

BY NATE ADAMS

## How Small Jobs Killed My Business

**Energy-efficiency rebate** programs from gas and electricity utilities have become pretty common nationwide. They provide homeowners with rebates for replacing a furnace or adding insulation to a home. But while these programs may seem like a good idea, if not designed properly, they can be toxic to small businesses.

One such program from my gas utility, Dominion East Ohio, was a primary cause behind the death of my insulation contracting business—a business that in 2012 was one of only 97 businesses nationwide to do more than 100 projects with the Department of Energy's Home Performance with Energy Star program. That made me a Century Club contractor.

And now I'm out of business.

Here is the story.

### FROM BLOW-'N'-GO TO POKE-AND-HOPE

I started my insulation contracting business in 2009. As with any business owner getting started, it took me a while to figure out the value of what I was doing and what to charge for the work. My initial projects were often in the \$1,500 range for pretty much just blown insu-

lation with very little air sealing. In the industry, this is known as "blow-'n'-go." (Air sealing is a tough service to sell because most homeowners don't see the value of it. And frankly, there is little benefit if you aren't measuring and finding air leaks with a blower door.)

I soon met an energy auditor, Karl Balla, who introduced me to the concept of home performance and whole-house retrofits. I took a Building Performance Institute building analyst class and upped my air-sealing game from that day forward.

The Dominion East Ohio program, which offers up to \$1,250 in rebates for energy-efficiency upgrades, paid my business \$40 per hour toward air sealing. It also paid 30 cents per square foot for insulation anywhere in the building (attic, walls, ducts, and the like). So now I could have the air sealing paid for by rebates and (I thought) do a better job. I was thrilled, and my jobs jumped to the \$2,500 to \$3,000 range, while still costing the consumer only \$1,500 to \$2,000. It felt like a big win. It bumped my 2011 sales from \$300,000 to \$400,000—all due to rebates.

But (there's always a but) trouble lay ahead. My new "big" jobs were in the \$2,500 to \$4,000 range. A job that size is still more of a "poke-'n'-hope for the best" project, rather than a comprehensive systems-based one. We were able to do a little more work, but not a lot more. Too often, as we eventually learned, this work wasn't enough to actually solve the homeowner's problems.

### FREE MONEY

Chasing incentives takes the homeowner's and the contractor's eye off solving problems and puts it on getting as much rebate with as little out of pocket as possible. The job becomes more about maximizing the incentive—obtaining free money—than about designing a solution. The biggest problem is that the program limits the job size.

Most homeowners I worked with were willing to spend between \$1,000 and \$2,500 for attic insulation. The budget was often set by "bid/no-spec" pricing, meaning the program called for a contractor who was willing to say "I'll do it for somewhere between here and here," without actually having a spec that spelled out what the job entailed. With up to \$1,250 in rebates, the program essentially limited job sizes to \$2,500 to \$4,000 with a traditional sales process.

After going out of business as a contractor working in energy-efficiency programs, Nate Adams has turned to consultative sales. In his new work, he's not limited to small jobs, and he's making a bigger difference improving the energy performance of homes.



Photo: Josie Adams

## PROBLEMS WITH SMALL JOBS

The problems created by small jobs are myriad. These are the big issues:

**Too much time spent quoting.** A \$2,500 to \$4,000 project will keep a crew of three busy for one day. So if you're going to keep a crew busy with a 50% closing ratio, you have to run two quotes a day, or 10 quotes a week. But running all of those quotes is a lot of work.

Getting a job took between 10 and 15 hours of work: Figure 30 minutes on the phone to chat and set up the quote; one hour of drive time for each quote, plus two additional

ter small jobs, my referral rate fell to less than 5%—not much of a way to build a business, even with spectacular Angie's List reviews.

**Low-dollar margins.** I ran about a 40% to 60% gross and 20% net. So a \$3,000 job should have a \$600 net. (We'll ignore the fact that I found larger jobs had substantially higher net margins, which helped to offset the lower margins of smaller jobs.)

But \$600 was not a lot to work with. If a \$300 problem came up, I couldn't just eat it. I would have to spend time selling it. If the homeowner agreed, we would bump up the

## Low-quality methods and materials.

However unintentional, poor program design often results in lower-quality methods and materials. When rebates pay for labor-intensive methods, you tend to specify labor-intensive solutions. For example, single-component gun foam is an air-sealing material that doesn't cost much, but requires more labor to install. Two-component closed-cell spray foam is faster to install and creates a better seal, but it's a much more expensive material. The \$40 per hour that the program paid for air sealing wasn't enough. Three inches of spray foam would have been lovely for knee walls, but I was paid only 30 cents per square foot for insulation, so instead I used fiberglass or cellulose and then did additional air sealing on top of it.

While not explicitly excluded, our options were limited by the rebate structure. A \$3,000 job may have qualified for the full \$1,250 in rebates. Fast-forward to what I'm doing now—consultative sales in home performance—where I'm not limited by job size and I design a home-performance package that actually fixes problems. With this work, a \$10,000 job might qualify for only a \$500 rebate (if I were even seeking those incentives, which I'm not; my new jobs wouldn't qualify under the old program rules). Yet that \$10,000 job will likely save a good bit more energy and lead to a far better result.

**Little margin for error.** It's easy to forget a sash lock for sealing a hatch, or a length of duct line for venting a bathroom fan, or some other little thing. On a bigger job, you'd be returning to the job and would just grab those things on the way the following day.

But on smaller jobs, an overlooked detail becomes a crisis. Often the only vehicle on the job is the box truck with the blowing machine, so you have to disconnect the blow hose and hope that no one needs anything off the truck while you run out to a store you don't know hoping to find the part you need. One tiny mistake can kill productivity and hurt job flow. Yes, you can carry more stuff on the truck, and that's what we ended up doing, but you're always going to miss something, somewhere. There is little margin for error.

## Chasing incentives and getting free money for the consumer takes your eye off solving problems. The result: Home performance suffers.

hours at each home to scope out the job and one hour to write it up (my quotes were also work scopes and detailed what the crew needed to do). Add another two to four hours of emailing or calling back and forth with the homeowner asking questions and scheduling the work; one to two hours to complete the invoice and the rebate paperwork, plus time to create the material list and order the materials. This doesn't factor in the usual business administration stuff, which included time to write my blog and other marketing materials. I was working 60 to 80 hours per week most of the year. Just thinking back on it makes me feel tired.

The small jobs could often be accomplished in 10 to 20 labor-hours, which was not even a full day's work split among three crew members. This meant that I spent as many hours landing a job as it took to actually accomplish it. This model was neither sustainable nor one that encouraged or rewarded quality results.

**Poor referral rates.** Because I spent all of my time running from one quote to the next, I didn't have time to check up on jobs. A client saw me only once. It was the contractor equivalent of a one-night stand.

Early on, when I was intimately involved in every project, I ran referral rates in the range of 30% to 40%, and one job often led to another. When I was confined to running af-

ter project cost a bit, but it was usually a no-profit upsell. Or worse, sometimes that detail would get skipped and buried under a foot or two of insulation, never to be addressed unless a problem festered.

**Callbacks.** A callback could easily cost \$200 to \$600 (between paying someone to go get materials, the cost of the materials, time spent dealing with the complaint before, during, and after, and lost productivity on another job). Warranty reserve? No room for that in a small-job budget. One callback and the job was tanked.

**Poor diagnosis.** Every house needs to be diagnosed, and this diagnosis can't be done in just a one- to two-hour quote. It takes time to get to know a house and to understand the occupants' problems. This was time I didn't have. I had to rush the diagnosis and do a lot of guessing or I wouldn't make the 10 quotes per week my business required to survive.

**Mediocre results.** My results, while typically OK, were not what they could have been nor what I would have liked them to be. Before I got sucked into too many small jobs, I had typically attained substantial reductions in air leaks in the range of 500 to 2,000 cfm<sub>50</sub>. Now we were consistently seeing only 200- to 400-point reductions—the sort of reduction that often happens just from blowing an attic.

**Low crew morale.** All the little pressures imposed by small jobs take a toll and lead to low job satisfaction. Every day involves showing up, introducing yourself to a new homeowner, trying to figure out what the sales jerk (me, in this case) meant in his work scope, getting your head wrapped around a new site, laying out drop cloths and setting up, doing the air sealing, venting bath fans out of the house, fixing attic ventilation if needed, keeping the client

happy and chatting a bit with them, showing them what's being worked on, blowing the insulation, cleaning up, picking up what's needed for the next day, ordering supplies from the supplier, and, oh yeah, having a life outside of work.

The pressure killed my crew lead. I knew it was too much for him, but because I was off chasing quotes, I couldn't help him. Meanwhile, the other crew members saw the lead talking on the phone, chatting with

the homeowner, and so forth, and got jealous because the lead was getting the "easy" work. It was the beginning of a long downward spiral, which might have been solved through better communication. One of my biggest mistakes was not running weekly meetings with the crew to touch base. But I was too busy trying to keep them busy. Problems festered that could easily have been handled if caught early.

On Jan. 2, 2013, the crew members all got so ticked off at one another that they refused to work together anymore. Talk about a crisis! At the time, I had three weeks of work booked. And I had been trying for months to replace a crew member who I knew was cancer for us, but I couldn't find anyone (there was not even one response to the job ad I had posted). I was stuck. The cancer had metastasized.

#### THE MOVE TO SUBCONTRACTING

When my crew imploded, I knew I had to change something. I also had a baby on the way at home. The pressure of keeping the crew busy year-round was crushing me. I needed to simplify my life. So I looked into subcontracting the work.

I turned to a reputable weatherization company that I had met when I sold them cellulose in my old job. The owner hired one of my crew members; the crew member I had had trouble with took unemployment; and I kept my crew lead on for quality control and sales.

But subcontracting didn't work out much better. All of the problems associated with small jobs remained. We continued to have to rush jobs, which led to low quality and lots of callbacks, and meant that we weren't doing so well at reducing leaks (which was what we were hired to do). And my crew lead, now sales and QC man, was burning out. It had taken me three years to reach that point of overload; he was approaching burnout in three months.

Our burnout must have been evident to clients, because my closing ratio suffered. And despite doing about half the job volume, I was getting two to three times the number of job callbacks. Quality issues—once rare—now occurred almost weekly. Maybe it was that my crew had been far better than the

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sub, or that my lead now wasn't watching as closely, or that the inspectors from Dominion might have been watching more closely, knowing that I had made a change. Whatever the reason, I was hemorrhaging money.

My closing ratio was already falling, and part of that was because I had raised prices to try to cover a margin for both myself and my sub. My competition didn't raise their prices, so I got fewer jobs since most clients didn't fully grasp how much better of a job I was capable of (except that now I wasn't capable of it). I lost money most months while subcontracting. In 2013 I made one-quarter to one-third what I had made during the previous two years. And most of that measly sum had been earned during the first quarter before switching to subcontracting.

#### THE END OF CONTRACTING

I stopped contracting. The night I told my wife I was quitting, I felt more jubilant than I had in years. There's something wrong with that picture. Shouldn't helping people to solve problems be enjoyable?

While I had made some mistakes, the real culprit here was the program design that forces small jobs. Programs have no accountability for performance, provide no guidance on how to sell consultatively, and start out the consumer-contractor relationship all wrong—by focusing on optimizing the incentives rather than on designing for excellent outcomes. At the time, I had no idea that the rebate structure was having these effects. I only see it now, almost two years after I shut down my contracting business and went solo with a new process of true, consumer-focused, design-oriented consultative sales.

In this new home-energy performance consulting business, my projects average about \$20,000 and we're actually making a difference.

On bigger jobs, less time is spent on ordering and picking up supplies, taking emergency midday trips to the not-so-close supply house, figuring out the job and dividing up work for the day to keep the crew busy, and setting up and tearing down. The guys I recommend to do the work are happier. Small

mistakes stay small, and crew members (who are paid hourly) typically get more working hours. Plus, the jobs are more fun to sell (like selling pieces of art instead of junk). I spend more time with customers and far less time with prospects. The only time I don't get paid for is the 10 minutes we initially spend on the phone.

I'm not skimping, and the outcomes are excellent. But I am doing it all without a program, and common knowledge would say this can't be done. I don't have good financing. Property values in Cleveland are some of the lowest in the country. Utility rates are low. I'm working solo. Everything should be working against me. Yet I'm selling comprehensive home-performance jobs. It's early, I'll grant you, but I'm selling them.

*Nate Adams runs Energy Smart Home Performance, a building-performance consulting company in Cleveland. For more on this saga, and to learn about the recommendations for running a successful energy-efficiency program, read his blog at [energysmartohio.com](http://energysmartohio.com).*

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