

10 Tips for Remodelers to Become More Profitable in 2017

Running a successful remodeling business is more about numbers than it is about bricks and sticks. Of course, producing quality work is important; but I can assure you – there are companies out there that produce quality work but go bankrupt because they are not focused on profitability.

By definition, profitability is “the degree to which a business or activity yields profit or financial gain.” However, this is not just about performing projects for profit; it’s about performing projects at a level of profitability to provide growth, sustainability and stability. Depending on your personal and business goals, the level of required profitability can vary from business to business, and owner to owner.

So what are some of the most important things remodelers should focus on to have a healthy and profitable 2017? I had the opportunity to interview some of the top thought leaders and consultants in the remodeling and building industries, and here is what they had to say:

Tip 1: Contractors should view reports for their businesses the way people look at the dashboard of their vehicle. There’s a multitude of gauges, but there are three to five that should be always looked at. (Mark Richardson)

As long as you pay attention to these reports, you can steer your company towards the right direction. Balance sheets and P&L statements help contractors monitor their overall financial performance, showing comparative data on assets versus liabilities, capital, gross profit, and so on. Budget versus actual numbers allow for variance analysis, which comes in handy for planning strategies and setting goals even through variable changes. Reports on overhead percentage, percentage of completion, leads and lead conversion (sales) are also crucial to keep in check.

Tip 2: Before even dealing with reports, understand and internalize the business basics. (Joseph Stoddard)

It’s important for remodelers to have a strong understanding of the Key Performance Indicators (KPIs) that facilitate a successful business in order to ultimately realize their financial goals. Gross profit, markup versus margin, salary versus profit, breakeven point in dollars versus number of projects, current assets versus liabilities, cost to complete – all these are merely a handful of the KPIs that are instrumental to sustainability and growth.

Instead of “taking whatever walks in the door,” you need to understand your numbers first. Focus on the type of work that creates the best return for your company, and plan the number of sales you need to make.

Tip 3: Most contractors are misguided when it comes to reviewing reports, and are comparing apples to oranges. (Shawn McCadden)

When it comes to which reports to review and understand, the P&L (profit and loss) statement usually gets the most attention. Also on the top of the list is job costing. Accurate job costing allows for the comparison of data in budget versus actual, creates validation, and provides an opportunity to make improvements.

Contractors must understand the baseline information on these reports, and have accurate data to compare apples to apples. For example, if you have a masonry line item for 10,000 on your budget, but the actual cost on your report was inaccurately recorded, then your overall gross profit number would also be incorrect. Comparing budgeted GP versus actual without the right data would be an apples-to-oranges parallelism, where validation is lost and you can't make improvements to your numbers.

Tip 4: Businesses fail due to lack of focus, lack of commitment, and lack of capital. (Mark Richardson)

Working capital is critical. Remodelers should never be in a position to make decisions based on what's in the bank account. Always look to build with your client's money – not your own. Always keep a pulse on what's in your treasure chest. Cash flow management systems depend on having cash flow, so make it a priority.

Tip 5: Once you've focused on the right kinds of projects, monitor the "budget vs. actual" performance in several key categories. (Joseph Stoddard)

"Roll-up" reports allow remodelers to examine performance in key categories such as lead generation, sales, money (costs and cash flow), time of construction, and quality. With these summaries, you can identify and maximize your opportunities, attend to issues accordingly, and avert crisis while you still can.

Of course, waiting until the end of the year for a performance review would essentially defeat its purpose. It's a must to account for the time to 1) draft the reports, 2) review, 3) plan for solutions, and 4) take action successfully.

Tip 6: Cash is King. It's important to create good cash flow – airlines don't let you pay for your ticket after you land, so why should remodeling be any different. (Shawn McCadden)

Most remodeling companies don't pay enough heed to their cash flow. This is a huge no-no for profitability. When remodelers fail to control this part of their business, they dig up a hole to fall into when the stress of chasing payments comes in. When you let prepayment discounts fly out the window, and when you use lines of credit or loans to finance your client's project, profit margins erode quickly – and before you know it, the company crumbles along with it.

Some remodelers have a misconception that it's acceptable for clients to control the flow of money – it's not. You need to get ahead of the financial needs of the project, and organize your billing accordingly. If you're not getting compensated to finance it, then you have no business doing so. Never borrow money to build projects – always use the client's money.

SHAWN MCCADDEN: A remodeling industry consultant, speaker and educator – Shawn McCadden is one of the most prominent names in the industry nationwide. As President of **Remodel My Business, Inc.**, he provides business coaching to aspiring remodelers, as well as LBM and construction-related product manufacturers and suppliers. He is also an award-winning monthly columnist for *Remodeling* magazine, and a speaker for trade events and industry conferences such as The Remodeling Show and JLC Live. On top of that, he offers customized training as an MA and EPA RRP Certified Renovator Instructor. He covers RRP implementation training, systems development, and compliance documentation, and other related areas.

Tip 7: Contractors should be in “making hay” mode. (Mark Richardson)

Economic indicators are showing that the remodeling industry has at least a solid two to three-year run ahead, and contractors should be in “making hay” mode. It's high time to focus on making profits healthier, and be more aggressive in getting the projects that are right for your business. Of course, pricing needs to be right, but there are opportunities to increase margins. Know your market niche. Know where to invest, and where to cut costs. Know which clients to take on, and how much work you can handle. Maximize productivity by hiring skilled staff members or training your current team in project management software, digital marketing, and bookkeeping. Don't wait another five years to step it up. Take advantage of the economic opportunity, and start now.

MARK RICHARDSON: Renowned across the country, Mark Richardson is a business growth expert and pioneer in the development of professional standards in the residential remodeling industry. His feats have earned him a seat at the NAHB's (National Association of Home Builders) Hall of Fame, recognition as 2006's Ernst and Young Entrepreneur of the Year, and best-selling book status with *How Fit Is Your Business*. He continued sharing his insights in his following book *Fit to Grow*, and contributed to publications such as *HGTV*, *Money*, *The Washington Post*, *Fortune*, *Professional Remodeler*, and *Professional Builder*. He also lectures for MBA programs, and serves as a board advisor for Harvard, the Better Business Bureau, GE Capital, and Revere, among many others.

Tip 8: Commit to gaining knowledge, learn to sell against low ballers, and find your market niche. (Joseph Stoddard)

Aim for superior knowledge, and do the work needed to get you there. Getting your numbers right is one thing; knowing what to do with them is another. Enriching your knowledge in the types of projects you choose to take on, while expanding it further into sales, marketing, business, management, human resources, and so on – this will help you gun for the most profitable strategies in the different facets of your remodeling business.

Putting in the time and effort to elevate your knowledge will also help you identify ways to effectively present the value of your work. When you get to the point where selling against low ballers comes naturally, you're already on the right track. Keep going, and "find your market niche where you can sell at the markup you need."

JOSEPH STODDARD: Joe Stoddard is a sought-after voice in the building and remodeling industries. He champions the development of business improvement processes and software, and helps contractors get on the right track as a founding partner and principal of **Mountain Consulting Group LLC**. A true advocate for progress, Joe shares his expertise further as a contributing editor at *Journal of Light Construction* and *Tools of the Trade*. He is also a monthly columnist at *Remodeling*, a frequent contributor to *Builder* and *Pro Deck Builder*, and a speaker at industry conferences such as The International Builders' Show, Custom Builder Symposium, JLC Live, SMA Leadership Conferences, and NAHB's Builder20.

It's all-too-common that remodelers struggle with maintaining a healthy level of profit for their businesses. Running a remodeling business is inherently difficult even when profitable, so running an unprofitable remodeling business is like trying to climb Mount Everest without a rope.

The truth of the matter is, remodelers don't get into business to lose money. For many, it comes as a natural progression from being a tradesperson to eventually opening and running a remodeling business. Inevitably, since much of the focus is on getting clients and performing the work, some of the most important things like profit get neglected.

Being in the industry for almost three decades has ingrained key points for sustainable profit into my business practices, and I'd like to share with you a couple more things to keep in mind as you aim for a more profitable year ahead:

Tip 9: Utilize a cash flow management system that includes a safety net for your profit, owner's salary and tax payments. (Mike Bruno)

The construction business is unique in the sense that contractors typically receive large payments from clients before the work is completed. If they are not disciplined in managing those payments, this can quickly lead to financial trouble.

All-too-often, contractors run their businesses based on what's in the bank account, without fully understanding where that money needs to go. In addition to the project expenses or cost of goods sold (COGS), there is overhead, which needs to include the owner's salary, taxes, and

last but not the least – profit. It's good practice for contractors (and any business for that matter) to make sure they are secure for profit, taxes, and owner pay from every dollar they receive.

Tip 10: Clearly define your profit goals. (Mike Bruno)

The key to successful profitability is defining what that means to you and your business. Are you happy making \$50,000 a year, or do you need to make \$150,000 a year? Are you 30 years away from retirement, or do you only have five years to go? Do you have high overhead or low overhead – one truck or 30 trucks... and so on. All of these variables are contributing factors to defining the level of profitability you need to reach your goals. Once you have clearly defined what that means to you, it would be necessary to align your goals with key performance indicators, and to ensure every project you take and every expense you make are aligned towards reaching those goals.

In a nutshell, while profit is essential for keeping operations afloat, *prioritizing profitability* in your business practices, strategies and decisions is key to growth, sustainability, and stability for your company. Remodelers who have already taken this to heart may be leagues ahead in the industry, but with strong dedication to your trade, you can also achieve new heights for your business. The steps have been laid out for you. Get on the path, remodel your numbers, and build your profit for 2017.

MIKE BRUNO: A Profit First Certified Professional, Mike is the founder of **Contractor Business Solutions** – a backend office support, bookkeeping and consulting company that caters to construction and service companies. For over 27 years, Mike has been in the construction industry, and still runs a successful design-build-remodeling company, and a real estate development and investment firm. Mike is QuickBooks Certified, and is a member of the American Institute of Professional Bookkeepers, and the Institute of Certified Bookkeepers.