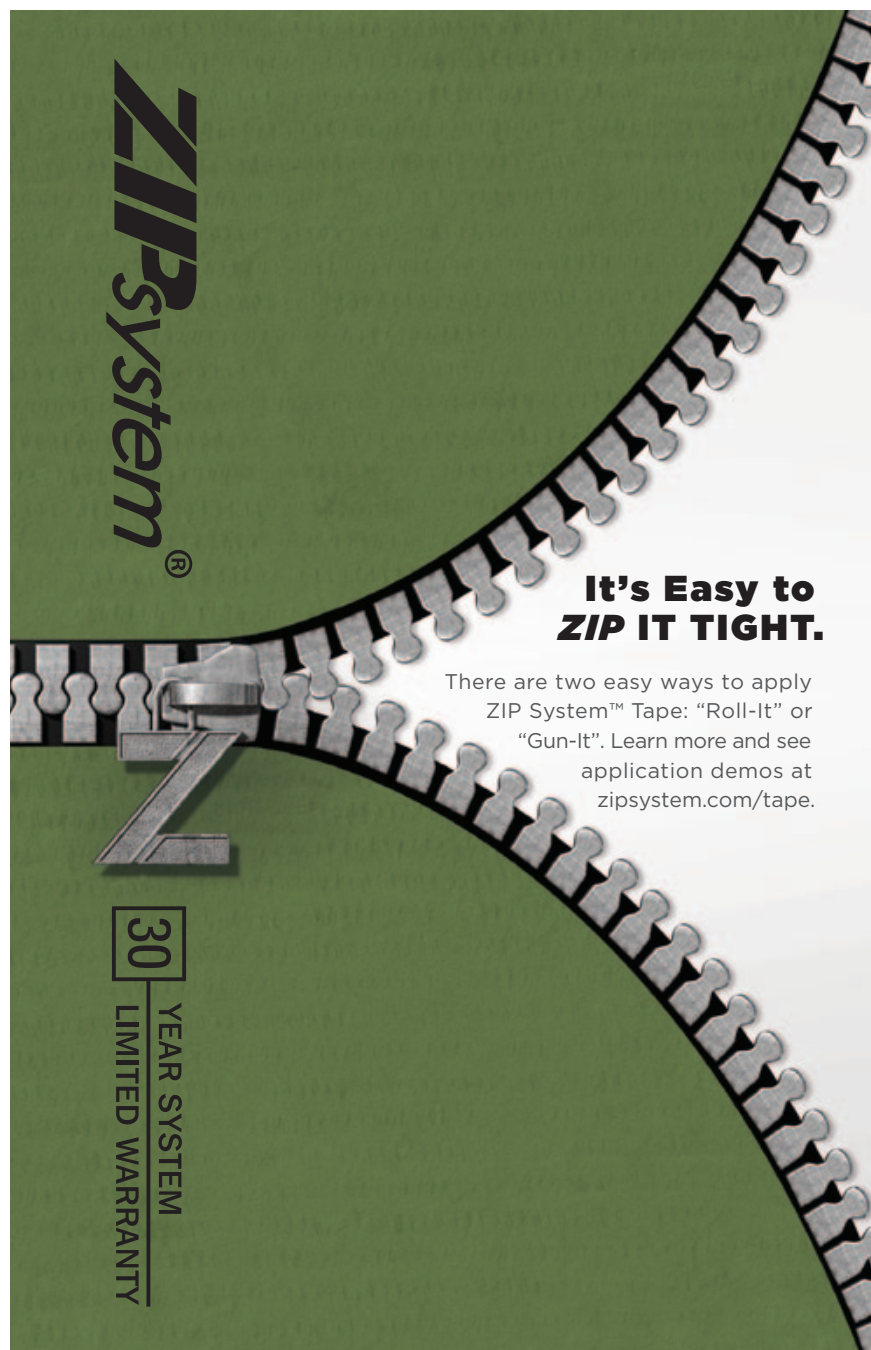
Writing the PSA

The PSA is generally two pages. The exact wording depends on the job, but most PSAs include the following:

Client and project details. The document should list the location and size of the home (a three-bedroom ranch on

three acres at such and such address) and the names of other professionals working on the project, such as the architect and the interior designer.

Company details. This is the usual stuff: your company name, address, email, and phone number, along with license number,

An advertisement for ZIP System Tape. The background is a green surface with a large, curved zipper running diagonally from the top right towards the bottom center. The zipper is partially unzipped, revealing a metal zipper pull. The text "ZIP System" is written vertically in a large, stylized font on the left side of the zipper. Below it, a small box contains the number "30", and below that, the words "YEAR SYSTEM" and "LIMITED WARRANTY" are written vertically. On the right side, the text "It's Easy to ZIP IT TIGHT." is written in a bold, sans-serif font. Below this, a paragraph of text describes two easy ways to apply the tape: "Roll-It" or "Gun-It". The text "There are two easy ways to apply ZIP System™ Tape: 'Roll-It' or 'Gun-It'. Learn more and see application demos at zipsystem.com/tape." is written in a smaller font. The zipper pull is a metal piece with a "Z" shape on it.

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Scope of the PSA. My typical PSA covers the completion of the project plans and specs, along with a detailed cost estimate for the project. If the plans include details outside my scope of work — a fancy pool

grotto, for example — the contract specifies that I have no responsibility for that part of the plans.

Other input required. The document identifies what advice or input I will need from other professionals, whether the civil

engineer, the architect, or the interior designer. Their fees are in addition to mine.

Fee and payment schedule. I specify a dollar amount for the agreement, along with the hours that amount includes. I also specify an hourly rate to be charged if the work defined by the PSA takes longer. I might estimate a cost of \$10,000 for 40 hours of work, then bill excess time at \$85 per hour. Having a lower rate for the additional time shows that I'm not gouging the clients, and that it's in my interest to finish within the time estimate.

I usually ask for 25 percent down, with additional payments depending on the length of the contract. If it looks like it will take a month to finish the plans and generate an estimate, I might ask for another 50 percent in two weeks, and the remaining 25 percent at the end of the month.

Other Advantages

Once work starts on the PSA, expect to spend some time interviewing and working with the clients. Completing the plans means you will need to spend time in conversation to find out what they want and don't want in each part of the house. That brings up the ultimate benefit of this process: In addition to qualifying clients, it strengthens our relationship, which in turn tends to eliminate the competition. If they continue to feel comfortable working with me, the construction contract becomes a formality.

This tactic doesn't work just for me. I've presented it at JLC Live and other trade shows, and have heard back from attendees who used it with great success. One builder told me he was on the verge of bankruptcy, but got several profitable jobs once he started using a similar process. Potential clients began viewing him with more respect, and that boosted their confidence in his ability to do the job.

Dennis Dixon is a licensed general contractor in Flagstaff, Ariz., and a frequent contributor to JLC.



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