

RENOVATOR'S BUSINESS GUIDE





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INTRODUCTION AND ACKNOWLEDGEMENTS

The renovation industry is challenged today by many issues that have gripped the attention of the Canadian public. These issues are already affecting the way renovators work and will exert an even stronger influence in years to come as renovation becomes a more significant part of the housing industry.

The purpose of this book is to provide renovators with information relating to the business aspects of renovation.

While Canada Mortgage and Housing Corporation produced this publication, we owe gratitude to the:

- **CHBA — Canadian Renovator's Council**

CMHC would also like to pay tribute to the many CRC members across Canada who have devoted their time, ideas and energy to the development of this business guide.

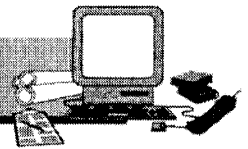


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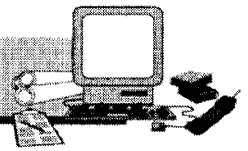


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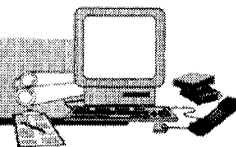


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CHAPTER 1

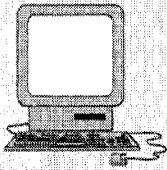
Business Goals and Structure

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Business Goals & Structure



You must have considerable product knowledge and well developed management skills in order to succeed.

The Vision

Entrepreneurs are people who, having the necessary capital or being able to secure it, enter business to produce a profit. They manage their business as they see fit, but within the limits of laws, regulations, competition, the market and chance.

Entrepreneurs are willing to accept the risk of loss, and understand that profits and survival depend on efficiency.

As an entrepreneur who has become a renovator, you are pursuing a vision. This vision is what guides your business in its daily activities.

To be a successful renovator, you must clearly understand your motives. If you enter the renovating business for the wrong reasons — with false expectations — you risk losing your business.

Some entrepreneurs may enter the renovating business because they believe:

- renovating is a very lucrative business;
- renovating does not require any specialized product knowledge;
- renovating does not require much capital investment;

- basic construction and management skills are all that's needed for success; or
- they know enough about renovating or some component such as carpentry or a technical trade to be successful.

However, statistics indicate that:

- with limited capital, you will probably go out of business within a few years; and
- you must have considerable product knowledge and well-developed management skills to be successful.

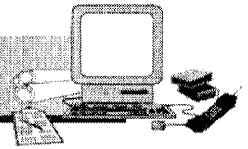
What are you trying to accomplish?

You may decide to become a renovator in order to satisfy a fundamental human need, such as:

- to be recognized by others;
- to express your creativity;
- to feel a sense of accomplishment; or
- to achieve financial security.

Satisfaction may come from the fact that renovators often have a high profile in the community and are seen as respected business people.

You may be attracted to the ability to make deals, negotiate, barter, buy and sell. Or, you may look forward to handling large sums of cash.



Leading renovators often influence trends in renovation styles. To have an impact in the business, you must work constantly to satisfy market demands by helping customers prepare good designs.

Architects and designers can be very helpful in the preparation of good designs. High quality designs will enhance your reputation, especially when combined with good workmanship.

Benefits of realizing your vision

You must look closely at whether or not renovating will allow you to realize your vision. Typically, the benefits of operating a successful renovation business include:

- financial success;
- peer recognition; and
- personal satisfaction.

Are the personal sacrifices worth it?

As an entrepreneur, you are concerned with operating your business profitably. As your business grows, long hours and extra work effort are often required to ensure success — you may have to work 10 hours a day, 6 days a week.

If you are undercapitalized upon start-up, your ability to hire staff with needed skills and knowledge will be limited. Therefore, you may be required to take on duties requiring skills and knowledge you don't have. This can be a stressful situation — and can lead to the neglect of key management functions.



Renovators must work constantly to satisfy market demands by helping customers prepare good designs.

Is it worth it?

After considering all the risks and required effort, you must decide whether they will be worth the potential benefits. In some instances, the effort will simply not be worth the expected return. You may well be better off to:

- leave your money in the bank and get a salaried job working for someone else;
- choose some other type of business that has less risk or higher potential returns; or
- band together with other renovators and share in the work, risk and profits.



Approach to Business

Renovating can be a great adventure, a lot of fun, something to look forward to every day. The rewards often go beyond basic salary and benefits. For some, the excitement comes from the construction side of the business — framing, finishing, fastening, flooring, plumbing, heating and electrical. For others, the adventure comes from managing the entire process — from sales, through construction, to service. For some the excitement comes from managing many small jobs in the homes of many different clients.

To be a successful renovator you must ensure that all essential activities are fulfilled. The homeowner can choose to do the work or hire you to do it, but the homeowner **does not have the option** to ignore those activities.

You can choose to acquire the necessary skills and knowledge through education and training programs, or you can employ qualified individuals to perform the tasks.

What can you do? What do you want to do?

You must first determine what tasks are required to operate the business. Typical tasks are identified in the *New Home Builder and Renovation Contractor Occupational Analysis* which is published by Human Resources Development Canada. There are three general categories of tasks:

- Planning
 - defining your business goals
 - developing a market plan
 - developing a financial plan
 - developing a human resource plan
 - developing an operations plan
- Implementing
 - communicating your objectives
 - carrying out the market plan
 - recruiting, employing and training staff, trades, professions
 - providing renovation services
 - providing warranty and service
- Monitoring and Evaluating
 - reviewing staff performance
 - reviewing the marketing plan
 - monitoring the profit-and-loss statements
 - making adjustments as required

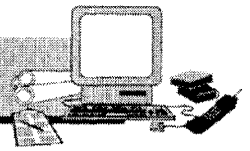
Your business plan sets out how you expect to operate your business and thus what work must be done. From the business plan, you determine which tasks you most want to do — because of interest, training or experience — and which tasks someone else must do.

Each task you assume for yourself must be carried out with the proficiency of a hired professional.

At all times, especially when delegating responsibility, you must have sufficient knowledge and understanding of all tasks to be able to judge the performance of your employees or subcontractors.



Each task you assume for yourself must be carried out with the proficiency of a hired professional.



Why are you doing those tasks?

Too often, renovators take on the responsibility for necessary tasks simply because no one else is available. You may take responsibility for many of the tasks because of budget constraints. While budget problems must be addressed, it is equally important that you handle all essential functions of running a renovation business properly and efficiently.

Taking on a management task that you are not capable of performing puts your business at risk. It may well prove to be more economical to hire a professional to handle certain tasks than to let work go undone or be handled improperly.

You are the main driving force behind your business. The whole future of your business depends on your performance as manager, motivator, administrator, marketer, and efficiency expert.

However, if you are trying to save money by doing routine office or maintenance jobs that could easily be handled by others, **you may be indulging in false economy.** You could save more money by figuring out more efficient production methods, finding better pricing, or finding new jobs. **It's surprising how often people mislead themselves.**



Taking on a management task that you are not capable of performing puts your business at risk.

Using an Advisory Board

You must make decisions about the structure of your business, the job each person will fill, the amount of investment required, the markets to be involved in and all other business issues. Using an advisory board may make this process easier and your decisions better.

A group of interested people can provide you with insight and professional judgment or perhaps just confirm your own decision. This advisory group could be composed of an accountant, a lawyer, a lender, or other combinations of business people. An honorarium could be provided for their participation, and the group should meet as often as needed, but no less than once a year.



Business Structures For Renovators



The proper business set-up can protect you from excessive liability and excessive taxation.

How you structure your business often depends on how many owners are involved. The simplest form of business organization exists when there is only one owner. In this case, a sole proprietorship can serve you well, as long as your business stays small and does not have large capital requirements. A single owner can also establish a **corporation**, which has some advantages not available to the sole proprietor.

A business that involves more than one owner (58% of renovation businesses are husband and wife teams), requires a different form of business structure. The options are:

- partnership,
- limited partnership, and
- corporation.

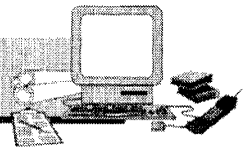
Choosing the appropriate structure depends on your attitude toward certain issues such as personal liability limitation, tax considerations for both the business and the owners, and the way in which the business can be sold, transferred or terminated. It is usually a good idea to discuss the proposed structure of the business with both a lawyer and an accountant. Choose professionals that have active renovators as their clients. The proper business set-up can protect you from liability and excessive taxation.

A brief description of the different types of business organizational structures follows:

Sole Proprietorship — One individual owns the business and earns the profits or is responsible for any financial losses. A sole proprietorship does not separate the individual from the business. This lack of separation means that business assets are effectively personal assets, and any losses from the business are personal liabilities. Legal liability for defective products or other claims, such as for Occupational Health and Safety infractions or accidents or for environmental infractions or damages, will also be a personal liability.

Partnership — Two or more individuals share ownership, profits and losses. A partnership requires an agreement between the partners as to how they will share in the obligations, profits or losses, and capital of the partnership. This agreement should be in writing. Partnerships dissolve on the death of any partner or at a predetermined time set out in the partnership agreement. Other concerns for the operation of a partnership — such as buyout options especially for husband-wife partners, additional partners coming in, sickness, retirement, dispute settlement — should also be covered in the partnership agreement. Legal liability for defective products or other claims, such as for Occupational Health and Safety infractions or accidents or for environmental infractions or damages, will also be personal liabilities for all partners involved.

Limited Partnership — A limited partnership offers people who agree to become General Partners a chance to raise capital from inves-



tors while keeping control over the business. Investors known as Limited Partners have the opportunity to own an equity position in the business, while their liability is limited to a financial one.

Corporation — The business is a separate entity from its owners. Individuals purchase shares of the business, thus sharing ownership. Profits belong to and losses are the responsibility of the corporation. The shareholders determine how to distribute the profit, some or all of which is often distributed in the form of a dividend to shareholders as a return on their investment. Corporations are perpetual and ownership through stock of the corporation is passed on to the heirs of the shareholder in the event of death. Stocks can always be sold to other investors. However, through buy-sell agreements between shareholders or between shareholders and the company, the first right of purchase can be provided to the company or to surviving shareholders, allowing them to purchase shares from heirs of shareholders. Legal liability for defective products or other claims, such as for Occupational Health and Safety infractions or accidents or for environmental infractions or damages, will be personal liabilities for all partners.

From job site to office

Many renovators would rather be on the job site than in the office doing paperwork. Construction is second nature for most renovators, but telling people how they plan to operate and fund their business often presents greater difficulty.

Developing Your Business Plan

As an owner with certain areas of interest, you will generally find a few market niches for your business to occupy. You must estimate the volume of business expected and determine how your business will function. The purpose of this planning is to determine where your business will be in a month, a year, or a decade.

Success in the renovating business requires an orderly progression through the goals, strategies and methodologies that are clearly set out in the business plan.

The business plan describes where your business is going and how it will conduct its affairs. Preparing the business plan allows you to examine your business from all perspectives (such as marketing, financing and operations) and to refine strategies. A written business plan is easier to discuss, communicate and evaluate.

You must continually review and revise your business plan, updating it quarterly or even monthly to reflect changes in the marketplace or business operations. A practical means of keeping the business plan up-to-date is to review the business checklist found in Chapter 8, then make needed changes.

To be successful, the business plan is absolutely essential — most renovators do not have the resources needed to recover from serious mistakes.



Preparing the business plan allows you to examine your business from all perspectives...



Setting priorities

Survival of the business is usually your first priority. Other priorities deal with items such as profit, specific levels of return on investment, growth expectations and staffing.

Your vision of the business and the resulting priorities must be clearly reflected in the business plan.

Risk management

Risk is always present in the renovating business. Of greatest importance is the risk of complete failure — of bankruptcy — in which case you stand to lose all of your investment. In the case of the sole proprietorship or partnership, the possibility also exists that you will lose all personal property and savings.

While your risks are high when you start out, they increase when your business fails to keep pace with new trends and newer, more aggressive competitors.

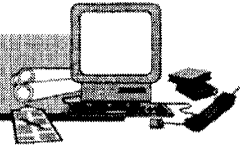
Remember, you accept the risk of loss when entering the business, just as you expect to enjoy the profits.

You should be convinced that the potential for profit is greater than the risk of loss before you enter the renovating business. Unfortunately many renovators do not assess risks or potential profits before making business commitments. In many cases, renovators are drawn into the business one small step at a time — and never really take the time to assess the risks and benefits.

To grow or not to grow — and how fast?

Your strategy for dealing with growth must be planned and clearly reflected in the business plan. Here are four common strategies generally applicable to renovators:

- **Status quo** — You may simply decide that the current level of sales is sufficient. You will generally follow this strategy during periods of normal economic activity.
- **Current market expansion** — You may devise a strategy which will allow expansion in the current market. You will generally follow this strategy when your business is doing well in the current market but you believe there is room for expansion.
- **New market expansion** — In periods of growth, or to utilize the skills and capacity of existing workers, you may decide to expand into other markets. This may include supplying new product lines, taking on larger, more complicated jobs, or expanding into another neighbourhood, town, or city.
- **Down-size** — Forced by economic or other considerations, you may conclude that a smaller business is actually in your best interests.



If you are operating a renovating business primarily to enjoy the physical work, remember that there are business considerations that will demand your time and energy. The renovating business has a very high turn-over rate. This means that while the physical work may be enjoyable, some renovators are unable to operate at a level of profit that allows them to stay in business.

Planning For Change

As the saying goes, "If you're not moving ahead, then you're going backwards". The marketplace is a constantly changing business environment. Styles change, amenities become popular and then fade away, and material and labour costs move up and down in a continuous response to market conditions. As a renovator, you must adapt to change — and **learn to anticipate** changes in market conditions.

Change is vital for the continuing economic well-being of every business. Those renovators who plan for change will gain a competitive edge in the marketplace. Your understanding of how people and markets change will help your business grow and prosper when other renovators in the same marketplace fail.

Growth steps

Growth can be expressed in terms of dollar volume of sales or in the number of renovation jobs. Normally these two numbers correlate. The option exists, however, to

decrease the number of jobs and increase the volume of sales by taking on more expensive jobs. The underlying assessment of these considerations is the anticipated profit margin. A larger cash flow does not necessarily mean a higher profit margin.

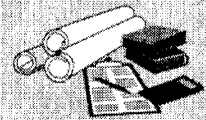
According to business consultant Walter Stoeppelwerth, three transitions occur during the growth of a renovation business. The first transition occurs at approximately \$100,000 in gross sales, when renovators realize there is more work than they can handle alone.

The second transition occurs at about \$400,000 to \$500,000 in gross sales. This transition requires the renovator to increase overhead, because either the selling or production must be handled by others. Communications now have to be in writing. This is a time when many flourishing firms suddenly go out of business.

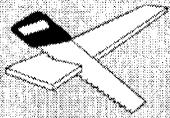
The third transition, at about \$1.5 million, takes the owner further away from the job site and turns a small, personal firm into a highly structured business.

The renovator who does not want to be a full time administrator should not expand the business beyond the number of jobs that can be handled without extra office staff.

In each of these examples, growth is expressed in terms of expected revenue, expenses, overhead, cash flow and profits.



The renovator who does not want to be a full time administrator should not expand the business...



...your business must constantly change because the world is constantly changing.

Staying on top of new products and building trends

New building systems are designed to provide better products at lower prices. Your competitive edge may depend on keeping abreast of these systems. Classic examples of how products have changed the renovating business include; gluelam beams, floor and roof trusses, low-E windows and high efficiency heating equipment.

Quality sources of information on new products and building techniques are:

- conferences,
- technical newsletters,
- magazines,
- seminars and workshops, and
- home shows.

Failure to meet growth expectations

Planned growth is a risk. You must assess the benefits that may result from taking this risk **and** the implications of failure. In the event of failure, there are two primary considerations:

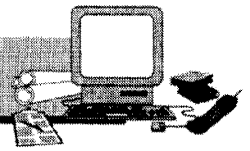
- **Financial** — Will failure to meet growth plans leave your business in financial difficulty? (The investment does not generate the required return.)
- **Emotional** — Will you accept failure in a fashion that will allow for continued business operations at the lower level?

If either of these situations is probable, you may have to limit growth to keep failure at a manageable level.

Keeping up-to-date

The first step in keeping up-to-date is to realize that your business must constantly change because the world is constantly changing. Many people dislike change, fearing that it might disrupt their lives. But change is unavoidable.

You must remain aware of trends and changes in management practices and customer expectations if you are to establish and maintain an advantage over your competition.



Following Regulations

Regulatory changes

You must comply with the requirements of the building code. In some situations it may be difficult or impossible to meet the code; however, where possible, it is your responsibility to do so. In addition, building-related municipal bylaws can affect renovations — and these can change overnight! Having a competitive edge requires you to be aware of bylaw changes, new or updated building standards, and changes to the National Building Code and your provincial building code.

Many renovation contracts state that work will be performed in a professional manner and meet the minimum standards of the building code.

There may be instances where items are not specified on the plans or in the contract, but are required by code. These items may include things such as railings on stairs and decks, smoke detectors, automatic door closers, special drywall behind tiles, or frost protection for footings. You should identify these items prior to construction, when the plans are being reviewed.

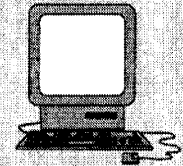
It is your responsibility to ensure that these items are identified and charged for in the contract price, or you may end up paying the cost of these items yourself.

Municipal interpretations of the building code

There are many clauses within the code that are open to interpretation. The code has a commentary attached to it explaining the reasoning behind some of the requirements, but still there are often various ways of interpreting the same clause. To complicate matters, the building code often fails to address many renovation concerns.

It is a good idea to check with the local building department or building inspector if there is a code-related problem. You should obtain rulings in writing so that the interpretation will not change from one inspector to another.

Finally, as a professional renovator, always follow the building code as a minimum standard whenever possible, even if the building inspector will overlook some aspects.



To complicate matters, the building code often fails to address many renovation concerns.



Protecting your Investment

Insurance

The renovating business is full of risks. Not all risks need be absorbed entirely by your business, however. In some instances it is possible for you to shift some of the risks onto others by carrying insurance. Insurance is a business instrument by which many share the losses of a few.

By a process called underwriting, you will enter into an agreement with an insurance company to reimburse certain losses that you may incur. In return for paying premiums, you receive an insurance policy that specifies the terms of the insurance contract.

When you deliberately retain a risk that could be transferred to an insurance company you are engaging in self-insurance.

Most renovators insure major risks because the potential losses would place them in serious financial difficulty. Most insurance brokers are glad to describe the many insurance instruments that are available to protect your interests.

Liability of renovating

One of the major risks you face is bodily injury or property damage liability that results from an action or lack of action taken by you or by someone you are responsible for. You will probably find it advantageous to carry liability insurance to protect yourself from claims arising from injuries (real, perceived or faked) to others.

Course of construction insurance

Loss caused by fire, vandalism or major catastrophe during the job is a risk that all renovators must cover. In some instances, homeowners will increase their existing insurance policies to cover the additional risks. In other cases, however, customers will insist that the job have a specific insurance policy issued to protect their property from loss during the construction period.

You should confirm proof of coverage (regardless of who carries the insurance) before any work begins or materials are supplied.

Post-construction insurance

Even after you complete a job, the liability you carry does not cease. While the risk of claims from personal injury or property damage is reduced because the work has been completed, the risk still exists of claims from the homeowner or others because of personal injury or property damage resulting from a problem caused by one of the people who worked on the job.

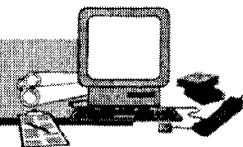
Post-construction liability insurance is important — because the risk continues during the warranty period and long after the job is finished.

Other types of insurance

You may also protect your interests by participating in government-sponsored programs designed to help businesses and workers. The most common of these programs are the Workers' Compensation Insurance program and the Unemployment Insurance program. In



The renovating business is full of risks. Not all risks need be absorbed entirely by your business, however.



addition to these programs, however, you should explore:

- automobile insurance,
- office and contents insurance,
- fidelity insurance,
- surety bonds,
- extended health insurance, and
- life insurance.

The client's responsibilities

If homeowners have materials at the job site that may or may not be used for the job, they must be made aware of their responsibility for those materials. In some cases the homeowner may provide labour as well. It is very important for you to identify risks associated with customer-supplied materials or labour. Customer responsibilities in these situations must be documented.

Contracts

In general

Contracts should be checked to make sure they include each of these components:

- The Agreement
 - identifies the parties involved,
 - describes the work and may make reference to the specifications,
 - identifies the starting and completion dates,
 - indicates the price of the work and the terms of payment for that work.

- General Conditions
 - stipulates provisions for items such as insurance, warranties, and permits,
 - clarifies procedures for such items as payments, how change orders are to be handled, and how to arbitrate disputes,
 - stipulates the parties' rights to transfer the contract to another party and how to terminate the contract and under what conditions,
 - stipulates provisions for site access, site clean-up, use of utilities, use of washrooms, site supervision, etc.
- Special Conditions
 - specifies access to occupied premises; responsibility for matching existing materials; permission to put up signs, take pictures and use your name in advertising; right to substitute materials; facilities to be supplied by the owner; etc.

Written, verbal and interim contracts

Contracts do not have to be written to be legally binding. Verbal agreements between you and the owner or between you and trades can be as binding as a written contract.

The problem with verbal contracts is that the parties often have different interpretations of what was agreed to. Verbal contracts between the owner and subcontractors must be discouraged because they often lead to disputes between the owner, you and the subcontractor. Put the agreement as well as all changes in writing.



It is very important for you to identify risks associated with customer supplied materials or labour.



Conditions of a contract

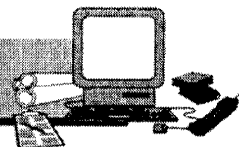
For a contract to be legally binding, it must contain five conditions:

- **There must be mutual agreement** — Both parties must be in agreement. One party cannot force the other to do or provide something. Both parties must agree.
- **There must be intention to contract** — Both parties must resolve that their arrangement is legally binding.
- **The parties must have capacity to contract** — Each of the participants must be of legal age and if signing on behalf of a third party, must be the legal signatory for the third party.
- **There must be an exchange of goods, services or money** — The contract must be supported by some type of consideration.
- **The contract is to be based on a legal activity** — A contract cannot be for an illegal action.

Types of contracts

Different types of contracts can be used for contracting with trades, suppliers and the customer.

- **Fixed price contract** — A fixed price is agreed upon in return for the supply of specific materials or services.
Advantage - You know the final price before you begin the job. The customer often prefers this type of contract.
Disadvantage - You may run into problems and lose money on the job.
- **Cost plus** — Costs incurred are documented and then paid to you in addition to a flat fee or a percentage of the costs.
Advantage - Used in cases where no one knows how to price the work.
Disadvantage - The final cost is usually higher because there is less incentive to keep costs down.
- **Unit price** — Used when the amount of time or material required is unknown. A specific rate per hour or a rate per unit of material is agreed upon.
Advantage - Money is paid only for work done. This can result in cost savings.
Disadvantage - The amount of work done or materials supplied can exceed estimates, resulting in extra costs for the customer.
Disadvantage - There can be disagreements on the amount of work done or materials supplied.
- **Disadvantage** - It is not always easy to determine what items are costs and what items are overhead.
Disadvantage - The owner can end up spending a lot more money than originally anticipated.



All too often verbal agreements are made on the job, without proper clarification of what each party is agreeing to. For example, the customer might ask you if an extra piece of wall could be removed sometime when it was convenient for the crew. You may respond by saying, "Sure, they can do it." The work is completed but the customer refuses to pay for it, arguing that you had agreed to include the work as part of the original contract.

Change orders include a provision for cost implications, and thus when all change requests are written down, the issues of cost and credit are dealt with before the work is done.

Change orders may be used when you sign the original contract and anytime throughout the job.

Legislation

Lien legislation

Lien legislation is designed to protect you from not being paid by the customer, and the suppliers of materials and contract labour from not being paid by you. It provides a means for you, and the suppliers of materials and labour, to secure your position by encumbering the title of the customer's property to which the material or labour was supplied.

Both you and subcontractors have only a specific period of time to register a lien. The lien is registered against the customer's property and can be removed only by the person registering the lien. Settlement of the outstanding amount must be made before the lien is removed.

Liens that are registered falsely or indiscriminately are subject to a penalty.

Workers' compensation

Virtually everyone can be covered by the Workers' Compensation Board (WCB), including all of your employees and all trades working for you. Subcontractors and self-employed individuals should have their own coverage, but if they do not, you are responsible for them.

You must check on the status of the subcontractor with the Workers' Compensation Board prior to paying invoices or releasing holdbacks. This clearance ensures that the trade is paid and releases you from any liability for payment of premiums on behalf of the trade. Clearances can be obtained either by phone or by mail.

Your customer can be forced to assume responsibility for payment of WCB premiums if you are not registered with the WCB.



The problem with verbal contracts is that the parties often have different interpretations of what was agreed to.



Chapter 1

Rebates and surcharges

WCB registrants with a history of low claims will receive premium rebates. Registrants with a history of many job-related accidents can expect surcharges. A subtrade with a poor accident record can affect your rating.

Rebates and surcharges affect your cost of doing business and are reflected in price quotations.



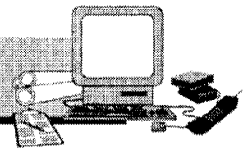
Rebates and surcharges affect your cost of doing business and are reflected in price quotations.

Unemployment insurance

All workers can be covered by unemployment insurance (UI). UI premiums are paid by the worker (via payroll deduction) and by you, the employer, with the employer paying a rate 40% higher than the worker. If the worker's job is terminated or the worker is laid off, the worker may be entitled to payments while looking for a new job.

A black and white photograph of a vintage desktop computer system. It includes a CRT monitor on a stand, a keyboard, a mouse, and a telephone. The setup is on a desk with some papers and a small clock.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



CHAPTER 2

Financial Management

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Financial Management



Each dollar you invest in your renovation business should be earning a rate of return...

Introduction

Independence; being your own boss; making a profit in addition to salary; being the key decision maker; freedom from routine — all these are powerful motivating factors for starting a business.

Being your own boss, however, means making a living with your decisions. The wrong decision can cost money; too many wrong decisions can put you out of business!

As a renovator, you have to meet payrolls, maintain a place of business, pay trades, suppliers and other creditors, and contend with conditions beyond your control such as adverse economic trends or strong competition. You also have to deal with difficult customers and work longer hours than ever before.

The success or failure of your renovation business will depend on whether you have enough money to buy needed equipment, to pay overhead costs, and to survive temporary setbacks. You must earn enough to provide yourself, and any investors, with a reasonable return on investment.

Each dollar you invest in your renovation business should be earning a rate of return sufficient

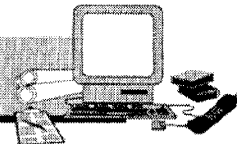
to satisfy the investment. You must identify the expected **return on investment** (ROI) so that it can be taken into account in the financial planning of your business.

To determine the amount of money required to operate your renovating business successfully, you must prepare a financial plan that identifies where money will be spent, the amount that is expected to be earned, and the amount that will be available to you as a return on your investment. The financial plan (which is part of the business plan) provides the documentation needed to achieve the banking and financial objectives.

Four basic documents form the basis of the financial plan:

- Projected Income Statement;
- Projected Balance Sheet;
- Projected Break Even Position; and
- Projected Cash Flow.

Your financial plan is a projection of what you expect to take place in the future. Financial reports represent what has happened in the past. You need regular financial reports to determine how well your business has followed your financial plan and if the plan needs to be changed.



Projected Income Statement (Budget)

The projected income statement, or budget, shows how much you expect to make or lose during the year. It serves as a valuable guide in anticipating how your business will do in the future.

A projected income statement matches the expected revenue against all costs required to sell jobs, complete the work and operate your business. The result is the expected **net income** or **net loss** for the year.

Estimated sales revenue

The first step in developing your projected income statement (budget) is to estimate how much money you will receive from all jobs completed during the year. This number is known as the **sales**. Problems in projecting how many jobs will be available throughout the year, and how much each one will be worth, often make this figure difficult to estimate.

Obviously, it is reasonable for you to consider past activity when making sales projections.

You must also consider overall economic conditions, such as interest rates and consumer confidence levels. You may have the capacity to do many more jobs than market conditions will allow.

Estimated cost of sales

Once the sales volume is estimated, you must next determine the costs of doing the work. The cost of sales are those costs that are directly attributed to specific jobs and that would not have been incurred had the jobs not been done.

Cost of sales may not be easy to determine accurately unless you have defined clearly the number, type and size of jobs. Once you do this you can determine more accurately the costs associated with each.

Your financial records of costs from previous years will help you project the costs for the forecast period.

Estimated overhead expenses

Overhead expenses are those expenses incurred to operate the company in general but that are not easily attributed to specific jobs.

Estimating overhead expenses can be difficult because you must operate in a constantly changing environment.

You can introduce significant changes in overhead expenses as your business responds to shrinking or rapidly expanding markets.

Typically, you can accurately forecast the management salaries, rent, insurance and other stable items of business overhead. When the marketplace changes, however, even the cost of these items can increase or decrease drastically.



The projected income statement, or budget, shows how much you expect to make or lose during the year.



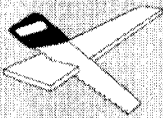
Estimating overhead expenses can be difficult because you must operate in a constantly changing environment.



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Overhead expenses are often assigned to a series of categories that represent general business-related activities or functions. You can establish any number of categories. The following list gives examples of some of the overhead

expense categories you may choose to establish. This list also includes estimates of typical dollar amounts for each category, based on the annual sales volume for the business.

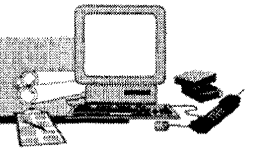


Each task you assume for yourself must be carried out with the proficiency of a hired professional.

Typical Overhead Calculations

ANNUAL SALES		\$100,000	\$250,000	\$500,000	\$1,000,000
1. Sales commissions	7-10%	7,000	20,000	50,000	100,000
2. Production mgr.	5-7%	5,000	15,000	30,000	60,000
3. Advertising	1-5%	1,000	5,000	10,000	50,000
4. Rent	1-2%	1,200	5,000	10,000	19,000
5. Office staff	4-8%	4,000	15,000	30,000	60,000
6. Insurance	2-3%	2,000	4,000	12,000	22,000
7. Truck	5-7%	5,000	10,000	15,000	20,000
8. Telephone	1-2%	1,200	2,400	3,600	5,000
9. Cellular phone, pager<	1%	360	720	1,080	1,440
10. Tools & equip.	1%	1,000	2,500	5,000	10,000
11. Office equipment	< 1%	500	1,200	2,500	5,000
12. Office supplies	< 1%	100	250	500	1,000
13. Accountant	< 1%	300	600	900	1,200
14. Legal fees	< 1%	500	1,000	1,500	5,000
15. Dues, Associations	< 1%	250	500	500	500
16. Seminars, Travel	< 1%	250	500	750	1,000
17. Entertainment	< 1%	100	200	500	1,000
18. Bad debts	1%	1,000	2,500	5,000	10,000
OVERHEAD EXPENSES:		\$30,760	\$86,370	\$187,830	\$372,140
PERCENTAGE OF SALES		31%	35%	37%	37%

NOTE: The above typical overhead calculations are to be used only as examples for the preparation of annual budgets. Some overhead categories may be missing. All %s are approximate.



Estimated net income

Income before tax is determined by subtracting the cost of sales and overhead expenses from the sales.

Net income is determined by subtracting the income tax from the income before tax.

The government wants its share and will take approximately 25% of the income before tax.

The net income is sometimes referred to as net profit.

Sales	\$100.00
Cost of sales	- <u>53.00</u>
Gross income	= 47.00
Overhead expenses	- <u>37.00</u>
Income before tax	= 10.00
Income tax	- <u>2.50</u>
Net income	= \$7.50

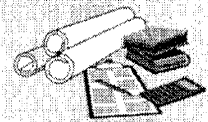
You must choose what to do with net income. You can choose to:

- pay out the money to investors in the form of dividends;
- buy new equipment, buildings to renovate and resell, or other assets;
- pay down any loans the business is carrying; and/or
- leave the money in the business — where it will be identified as retained earnings (part of the shareholders' equity).

Projected Balance Sheet

The balance sheet shows the fundamental soundness of your business by reflecting its financial position at a given date. The **projected** balance sheet forecasts what the soundness of your business will be at a future date.

The projected balance sheet is divided into two sections: one shows the assets; the other shows the liabilities and shareholder's equity. Both sections are always in balance. All goods, property, prepaid expenses and assets are listed in the assets section. The liabilities section lists all debts and the shareholders' equity (the amount the shareholders would share if the business were to be liquidated at the balance sheet value).



The projected balance sheet forecasts what the soundness of your business will be at a future date.

Assets

Assets consist of the physical goods and funds owned by your business, such as materials, land, buildings, equipment, prepaid expenses and cash — plus money owed to you by customers or by individuals or institutions who have borrowed money from your business.

Your assets can be grouped into three areas:

- current assets,
- investments, and
- fixed assets.



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The difference between the sale price and the cost of sale for each job is known as the gross margin.

Current assets — These are owned by your business, can be converted to cash within a year, and are stated at their present value.

Investments — These may have a long-term benefit but are not fixed assets, and are stated at the lower of cost or market value.

Fixed assets — These are physical items which will last more than one year, and items not intended for resale which will be used in the operation of your business, which can't easily be converted into cash, and are stated at original cost.

Liabilities

Liabilities consist of all debts owed by your company, including bank loans, personal loans and unpaid accounts to suppliers. Your liabilities can be grouped into the following areas:

- current liabilities, and
- long-term liabilities.

Current liabilities — This is the amount of money your business owes and must pay within one accounting year (including the current portion of any long-term debt).

Long-term liabilities — This is the amount of money your company has borrowed and must repay at some time after one year.

Shareholders' equity and retained earnings

Shareholders' equity for your renovating business can be divided into two categories:

- capital stock, and
- retained earnings.

Capital stock — This is the funds invested by the owner(s). The shares of ownership of a limited company are called the Capital Stock.

Retained earnings — These are the profits earned in the past which have not been distributed as dividends but have been held and accumulated in your business.

Gross Margins

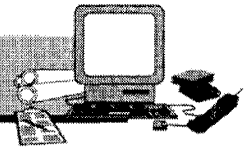
The difference between the sale price and the cost of sale for each job is known as the **gross margin**. Overhead expenses can be paid and contributions to profit made from the gross margin of all jobs.

Renovators will argue about the degree of control they have over their gross margin.

Some will argue that the marketplace will dictate prices; others will argue that renovators have the ability to establish prices.

In either case, you should have a 'feel' for or estimate of the approximate margin that the market can provide.

The terms **gross margin** and **mark-up** are often confused. Both



terms are used when referring to individual jobs — not to the income statement.

Gross Margin is the difference between the amount the job is sold for and the direct job cost related to that job.

For example if a job sells for \$1,000 and has \$530 of costs directly attributed to that job, then the gross margin is \$470.

$$\$1000 - \$530 = \$470$$

or

$$470/1000 = 47\%$$

The gross margin for each job goes first to pay for the overhead expenses of your entire business and then to the Income Before Taxes.

Mark-up is the amount of money added to the estimated direct job cost to arrive at a job sale price.

The amount of mark-up for a job can be expressed as a percentage of the estimated job cost. The mark-

up percentage will be the same for all jobs.

The following example shows how to calculate the mark-up percentage.

Applying this mark-up to the estimated direct job cost will result in the bid price.

Example:

Estimated direct job cost is \$200.
Mark-up is 86% or .86

$$\$200 \times .86 = \$172$$

The bid price would be:
 $\$200 + \$172 = \$372$.

Mark-ups and margins mean different things. Be careful how you use these terms.

The most important number is the mark-up. Make sure it's high enough to cover your estimated overhead expense plus a provision for income before taxes.

Estimates for the year

Sales -	\$400,000
Cost of sales -	<u>215,000</u>
Gross income -	185,000
Overhead expenses -	<u>145,000</u>
Income before taxes -	<u>\$ 40,000</u>

Cost of sales x Mark-up = Gross
Income

$$215,000 \times \text{mark-up} = 185,000$$

$$\text{mark-up} = \frac{185,000}{215,000}$$

$$\text{mark-up} = .86 \text{ or } 86\%$$



Break Even Point

The break even point allows you to determine the amount of work you must complete before generating any income before tax.

The break even point is where the gross margins from all jobs equal the total expected overhead expenses for the year.

Example:

If your estimated overhead expense for one year is \$100,000 and you charge a mark-up of 86% on direct job costs, what amount of sales are required for you to break even?

Some renovators may look at the proceeds from a few sales and think they are making a big profit simply

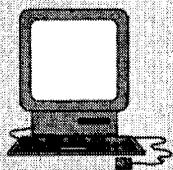
because sales are higher than their cost of sales. These renovators don't know what their overhead expenses are. Other renovators may not consider their salary to be an overhead expense — they consider the net income after tax to be their salary.

Recovery of overhead expenses is one of the primary considerations of sound financial management. Once your expected annual overhead expenses have been recovered, you can increase the competitive position of your business.

The market determines what gross margin you can get from each job. Some renovators do not set their prices high enough even though the market is prepared to accept their price. This introduces unnecessary and false price competition which has a negative impact on every member of the renovation industry.

You have a responsibility to set prices that reflect fair and reasonable gross margins and that allow for recovery of overhead expenses and earning of profits.

Experienced renovators know that not every deal will generate a profit. Site problems, disputes, cost over-runs, estimating errors, and mistakes can all cause the "on paper gross margin" to shrink. The break even point thus fluctuates as the year progresses. You must make pricing and overhead expense adjustments to account for these fluctuates throughout the year.



Once your expected annual overhead expenses have been recovered, you can increase the competitive position of your business.

Sales	?
Cost of sales	?
Overhead expenses	\$100,000

Mark-up	86% or .86
---------	------------

Cost of sales x Mark-up = Overhead expenses

$$\text{Cost of sales} \times .86 = \$100,000$$

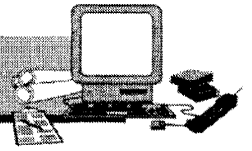
$$\text{Cost of sales} = \frac{\$100,000}{.86}$$

$$\text{Cost of sales} = \$116,279$$

When the Cost of sales reaches \$116,279 the 86% mark-up will generate \$100,000.

Therefore the renovator will break even when Sales reach \$216,279.00

Cost of sales	\$ 116,279
Mark-up @ 86%	<u>100,000</u>
Sales	216,279



Recognizing Sales Income and Costs

When a contract is signed by a customer and a deposit is received, is this money considered a sale? No!

Timing of income

Conventional accounting practices suggest that a sale should not be recorded as such until the job has been completed. Until then, all funds received should be accounted as a liability under customer deposits & advances.

When the job is completed, an accounting entry is made which moves money from **customer deposits & advances** into "sales."

A sale is realized only when the job has been officially completed. Until this point, there is a degree of risk that the deal can go sour creating a loss in the form of non-recovered expenses.

Timing of costs

All direct job costs should be accounted as an asset under "work in progress-WIP." When the job is complete, an accounting entry is made that has the effect of moving job costs from the "WIP" account into the "cost of sales" account.

Remember that until the project is officially completed, all moneys you receive from the customer are deemed to be under the trust condition that they be used only to pay for materials and labour used directly on that job.

Deposits and advances should not be used to pay for the your overhead expenses or for costs from other jobs.

Projected Cash Flow

You may be able to operate your business profitably and yet have difficulties because of unexpected cash shortages. A projected cash flow budget will help you predict your cash requirements and determine what type of action you must take — such as securing a line of credit — to avoid these shortages.

A projected cash flow budget can tell:

- what cash you will need and when you will need it; and
- what cash you will have available and when.

No matter how time consuming it may seem, the cash flow budget is indispensable in planning for the future. It is essential in managing one of your business's most vital assets — cash!

When are payments due?

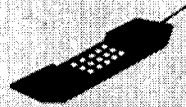
Many renovators are uncertain about when payments for materials and labour are due. They may expect payments to be due in exactly 30 days or only approximately 30 days. Still others may consider payments due only after advances or customer deposits are received.



A sale is realized only when the job has been officially completed.



Chapter 2



No matter how time consuming it may seem, the cash flow budget is indispensable...

Each business that sells materials or services to you has a credit period within which it expects payment. Some enforce this policy more strongly than others. As a professional renovator, you should discuss payment dates with suppliers and arrange appropriate credit terms. In other words, if you do not want to pay the plumbing company for 60 or 90 days, you should arrange this in advance.

If you pay your bills on time — every time — you will get better pricing and better service from subcontractors and suppliers. It's an unspoken fact. If you think you are saving money by not paying bills on time, you may in fact be costing yourself a bundle.

To do an accurate cash flow budget, you must decide when invoices are going to be paid. It is a good idea to pay your bills on a regular basis.

How much money will be coming in — and when?

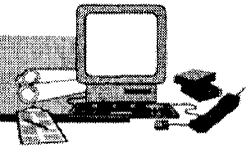
Possibly one of your most difficult tasks is estimating how much money will be coming into your business and when. Payments from customers may be delayed and you must take this into consideration when estimating cash flow. A customer may pay all remaining funds to you when the job is completed; however, they may be slower on payment of holdbacks for unfinished items.

You must also consider seasonal and statutory holdbacks. These are often delayed because of the confusion that exists about who has the authority to release this money.

Forecasting Confidence

To increase the level of confidence in forecasting revenue you should consider:

- the level of ongoing communications with clients;
- the clarity of the contract and the terms of payment; and
- the general level of customer satisfaction.



The Cash Flow System

There is a important distinction between a cash flow budget and the projected income statement.

The cash flow budget shows all **cash receipts** from every source as they are expected to be **received** and all **cash payments** by the business as they are to be **made**.

A cash flow system provides the information needed to ensure enough cash is in the bank or readily available elsewhere to cover expenses when they are due.

Cash is like many other things — it's better to have too much than too little. It's not uncommon for a business to make profits and yet be in trouble because it doesn't have the ready cash to pay its bills.

You won't stay in business very long if your bills go unpaid, so managing cash is a vitally important part of your duties.

The cash flow budget is used to determine as closely as possible the amount of ready cash your business needs. Since it records only cash payments and receipts, **not promises**, it can show the **actual** monthly cash flow.

With this information you will know if you have enough funds to meet your cash requirements or if you will require assistance from a lender.

Your ability to anticipate cash requirements is evidence of effective financial management, and it greatly enhances your chance of success in negotiating the necessary terms for loans.

Cash requirements and sources

To complete an effective cash flow budget you need the following:

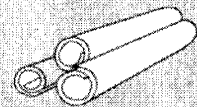
- a balance sheet from the end of the most recent period, or in the case of a new business the opening balance sheet;
- a projected income statement for the period to be covered by the cash flow budget; and
- an estimate of the timing of all cash transactions.

The balance sheet, by definition, is a photograph of the financial position of your business at a given point in time. It provides the bank balance, accounts receivable, accounts payable and all items that can affect the cash position of your business.

The projected income statement will ensure that all financial activities of your business are considered for the cash flow budget.

All cash transactions must be listed according to their actual or anticipated date of occurrence. For example, your projected income statement might record an overhead expense of \$1,000 for insurance, but this premium might be paid during a specific month or in monthly or quarterly installments.

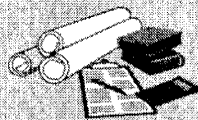
The following chart shows how revenue and disbursements can be categorized for the purpose of cash flow planning. This illustrative chart **does not include** all possible categories for revenue or disbursements.



Since it records only cash payments and receipts, not promises, it can show your actual monthly cash flow.



Chapter 2



The projected income statement will ensure that all financial activities of your business are considered for the cash flow budget.

The surplus or deficit is calculated by subtracting the total cash paid out from the total cash received. This amount is added to the opening bank balance to get the closing cash balance. This closing cash balance becomes the opening cash balance for the next month.

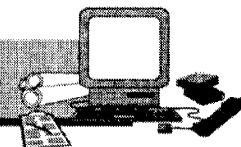
If the closing cash balance is negative, this is the amount to be borrowed.

Keeping cash projections current

You should review your cash flow budget often and compare it to the actual cash flow of your company. If there is a discrepancy, your budget needs to be updated.

Sample Cash Flow Sheet

	January	February	March
REVENUE (Cash Only)			
Customer deposits			
Advances			
Receivables collected			
Sale of fixed assets			
Other cash received			
Total Cash Received			
DISBURSEMENTS (Cash Only)			
Rent			
Salaries			
Legal & accounting			
Utilities and insurance			
License & tax			
Other overhead expenses			
Payments on purchase of assets			
Interest on loans			
Income tax and dividends paid			
Work in progress -WIP			
Other cash expenses			
Total Cash paid out			
Opening Cash Balance			
Surplus or deficit			
Closing Cash Balance			
Money to be Borrowed			



Accounting and Record Keeping

Your financial records keep track of almost all financial activities of your business. The output consists of financial statements and other useful data. Business transactions include such activities as making sales, meeting staff, paying for materials and labour, and a wide variety of related events.

Regardless of the volume of transactions, you must process each one in order that its effect on business operations will be reflected in your financial statements.

The accounting system

A satisfactory accounting system is an absolute necessity for you to be a successful renovator. Your accounting system provides you with cash and bank balances, accounts receivable and accounts payable, and the value of inventory. It also shows interest paid for borrowed money, the cost of new equipment purchased, expenditures for advertising, and a variety of other details.

Because of the importance of such information, it is probably safe to say that you will not make very many management decisions without referring to your accounting data.

Others may also be interested in your financial information. Banks and lending institutions, insurance and bonding firms, and suppliers who have extended credit are interested in your financial strengths.

The government is also concerned because taxes are calculated on the basis of accounting figures.

How does an accounting system work?

The first accounting procedure is the recording of transactions. Some renovators may rely on pen-and-ink records, but computer record keeping is becoming more common. Computers have increasingly assumed the burden of recording business transactions, classifying and summarizing these more rapidly than is possible with a pen-and-ink system.



...A satisfactory accounting system is absolutely necessary for you to be a successful renovator.

Definition

Accounting may be defined as the:

- **recording** of business transactions;
- **classifying** of business transactions;
- **summarizing** of business transactions; and
- **interpreting** of this compiled information.

These four steps require that a dollar value be assigned to each business transaction before it can be recorded.



Chapter 2

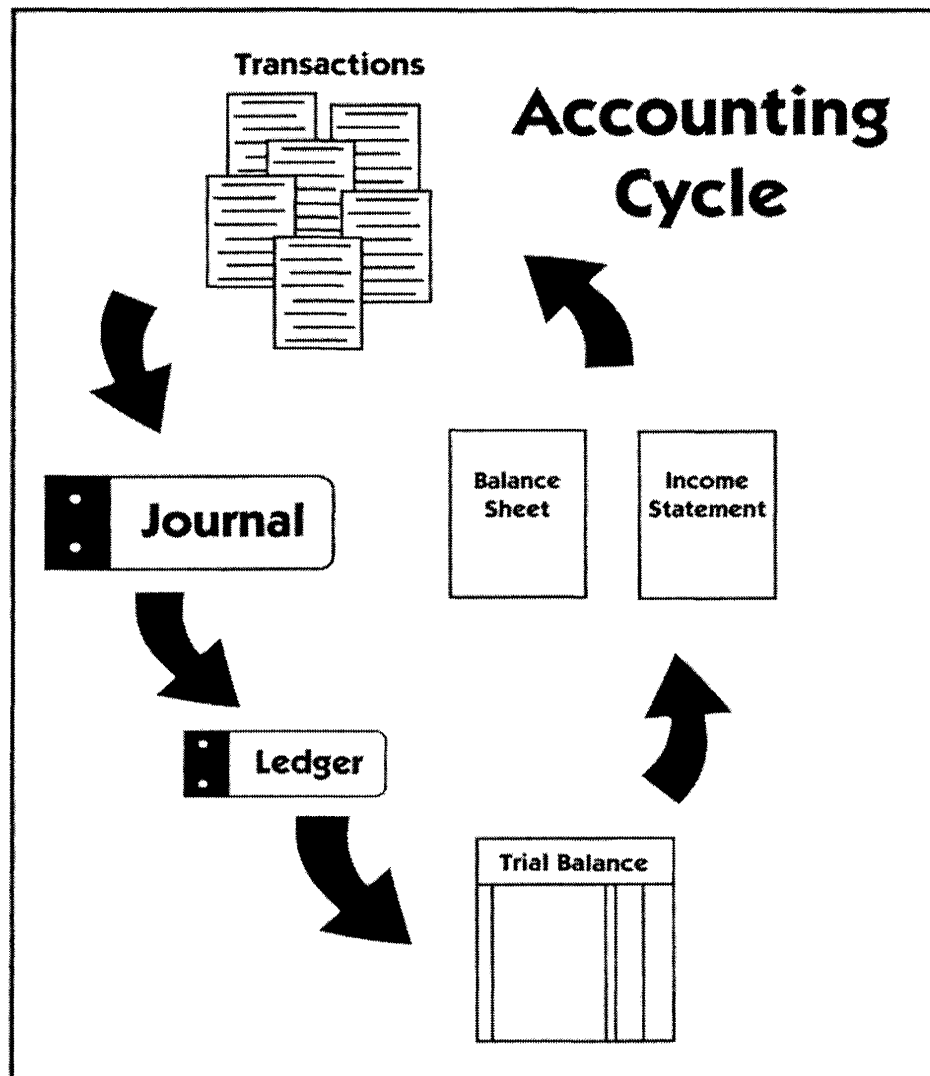
Regardless of which technique you choose, you will use some form of a **journal**, record transactions in chronological order as debits and credits to particular accounts.

The next procedure is to classify the transactions. By a process known as **posting**, the entries in the journal are transferred to a **ledger**, which is a collection of accounts. Each account brings together all transactions affecting one item, such as job costs, accounts receivable, accounts payable or cash.

At the end of every month, each of the accounts in the **ledger** is totaled. A listing of the accumulated monthly totals for each account in the ledger is known as the **trial balance**.

From the trial balance the account totals are moved into the appropriate categories of the **balance sheet** and **income statement** which are the main elements of the **financial statements**.

This set of accounting procedures performed in each accounting period (that is, monthly) is called the **accounting cycle**.

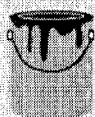


**RELIABLE RENOVATORS****Income Statement****January 1 - December 31, 1993**

SALES	\$ 400,000
COST OF SALES	<u>\$ 215,000</u>
GROSS INCOME	\$ 185,000
OVERHEAD EXPENSES	
Rent	\$ 6,000
Insurance	6,000
Telephone	5,000
Accounting & Legal	3,000
Memberships & Conferences	2,000
Travel & Entertainment	2,000
Staff Development	500
Advertising	15,000
Vehicles & Maintenance	7,000
Tools	2,000
Office Supplies & Equipment	3,000
Management Salary	45,000
Office Staff	41,500
Warranty & Service	3,000
Depreciation	2,500
Bank Charges	1,500
TOTAL EXPENSES	<u>\$ 145,000</u>
INCOME BEFORE TAXES	\$ 40,000
INCOME TAXES	<u>\$ 10,000</u>
NET INCOME	\$ 30,000



Chapter 2



Rebates and surcharges affect your cost of doing business and are reflected in price quotations.

RELIABLE RENOVATORS

Balance Sheet

Dec. 31, 1993

ASSETS

CURRENT ASSETS

Cash	\$ 90,100
Accounts Receivable	\$ 25,000
Work in Progress	\$ 15,000

LONG-TERM ASSETS

Tools	\$ 9,000
Office Equipment	\$ 6,000

TOTAL ASSETS **\$ 145,100**

LIABILITIES

CURRENT LIABILITIES

Bank Loan	\$ 0
Accounts Payable	\$ 30,000
Customer Deposits and Advances	\$ 10,000
Wages Payable	\$ 0
Income Tax Payable	10,000

LONG-TERM LIABILITIES

Equipment Loan	\$ 5,000
Shareholder Loan	\$ 60,000

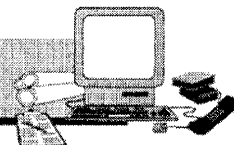
TOTAL LIABILITIES **\$ 115,000**

SHAREHOLDERS' EQUITY

SHARE CAPITAL	\$ 100
RETAINED EARNINGS	\$ 0
CURRENT EARNINGS	\$ 30,000

TOTAL SHAREHOLDERS' EQUITY **\$ 30,100**

TOTAL LIABILITIES AND EQUITY **\$ 145,100**



RELIABLE RENOVATORS

Projected Income Statement January 1 - December 31, 1994

	1994 Projected	1993 Actual
SALES	\$ 600,000	\$ 400,000
COST OF SALES	<u>\$ 324,000</u>	<u>\$ 215,000</u>
Materials	\$ 150,000	
Labour	\$ 90,000	
Subcontracts	\$ 84,000	
GROSS INCOME	\$ 276,000	\$ 185,000
OVERHEAD EXPENSES		
Rent	\$ 10,000	\$ 6,000
Insurance	7,500	6,000
Telephone	5,000	5,000
Accounting & Legal	2,500	3,000
Memberships & Conferences	2,500	2,000
Travel & Entertainment	1,000	2,000
Staff Development	3,500	500
Advertising	22,000	15,000
Vehicles & Maintenance	15,000	7,000
Tools	2,000	2,000
Office Supplies & Equipment	4,500	3,000
Management Salary	50,000	45,000
Office Staff	84,000	41,500
Warranty & Service	4,500	3,000
Depreciation	2,000	2,500
Bank Charges	1,500	1,500
TOTAL EXPENSES	<u>\$ 217,500</u>	<u>\$ 145,000</u>
INCOME BEFORE TAXES	\$ 58,500	\$ 40,000
INCOME TAXES	<u>\$ 14,625</u>	<u>\$ 10,000</u>
NET INCOME	\$ 43,875	\$ 30,000



Reliable Renovators Projected Balance Sheet Dec. 31, 1994

ASSETS

CURRENT ASSETS

Cash	\$ 151,300
Accounts Receivable	\$ 30,000
Work in Progress	\$ 45,000

LONG TERM ASSETS

Tools	\$ 8,000
Office Equipment	\$ 5,000

TOTAL ASSETS **\$ 239,300**

LIABILITIES

CURRENT LIABILITIES

Bank Loan	\$ 0
Accounts Payable	\$ 56,575
Customer Deposits and Advances	\$ 30,000
Wages Payable	\$ 0
Income Tax Payable	\$ 14,625

LONG TERM LIABILITIES

Equipment Loan	\$ 3,000
Shareholder Loan	\$ 60,000

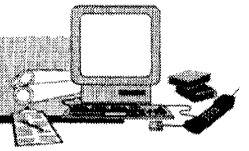
TOTAL LIABILITIES **\$ 164,200**

SHAREHOLDERS' EQUITY

SHARE CAPITAL	\$ 100
RETAINED EARNINGS	\$ 30,000
CURRENT EARNINGS	\$ 43,875

TOTAL SHAREHOLDERS' EQUITY **\$ 73,975**

TOTAL LIABILITIES AND EQUITY **\$ 238,175**



The balance sheet represents the financial picture of your business as it stood on one particular day, as though the wheels of your company were momentarily at a standstill. The balance sheet is divided into two sections: one shows your assets; the other shows your liabilities and shareholders' equity. Both sections are always in balance.

The items on the balance sheet may be expressed in the form of an equation known as the **accounting equation**:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

There are two claims on the assets of a renovating business: the claim of the creditors (liabilities) and the claim of the owner (equity). If a business ceases operations, the creditors have first claim on the assets. Any assets that remain belong to the owner.

NOTE: If you are the owner of a business and are actively employed by that business you should always show a wage payable (liability) even if you do not draw on it during good times. You can claim this money, as wages payable, before creditors.

The accounting equation is a mathematical expression of how the balance sheet works. The sum of the left side of the equal sign must equal the sum of the numbers on the right side.

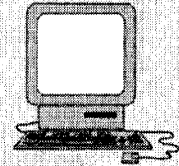
The balance sheet shows the fundamental soundness of your company by reflecting its financial position at a given date.

Setting up the books

The financial position of your business changes frequently as events occur (wages paid, materials purchased, deposits received, etc.) Each business event, called a **transaction**, is reflected in the balance sheet.

A business transaction always includes an exchange of things of value, and causes changes in the values of items on the balance sheet. If the next balance sheet is to be correct, you must record changes caused by all transactions.

When you start a new job, you take deposits and payments from the customer and make commitments for the purchase of labour and materials. Each of these transactions must be recorded in accounts set up to keep track of them.



There are two claims on the assets of a renovating business: the claim of the creditors (liabilities) and the claim of the owner (equity).



Chapter 2

The journal and the ledger

A general journal is often called the book of original entry because this is where transactions are first recorded, with the date, debit or credit, and explanation for each transaction. Transactions are recorded chronologically.

Notice that in the general journal, there is a consistent procedure for recording debits and credits.

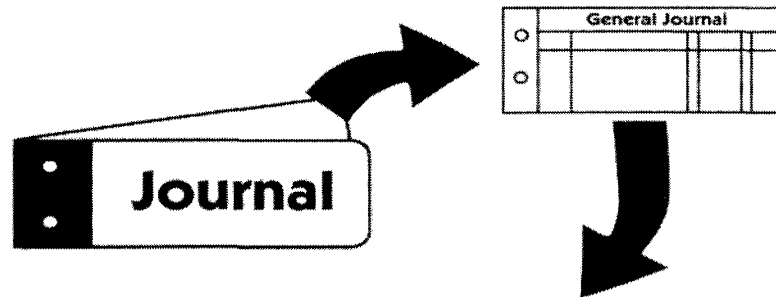
Debits are recorded first; credits are recorded second and are indented.

The names of the accounts in the general journal should always be written in exactly the same way as the titles of the accounts appear in the ledger.

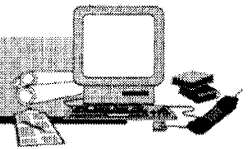
Although you can record transactions directly into the ledger accounts, you may prefer to record transactions in the general journal first, as a history of all transactions.



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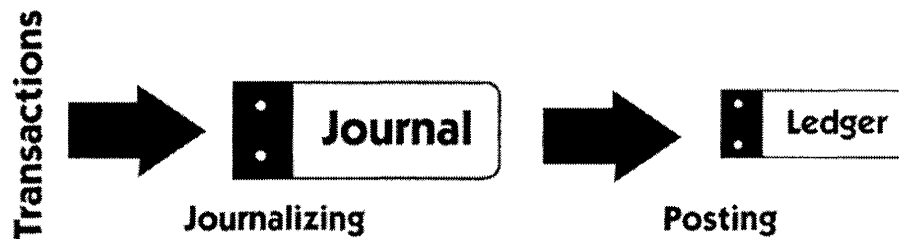


GENERAL JOURNAL					
Date		Particulars	Debit	Credit	Ref #
Oct	5	Bank Account	15,000		
		Share Capital		15,000	
		Bought shares in business			
Oct	7	Equipment	4,000		
		Bank Account		4,000	
		Bought used truck			
Oct	9	WIP - Job #341	5,000		
		Bank Account		5,000	
		Bought materials			



The general journal does not tell how much cash is on hand or give the balance of each of the items

that will appear on the financial statements. This type of information is posted to the ledger.



The general journal does not tell how much cash is on hand... This type of information is posted to the ledger.

Column accounts

The most widely used format for an account is the **column account**. The following is the bank account

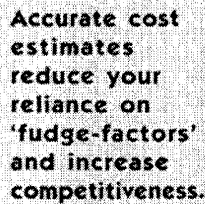
shown on a sheet of paper using this format.

ACCOUNT		Bank Account	NUMBER	
DATE		PARTICULARS	DEBIT	CREDIT
Oct	5	share purchase	15,000	
Oct	7	purchase truck		4,000
Oct	9	purchase building materials		5,000
Oct	11	customer deposit - Job #341	2,500	

You can total this at any time to determine the balance.

Now that you can use column accounts to record transactions, the

next step is to group the column accounts into a large book (journal) that lists **all** of the accounts you have.



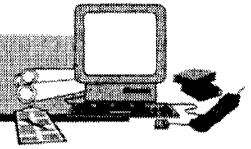
When doing a renovation, it's going to cost whatever it's going to cost....right? So why spend a lot of time keeping accurate records of the individual job costs?

efficient building techniques. This is not to say that you would fail to comply with the specifications of the sales contract, but you could negotiate pricing with suppliers and trades.

This simplified ledger shows a basic method of collecting job costs. Detailed job costing requires a ledger with detailed breakdowns of the job's cost items.

Another benefit of knowing the actual job cost is the ability to compare it with the job estimate.

Having accurate job cost information can help you when determine pricing strategies for new jobs and verifying the adequacy of mark-ups.



Accounting Procedures — A Review

Accounting procedures developed by professional accountants have evolved into commonly accepted practices. You will find it advantageous to have your business records comply with these practices. While there is a variety of different ways to set up your record keeping, some may make it difficult to extract the kind of information required by banks, governments, bonding companies, etc.

Also, conventional record keeping systems have built-in checks and balances to ensure that the information being put into the system is being processed correctly. If your system does not follow conventional procedures, a professional accountant may find it difficult to verify records or prepare financial statements and tax returns.

Some renovators run into financial difficulty because they spend money they really don't have. This is often the result of an inadequate record keeping system or poor maintenance of records.

You should record financial transactions on an accrual basis, under which, receipts and expenses are accounted for as soon as money is requested or orders are placed. For incorporated businesses, **accrual accounting** is mandatory.

This type of record keeping provides accurate information about cash on hand, money owed to your business by customers, money owed by your business to others, and money that has been committed to materials and labour.

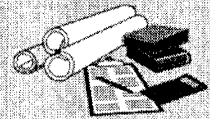
In the accrual system, income and expenses are recognized and recorded immediately — even though actual money may not change hands for some time. For example, if you receive a bill from a plumber, your accounting records would show an increase in the work in progress for an individual job and in a separate column an equal amount of money payable at a future date. This amount is known as an **account payable**.

The money that your company has requested (invoiced) but not yet received is known as **accounts receivable**. For example, if you request a payment from a customer, that amount is immediately entered into the records as a customer deposit/advance, and an equal amount entered into the separate accounts receivable column.

The value of an accountant

You should select and work with an accountant that understands the renovation business. Computers can reduce the job of bookkeeping and cost accounting significantly. However, the information that computers can print out needs analysis.

A good accountant can offer sound business advice to protect your business from unforeseen difficulties.



In the accrual system, income and expenses are recognized and recorded immediately — even though actual money may not change hands for some time.



A good accountant can offer sound business advice to help protect your business from unforeseen difficulties.



Deposits and advances normally are paid to you without delay, as per the conditions of the contract...

Paper flow — keeping things straight

When you extend credit to customers by allowing them to pay later, it costs you money. Therefore it's important to keep records up-to-date and accurate in order to collect money as quickly as possible. It's a good business practice to collect money owed to you when it is due.

Collection procedures

You will normally collect funds in the form of customer deposits and advances. Deposits and advances normally are paid to you without delay, as per the conditions of the contract. However, if the completion or some other aspect of the work is not exactly as expected, the customer may feel justified in holding back funds. Some projects that have gone along well, may sour during the final stages. Collecting money in this situation is much more difficult.

The cardinal rule for a renovator is to have the final payment due upon **substantial completion** of the job.

Substantial completion is the point at which the job can be used for the purpose for which it was intended. Any holdbacks (for liens, WCB premiums, etc.) should be held in trust, to be released on the appropriate date when the trust conditions have been met.

The customer could refuse to pay the entire closing balance until all items are complete. The outstanding balance is usually much greater than the value of the incomplete work. Even after substantial completion, the customer may continue to hold back the remaining balance demanding touch-ups or adjustments. This list never seems to end. Eventually the customer and renovator may no longer be talking and the unpaid account becomes a major sore point.

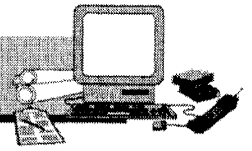
Because the title resides with the customer, the renovator has only the courts for recourse. This is usually time consuming and expensive and the renovator may get stuck with a loss.

Seasonal work is work that can not be completed because of seasonal weather conditions. For example, exterior trim painting or brick work

Formal Technique

If you find yourself in a situation where payments are due but remain unpaid, you should:

- have the customer record in writing all items that need completion or correction;
- have the customer place the unpaid money in the hands of a lawyer with the trust condition that when all work as per the written list is completed, the money will be released; and
- have a mutually agreed upon third party decide if the work is completed satisfactorily.



that can not be done in winter naturally must wait until the spring. Payment for this work would not be due until the work is completed.

To ensure that funds will be available to pay for seasonal work when completed, you can encourage the customer to place the funds in an interest-bearing trust account under the control of a lawyer, with instructions to release the money when the work is complete.

Paying on time and earning discounts

You should assume that customers will pay on time and conduct their affairs accordingly. You should also make your own payments on time.

Maintaining good communications with customers, doing high quality work and providing good customer service will virtually eliminate late payments. Remember, however, that unpaid amounts may be small

enough to pursue through small claims court.

Is it always to your benefit to delay payment of suppliers' invoices to the limit of their credit terms?

Not always! Many suppliers like to get their money as soon as possible and offer discounts if payments are made early. Most invoices indicate that payments are due 'Net 30'. This simply means that the full net amount of the invoice is due and payable 30 days from the date of the invoice.

Some invoices will say '2 Net 10' plus the standard Net 30. These invoices are offering an early payment discount of 2% if the invoice is paid within 10 days of the invoice date.

If you have idle cash in the bank you should take advantage of the early payment, because interest charged for lending is significantly higher than that paid for deposits.



Using your line of credit

Is this discount worth taking advantage of? Assume an invoice amount of \$1,000. If you pay this amount within 10 days (instead of the normal net 30 days) you will save 2% or \$20.00 ($\$1,000 \times 2\% = \20.00).

If you use a 30-day line of credit to pay this invoice within 10 days, you will be charged interest for the 20 days the money is used. Assuming an interest rate of 15% per year, the cost of borrowing this money for 20 days would be \$8.22 ($\$1,000 \times 15\% \times 20/365 = \8.22). It is clearly to your advantage to pay early, as a saving of \$11.78 would be realized. ($\$20 - \$8.22 = \$11.78$)



Chapter 2



Last-minute ordering often necessitates using more expensive products...

Validating and checking invoices

When you receive an invoice from a supplier, you must validate it, and then journalize it for payment in the accounts payable journal and post it to WIP.

Validation involves checking invoices for correctness in the following ways:

- check the math to ensure the numbers are extended and added correctly;
- check the prices to ensure they are the same as in the purchase order and/or standing quotation; and
- check the quantities - verified from the field delivery slips that were checked when the delivery was made. Ensure any discrepancies or returns have been noted and figured into the quantity being charged.

If the invoice is in order, determine if the supplier will offer a discount for early payment and take advantage of it if possible. Based on this decision, determine the date on which the payment must be made and enter the information into the accounting journal (as discussed earlier in this section).

Cost Control

Who is responsible for cost control?

You, the renovator, are fully responsible for cost control. Systems are required to ensure costs are kept in line; you should involve staff in cost control.

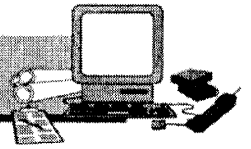
Disciplined shopping and careful purchasing is mandatory because the contract price of a job never increases, and the actual job cost rarely comes in less than the amount estimated.

Scheduling

As jobs get delayed and materials are back-ordered or damaged, you will be pressured to make snap purchase decisions. These purchases are usually costly.

A customer's lack of planning or decision making can also cause orders to be placed late, resulting in delays and rush charges. Last-minute ordering often necessitates using more expensive products to compensate for a lack of availability.

Therefore having an effective cost control system and effective selection and work schedules are important for success. A timely and effective work schedule will reduce costs by helping all involved parties (customer, supervisor, workers, trades, etc.) get their work done on time.



Purchasing

Purchasing authority is probably the most important aspect of cost control. Having only one person with the authority to order goods or services will reduce the chances of improper purchasing. If more than one person is making purchasing decisions, a purchase order system is necessary to record the purchase decisions of others and to impose purchase limits.

Using purchase orders on a consistent basis reduces the problem of unauthorized purchases that result in material wastage or loss, or incorrect material use.

Cost control depends on having a good estimate of expected costs, a purchasing process that provides a written record of all orders placed, and a system of verifying receipt of the ordered goods and services.

Comparing actual and estimated costs

You will need accurate comparisons between estimated and actual quantities and costs to:

- update your estimating information and the accuracy of your estimates; and
- verify the applicability of mark-up rates.



Using purchase orders on a consistent basis reduces the problem of unauthorized purchases...

Updating cost and quantity

The following types of information will help you with estimating:

- types of materials used and their current prices;
- quantities of materials needed for various types of work, including a provision for wastage;
- time required to complete specific job functions; and
- methods that subcontractors use to calculate their price estimates.



Financing

Other than poor management, the major reason some renovating businesses fail is insufficient financing.

Renovation jobs are often conducted on a positive cash flow basis, if customer deposits and advances are substantial. However, you can only use these funds for the specific job for which they have been advanced, which may leave you in need of additional operating funds.

Unless the owners have large personal resources, the business will have to find other sources of financing. To secure financing, you must be able to tell other people how their money will be used and how it will be paid back.

To secure financing from a lender, you must prepare a financing proposal that anticipates the lender's requirements and provides complete and accurate information. Any lender will be impressed by a well-documented financing proposal that demonstrates that the you know what's going on. If the lender does not have to collect substantial additional information, you will be well ahead of the game.

Financial institutions

Financial institutions offer a full range of banking services, including business deposit and loan accounts, purchase and sale of securities, letters of credit, and the provision of credit information. It is essential to develop a good working relationship with the lender from the very beginning. Because lender account managers

change regularly, it is important that you deal with the "lender" as opposed to the "account manager". A lender who is familiar with you and your business will more readily supply faster and better services and also give sound financial advice that will help you avoid crisis planning.

Choosing the right financial institution

Your choice of financial institution depends on several factors. Choose the lender or financial institution that offers the best mix of required services at the best price.

Some lenders charge an application fee when a business applies for a line of credit or other loans. These fees are negotiable and vary quite substantially. Take the lender's policy regarding application fees into consideration during negotiations.

Using personal assets to provide security

Lenders are very concerned with security. The lender must be satisfied that your company and its principals are well capitalized and able to repay debt. The lender will always want a fallback position, should the business fail.

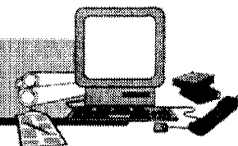
Lenders will require general security in terms of the following:

Personal guarantees — These simply state that an individual will guarantee the loan with personal assets, should the business be unable to repay the amount outstanding.

Letters of undertaking — These are documents which promise in writing to provide security should



To secure financing, you must be able to tell other people how their money will be used and how it will be paid back.



the business be unable to repay the loan. These are usually letters from sources outside the business (such as other family members, friends, other investors, or other businesses) which guarantee payment of specific debt, should the business not be able to repay the loan.

Collateral mortgages — These are specific mortgages which are tied to specific properties owned by the renovator or pledged by others who enter into private agreement with the renovator in exchange for specific benefits or considerations. The collateral is held until the loan is discharged. Some renovators have been required to place a collateral mortgage on their homes to secure financing for their business.

Shareholder loans — These are loans made to the business by the owners of the business and often form a significant source of funding. Any loans made to the business must be documented to provide a clear audit trail for income tax purposes.

Shareholder loans can carry a specific repayment date, reasonable interest rate requirements or no requirements at all. When more than one shareholder makes a loan to the business, it is important to determine and document all terms and conditions.

Protecting Personal Assets

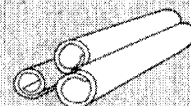
Some lenders may want to obtain as much security as they can get — often far in excess of the actual value of the loan being advanced. In some cases, personal assets such as real estate, vehicles, bonds or other investments are encumbered to secure loans.

Beyond assets being used as collateral, lenders often insist on personal guarantees of the principals.

If a personal guarantee is required, you should make it a limited personal guarantee — the amount that can be claimed by the lender should be limited to the amount you owe.

Personal guarantees often do not carry an expiry date, but it is common for lenders to have them re-signed every 5 or 6 years in order to reemphasize your commitment to the lender. For revolving lines of credit, the personal guarantee is normally required for as long as the line is in place.

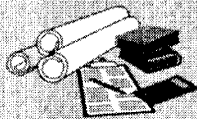
Personal guarantees for business loans are often combined with a postponement of claim. The postponement of claim prohibits shareholders' loans or other equity from being taken out of your business without the consent of the lender. If equity is taken without permission, the lender may immediately call in your loan.



If a personal guarantee is required, you should make it a limited personal guarantee — the amount that can be claimed by the lender should be limited to the amount you owe.



Chapter 2



In the case of a personal bankruptcy, all non-secured debts and personal guarantees become void.

A personal guarantee should be for a specific obligation. Once the loan obligation has been completed, you should obtain a letter from the lender indicating that the personal guarantee has been cancelled or recover the original documents from the lender.

If a personal guarantee is called upon by the lender, and you do not make payment, the lender will sue for the amount owing. If the court judgment is in favour of the lender, the judgment is registered against any property owned by the person that provided the personal guarantee.

When the property is sold, the lender would recover all or at least a portion of the money.

In the case of a personal bankruptcy, all non-secured debts and personal guarantees become void. Exemption allowances under the bankruptcy law provide for the person's house, furniture and vehicle (within limits) to be retained by the person. If your house or vehicle is secured by a mortgage or secured loan, you must continue to make payments, or the secured lender will sue for a judgment and eventual possession of the property.

Liquid security

Some types of security are more liquid than others because they can be converted into cash very quickly (bonds, stocks, GIC's, T-bills). These types of assets are known as having high liquidity. Lenders will generally lend the full value of these securities because they are almost as good as cash.

Other securities may not be as easily liquidated. Houses and buildings may take some time to

realize their value in a slow market, or may sell at a much lower price than expected. Lenders will not lend as much money against these types of security assets.

Knowing your lender

A lender lends other people's money and is responsible for selecting good investment opportunities with reasonable risks.

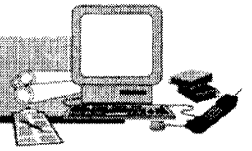
Part of the lender's job is to assess the people in management. The lender will assess the loan application based on the following five "C's" of borrowing :

Character — One of the major considerations in obtaining financing is the character of the individual who is borrowing the money and, by extension, the business. As an individual with a strong record of meeting obligations, you will have a much better ability to borrow than someone with a poor track record who never made loan payments on time.

Collateral — Providing collateral for the loan is absolutely necessary. As mentioned earlier, the lender will attempt to collect collateral for every loan. You should always attempt to minimize the collateral that is tied up because you may require some for later borrowing.

Capacity — Capacity is the ability of your business to repay debt and to carry on its affairs.

Credit — Your past and current credit is critical to the lender. The credit references developed as part of your financial plan will show that your business has cultivated lenders, sub-trades and other professionals who regularly provide credit and funds to your business.



Capital — Lenders are very aware that a lack of capital is a major problem for some businesses. Your cash flow budget will allow the lender to see the capital and cash position of your business. It will also show the lender when and how much you can pay in any period.

Lenders are impressed by management excellence. Experience in planning, organizing, supervision, directing, control, development and demonstrated success, will greatly enhance your borrowing power.

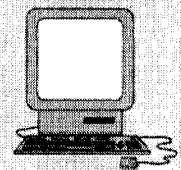
Remember to arrange borrowing needs well in advance of when the money will be needed. Because lenders are in competition to attract top caliber business accounts, you may find them willing to negotiate competitive terms, such as security requirements, interest rates and collateral requirements.

Lenders use the following business ratios to help establish your credit worthiness:

- **Liquidity ratio** to measure your business's cash flow and ability to meet short-term obligations;
- **Efficiency ratio** to measure your management performance and effective use of assets; and
- **Profitability ratio** to measure your business's overall performance.



Lenders are impressed by management excellence.



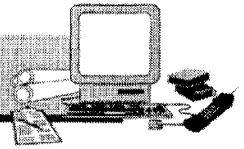
...lenders are in competition to attract top caliber business accounts...



Useful tips for dealing with lenders

- Dress presentably when approaching the lender, especially if your work clothes get dirty during the day. The lender won't appreciate mud tracked over the rug.
- During the discussions, remember to do business in the same manner as with customers or suppliers. Don't be subservient, overly familiar or too aggressive.
- Always keep in mind that, like you, a lender is in business to make a profit.
- Always make an appointment to see a lender and, if possible, make it directly with the person.
- Be prepared to provide your most recent financial statements, a complete business plan (including budget, projected statements, cash flow projections, financing needs, marketing plan, operating plan, and human resource plan) and personal financial statements. Most lenders will also want personal résumés.
- Be aware of what is going on — as you are the only constant human element in lending relationships — there's an 80% chance that the lender's account manager will be changed within two years.
- Remember that lenders are risk managers, not risk takers. By maintaining a close operating relationship and keeping the lender well informed, you will minimize the lender's perceived risk.
- *And finally*, try not to surprise the lender with sudden or unplanned requests for funds. Proper planning on your part will allow the lender sufficient time to consider any funding requests.

Regularly scheduled meetings with lenders at your office, followed by site visits of jobs completed and jobs in progress, is a good way to build mutual understanding and trust between yourself and the lender.



Financing Options For Renovators

Many types of financing are available to renovators. The most common products available are usually matched to appropriate assets. For example, current assets are matched to short-term loans, and fixed assets are matched to long-term loans.

Operating line — You should have an operating line of credit. This is a short-term loan which allows you to bridge brief periods when you are short of funds. The most common forms are revolving loans and overdraft.

The **revolving loan** is a preset line of credit used to finance receivables or inventory. Money is deposited into the account to cover obligations that occur each month. Generally, receivables will be financed at two-thirds of their value, and finished inventory at one-half of its value. The cost of revolving loans is prime plus, a percentage based on risk rating. This rate is usually more economical than an overdraft operating line.

An **overdraft operating line** involves straight dollar borrowing to cover commitments that are in excess of those currently in your account. As funds are received, the bank reduces the overdraft. Interest rates vary for an overdraft line and must be negotiated directly with the lender. This type of lending is usually the most expensive.

Term loans — There are three types of term loans generally available: installment loans; term loans with floating rates; and government guaranteed loans.

Installment loans are used to purchase fixed assets such as equipment or buildings and will usually maximize at 70 -75% of the asset purchase price. Repayment is a combination of principal and interest with a maximum five-year term and a seven-year amortization. Interest is fixed for the term and is based on risk rating.

Term loans with floating rates are also used to purchase fixed assets. The usual maximum is 70-75% of the value of the asset. Repayment is a combination of principal and interest with a one-to five-year term and a one-to five-year amortization. Interest floats at prime plus a percentage based on risk rating.

Government guaranteed small business loans are also used to purchase fixed assets. The maximum is 90% of the value of the asset. Repayment is a combination of principal and interest with a one-to five-year term and a one-to ten-year amortization. Interest floats at prime plus a percentage (usually 1%) based on risk rating, and is payable monthly.

Personal loans — Some lenders may require an equity injection to be used instead of the debt financing described above. The lender will assess the strength of the owners outside of the business venture, and may provide a personal loan such as a mortgage or a loan based on security not within the company.



The most common products available are usually matched to appropriate assets.



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A good credit rating can help ensure that you will receive lower financing costs and lower prices from suppliers and trades.

Equipment leasing — Leasing is an alternative form of financing that requires very little capital investment and where the leasing company retains ownership of the equipment. As only a small down payment is required, leasing frees capital to be used for purchases other than equipment purchases.

Trade credit — A large portion of your financing requirements are often provided by the suppliers and subtrades. Normally, suppliers of goods and services will provide credit for a standard 30-day period after which they will begin to charge interest.

You may be able to negotiate credit terms of 60 to 90 days if you have a good business reputation. By extending credit for these longer periods, suppliers and trades may be giving up their right to place a lien against the property upon which the materials and labour were used.

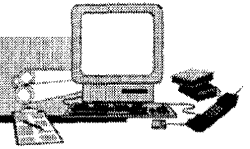
How Important is Your Credit Rating?

Credit is offered to people in exchange for the promise of payment at a later date. Failure to make payments as promised will hurt your business's reputation. Lenders do not like to work with businesses that are managed by untrustworthy people.

Lenders and suppliers often use businesses that specialize in tracking the credit history of other businesses. These credit reporting companies prepare a risk rating based on the credit history they have on file. Consistent failure to make timely payments will result in a higher risk rating for your company.

Lenders assess their interest rates to be based on the credit rating of their customers. It is obvious that a person or business with a poor credit rating will pay much higher interest rates or may be denied credit totally.

A good credit rating can help ensure that you will receive lower financing costs and lower prices from suppliers and trades. It has been shown time and time again, that suppliers and trades will offer better pricing to those renovators that pay on time — every time!



Holdbacks

The *Lien Act* provides security to those involved in the construction industry by:

- creating a trust relationship between the contracting parties involved in a renovation job;
- creating a lien on the land and fixtures that are the subject of the renovation contract, in favour of the contracting parties doing the work;
- creating a contractual holdback as a fund to satisfy lien claimants in the event of default;
- providing for enforcement through the courts; and
- providing record-keeping requirements for owners and renovators, and disclosure provisions in favour of lien claimants.

The image of a pyramid may help you understand the Act. At the top of the pyramid is the homeowner who has a contract with you to do a job.

You then enter into contracts with subcontractors who in turn become contractors when they enter into contracts with other subcontractors. Each renovator and subcontractor may also employ workers.

Trust Provisions

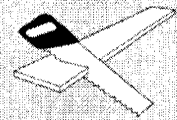
The Act creates three distinct trusts: the owner's trust, the renovator's trust, and the subcontractor's trust. Each trust has its own trustee and its own group of beneficiaries, and attempts to ensure that funds intended for use in the renovating project will flow through the project.

The homeowner is imposed with a trust whose sole beneficiary is the renovator. The money in the homeowner's hands constitutes a trust as soon as the amounts become payable to you.

You are the trustee of all amounts owing to or received by your business on account of the contract price. The beneficiaries of this trust are the subcontractors who have subcontracted with you, as well as other parties who have provided materials or services to you and workers who have been employed by you.

The subcontractor's trust is identical to your trust except that it applies one step down in the pyramid.

A trustee is discharged from the trust by payment to the beneficiaries. The beneficiaries of each of the different levels of trust have priority over any other dealings with the trust funds.



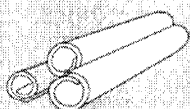
The subcontractor's trust is identical to your trust, except that it applies one step down in the pyramid.



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Enforcement

The trust provisions of the Act are enforced by civil and penal sanctions provided under the Act. These sanctions include the ability to “pierce the corporate veil” where there has been breach of trust by a business, and the creation of an offense for knowingly committing a breach of trust. The trustee is discharged one year after the date the contract is either completed or abandoned.



Financial statements are a historical view of a business's performance and value.

The Act creates a lien that gives to the person doing the work a charge on the land as against the owner. The lien arises when the work commences and is the amount of money owing to the lien holder. Every claim under a lien is a charge on the lien holdback.

INTERPRETING FINANCIAL STATEMENTS

Accounting has earlier been defined as the recording, classifying, and summarizing of business transactions, and the interpreting of this compiled information. A satisfactory accounting system is absolutely necessary for your success; otherwise you will not know how your business stands financially and will not be able to make intelligent decisions that affect profitability.

The average individual probably has little knowledge of accounting and little experience with financial statements. As an owner, it is important for you to know how to interpret the financial statements of your business in order to make sound management decisions.

A good accountant, familiar with the renovation business, can be very helpful in understanding how your business is performing and where it needs to be improved.

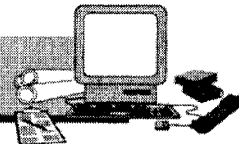
Financial statements are a historical view of your business's performance and value. Investors, creditors and managers use ratio analysis and analytical tools to measure your company's performance and highlight its strengths and weaknesses.

For more information about financial statement analysis and interpretation, refer to Chapter 8.

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APPENDIX

Leasing vs. Buying

Cost Item	Leasing	Bank Loan	Cash Purchase
Purchase Price			
Monthly Payment			
# of Payments			
Buy Out			
Lost Interest			
Total			

Questions to Answer:

Is there sufficient cash on hand to purchase outright?

Can the money be borrowed for the purchase?

Will borrowing for this purchase affect the cash flow for regular activities?

Example

Item: Photocopier

Price: \$4,425.00

Bank Loan Rate: 8%

Bank Saving Rate: 4%

Cost Item	Leasing	Bank Loan	Cash Purchase
Purchase Price	\$4,425	\$4,425	\$4,425
Monthly Payment	\$147.66	\$138.40	
# of Payments	36	36	1
Buy Out	\$443		
Lost Interest			\$531
Total	\$5,758	\$4,982	\$4,956

Individual Job Financial Analysis

Customer _____

Job # _____

Job Address _____

Item		Estimated	Actual	Difference
Selling Price				
Change Order(s) Price	+			
	-			
Materials	-			
Labour	-			
Subtrades	-			
Margin % of Selling Price	=			

Example

Item		Estimated	Actual	Difference
Selling Price		\$5,000	\$5,000	0
Change Order(s) Price	+		\$500	\$500
	-			
Materials	-	\$800	\$900	\$100
Labour	-	\$1,300	\$1,600	\$300
Subtrades	-	\$555	\$555	0
Margin % of Selling Price	=	\$2,345 47 %	\$2,445 44 %	\$100

Chart of Accounts*

100-199 Assets

100-109 Cash

- 101 Petty Cash
- 102 Cash on deposit, general
- 103 Cash on deposit, payroll
- 104 Cash on deposit, savings

110-119 Short-Term Investments

120-129 Receivables

- 121 Accounts receivable, trade
- 122 Accounts receivable, other
- 123 Notes receivable, trade
- 124 Notes receivable, other
- 125 Mortgage receivable, current year
- 126 Due on construction and development loans
- 127 Contracts receivable
- 128 Accrued interest receivable
- 129 Allowance for doubtful accounts

130-139 Inventories

- 131 Construction materials inventory
- 132 Land for development

140-149 Work in Progress

- 141 Development cost of land
- 142 Finished lots
- 143 Direct construction cost
- 144 Indirect construction cost

150-159 Finished Units and Other Inventory

- 151 Finished structures
- 152 Trade-ins
- 153 Repossessions

160-169 Other Current Assets

- 161 Refundable deposits
- 162 Prepayments
- 163 Salary advances

- 165 Due from affiliates or subsidiaries
- 169 Other current assets

170-179 Investments

- 171 Investments, long-term
- 172 Cash surrender value of officers' life insurance
- 175 Mortgage receivable, long-term
- 176 Due from affiliated companies or subsidiaries, long-term
- 177 Due from officers, owners, stockholders
- 178 Organization cost

180-189 Property, Plant and Equipment

- 181 Land
- 182 Buildings
- 183 Furniture and equipment
- 184 Motor vehicles
- 185 Construction equipment
- 186 Model home property
- 187 Model home property furniture
- 188 Leasehold improvements
- 189 Computer equipment

190-199 Accumulated Depreciation

- 192 Accumulated depreciation, buildings
- 193 Accumulated depreciation, furniture and equipment
- 194 Accumulated depreciation, motor vehicles
- 195 Accumulated depreciation, construction equipment
- 196 Accumulated depreciation, model home property
- 197 Accumulated depreciation, model home property furniture
- 198 Accumulated depreciation, leasehold improvements
- 199 Accumulated depreciation, computer hardware and software

* Adapted from the National Association of Homebuilders (USA)

200-299 Liabilities and Owners' Equity

200-209 Deposits by Customers

- 201 Deposit on purchases
- 202 Customer payment on contracts
- 203 Tenant security deposit

210-219 Accounts Payable

- 211 Accounts payable, trade
- 219 Accounts payable, other

220-229 Notes payable

- 221 Notes payable, trade
- 229 Notes payable, other

230-249 Other Current Liabilities

- 231 Social Security tax payable
- 232 Federal withholdings
- 233 State withholdings
- 234 Other payroll withholdings
- 235 Sales and use taxes payable
- 236 Realty taxes payable
- 237 Income tax due
- 238 Other taxes due
- 239 Accrued interest payable
- 240 Accrued salaries and wages payable
- 241 Accrued commissions payable
- 242 Workers' compensation insurance
- 243 Deferred income
- 244 Due to affiliates
- 245 Due to officers, stockholders, owners, partners
- 249 Other current liabilities

250-289 Long-Term Payable Liability

- 251 Long-term notes payable
- 252 Construction and development loans payable
- 253 Mortgage payable
- 260 Deferred income tax payable
- 270 Other long-term liabilities

290-299 Owners' Equity

- 290 Capital stock
- 291 Capital in excess of par
- 292 Retained earnings

- 295 Partnership or proprietorship account

- 296 Drawing account

300-399 Sales, Revenues, and Cost of Sales

300-349 Sales and Revenues

- 300 Sales, raw land
- 305 Sales, finished lots
- 310 Sales, single-family speculative
- 311 Sales, single-family presold
- 312 Sales, single-family custom designed
- 313 Sales, remodeling
- 314 Sales, multifamily
- 315 Sales, commercial and industrial
- 316 Sales, trade-ins
- 319 Sales, other
- 320 Property rental income
- 330 Investment income
- 335 Brokerage and management income
- 340 Miscellaneous income
- 345 Earned discounts

350-399 Cost of Sales

- 350 Cost of sales, raw land
- 355 Cost of sales, finished lots
- 360 Cost of sales, single-family speculative
- 361 Cost of sales, single-family presold
- 362 Cost of sales, single-family custom designed
- 363 Cost of sales, remodeling
- 364 Cost of sales, multifamily
- 365 Cost of sales, commercial and industrial
- 366 Cost of sales, trade-ins
- 369 Cost of sales, other
- 370 Direct cost adjustment for prior periods

400-499 Indirect Construction Cost

400-409 Salaries and Wages

- 401 Superintendents
- 402 Laborers
- 404 Architects, drafters, estimator, and purchasers

- 405 Wages, other indirect construction
- 406 Lost Time
- 409 Other

410-419 Payroll Deductions and Benefits

- 411 Payroll deductions
- 412 Workers' Compensation insurance
- 413 Health and accident insurance
- 414 Retirement, pension, and profit sharing
- 419 Other benefits

420-429 Field Office Expenses

- 422 Rent
- 423 Repairs and maintenance
- 425 Utilities
- 426 Telephone
- 429 Other field expenses

430-439 Field Warehouse and Storage Expense

- 431 Rent
- 433 Repairs and Maintenance
- 435 Utilities
- 436 Telephone

440-449 Construction Vehicles, Travel and Entertainment

- 441 Lease payments, construction vehicles
- 442 Mileage reimbursement
- 443 Repairs and maintenance, construction vehicles
- 444 Operating expenses, construction vehicles
- 445 Taxes, licenses, insurance
- 446 Travel, construction department
- 447 Customer business expense, construction department

450-459 Field Equipment

- 451 Rent, field equipment
- 453 Repairs and maintenance, field equipment
- 454 Operating expenses, field equipment
- 455 Taxes and insurance, field equipment
- 456 Small tools and supplies

460-469 Expenses for Maintaining Units under Construction

- 461 Heat
- 462 Electricity
- 463 Water and sewer
- 464 Lawn care
- 465 Utilities, finished units
- 466 Repairs and maintenance, finished units
- 467 Repairs

470-479 Warranty Expense

- 471 Labor, warranty
- 472 Material, warranty
- 473 Subcontractor, warranty
- 479 Other, warranty

480-489 Depreciation Expense

- 482 Depreciation, field office
- 483 Depreciation, field warehouse
- 484 Depreciation, construction vehicle
- 485 Depreciation, construction equipment

490-499 Other

- 491 Insurance and bonding expense
- 499 Absorbed indirect cost

500-599 Financing Expense

500-519 Interim Financing

- 511 Interest on construction loans
- 512 Fees
- 513 Appraisal and related fees
- 514 Inspection fees

520-529 Closing Cost

- 521 Closing Cost
- 522 Title and recording
- 530 Interest on notes and mortgages
- 540 Fees, commitment
- 550 Discounts on mortgages
- 590 Other financing expense

600-699 Marketing Expense**600-609 Sales Salaries**

- 601 Sales manager's compensation
- 603 Salaries to sales personnel
- 609 Other sales office salaries

**610-619 Payroll Taxes and Benefits,
Marketing**

- 611 Payroll taxes, marketing
- 612 Workers' compensation insurance,
marketing
- 613 Health and accident insurance,
marketing
- 614 Retirement, pension, and profit-
sharing plans, marketing

620-629 Sales Office Expense

- 621 Rent
- 623 Repairs and Maintenance
- 625 Utilities
- 626 Telephone
- 627 Sales office supplies

**630-639 Advertising and Sales
Promotion**

- 631 Newspaper advertising
- 632 Radio advertising
- 634 Brochures and catalogues
- 635 Signs
- 637 Agency commissions
- 638 Multiple listing fees

**640-649 Sales Vehicles, Travel and
Entertainment**

- 641 Lease payment
- 642 Mileage reimbursement
- 643 Vehicle repairs and maintenance
- 644 Vehicle operating expense
- 645 Vehicle taxes, licenses, insurance
- 646 Travel
- 647 Customer business entertainment

660-669 Model Home Maintenance

- 661 Rent or lease payments
- 663 Repairs and maintenance of model
property

- 665 Utilities, model property
- 667 Lawn and landscaping care
- 668 Cleanup

670-679 Sales and Marketing Fees

- 671 Market research and consultation
- 677 Recruiting fees and expenses for sales
personnel
- 678 Training and education expenses

680-689 Depreciation

- 681 Depreciation, sales office
- 683 Depreciation, sales vehicles
- 686 Depreciation, model homes
- 687 Depreciation, model home
furnishings and decorations

690-699 Other Marketing Expense**700-799 Operating and
Management Expense,
Rental****710-719 Rental Expense**

- 711 Advertising
- 712 Commissions
- 713 Credit reports
- 714 Rental Salaries
- 719 Other expense, rental

**720-729 Administrative Expense,
Rental**

- 721 Administrative Salaries
- 722 Management and service fees
- 723 Office expenses
- 724 Telephone
- 725 Tenant bad debts
- 726 Collection costs
- 729 Other administrative expense

730-739 Professional Services, Rental

- 731 Legal
- 732 Accounting
- 733 Market research
- 739 Other professional services, rental

740-749 Operating Expense, Rental

- 741 Utilities
- 742 Engineering
- 743 Janitorial
- 744 Trash removal service
- 745 Exterminating
- 746 Snow removal
- 747 Other contractual services
- 748 Motor vehicles and equipment
- 749 Other operating expense, rental

750-759 Taxes and Insurance, Rental

- 751 Real property taxes
- 752 Personal property taxes
- 753 Franchise taxes
- 754 License fee
- 755 Payroll taxes
- 756 Workers' compensation insurance
- 757 Insurance, rental
- 759 Other

**760-769 Maintenance and Repair
Expense, Rental**

- 761 Tenant redecorating
- 762 Maintenance payroll
- 763 Maintenance contracts and services
- 764 Ground maintenance and repairs
- 765 Motor vehicle maintenance and repairs
- 766 Equipment maintenance and repairs
- 767 Recreational facilities maintenance and repairs

770-779 Finance Expense, Rental

- 771 Interest on mortgage payable
- 772 Interest on long-term notes payable
- 773 Other interest
- 774 Mortgage interest
- 779 Other

**780-789 Depreciation Expense,
Rental**

- 781 Depreciation, building
- 782 Depreciation, maintenance equipment
- 783 Depreciation, motor vehicles
- 784 Depreciation, furniture and fixtures
- 785 Depreciation, recreational facilities
- 789 Depreciation, other

**790-799 Other Management and
Operating Expense****800-899 General and
Administrative Expense****800-809 Salaries**

- 801 Owners
- 802 Officers
- 803 Management
- 804 Architects, drafters, estimators, and purchasers
- 805 Office and clerical
- 809 Other general and administrative salaries

810-819 Payroll Taxes and Benefits

- 811 Payroll taxes
- 812 Workers' compensation insurance
- 813 Health and accident insurance
- 814 Retirement pension, and profit-sharing plans
- 819 Other employee benefits

820-829 Office Expense

- 821 Rent/lease
- 822 Equipment rental
- 823 Repairs and maintenance, office space
- 824 Repairs and maintenance, office equipment
- 825 Utilities
- 826 Telephone
- 827 Office supplies
- 829 Miscellaneous office expense

830-839 Computer Expenses

- 831 Computer supplies
- 832 Computer equipment leases, hardware
- 833 Computer software lease
- 834 Computer repair
- 835 Computer maintenance contracts, hardware
- 836 Computer maintenance contracts, software

**840-849 Vehicles, Travel, and
Entertainment Expense**

- 841 Lease
- 843 Repairs and maintenance
- 844 Operating expense
- 845 Taxes, license and insurance
- 846 Travel
- 847 Customer entertainment expense
- 848 Meeting expense

850-859 Taxes

- 851 Sales and use taxes
- 852 Realty taxes
- 853 Personal property taxes
- 854 License fees
- 859 Other taxes

860-869 Insurance

- 861 Hazard
- 862 Property damage and liability on
 vehicles
- 863 General liability
- 869 Other insurance

870-879 Professional Fees

- 871 Accounting
- 872 Legal services
- 873 Consulting services
- 875 Architects, drafters, estimators
- 877 Recruiting and hiring
- 878 Training and education expense
- 879 Other professional fees

880-889 Depreciation expense

- 881 Depreciation, buildings
- 882 Depreciation, furniture and
 equipment
- 883 Depreciation, motor vehicles
- 884 Amortization of leasehold
 improvement
- 885 Amortization of organization cost
- 889 Depreciation, other

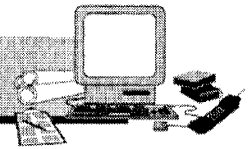
**890-899 General and Administrative
Expense, Other**

- 890 Bad debts
- 891 Contributions
- 892 Dues and subscriptions
- 899 Miscellaneous

900-999 Other

900-909 Customer Service Expense

- 910-919 Other Income
- 920-929 Other Expense
- 930-939 Provision for Income Taxes
- 930 Provision for federal income taxes
- 932 Provision for state income taxes



CHAPTER 3

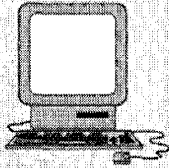
Human Resources

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Human Resources



How do employees benefit if they help the business achieve its goals?

Identifying Human Resources

To be successful, you must choose the best people possible to carry out the many different tasks involved in the renovating business. Typically you are responsible for overseeing:

- general management,
- bookkeeping,
- reception and secretarial duties,
- accounting,
- banking,
- designing,

- estimating,
- sales management,
- construction management,
- site management,
- material acquisition,
- labour,
- customer service, and
- warranties.

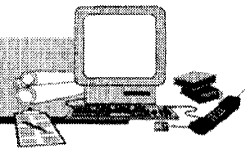
Each of these functions can be filled by individual employees (full- or part-time), or one employee may be responsible for numerous functions. Even a renovation business with very low volume could involve the owner, the spouse, an accountant, a banker and many subcontractors. Over 58% of renovation businesses involve both spouses in the operations.

Basic role of employees

How do employees benefit if they help the business achieve its goals?

If employees are going to provide commitment and service to your business, they must satisfy their basic human needs, such as:

- to belong and be needed;
- to participate in setting of goals;
- to feel that the goals are within reach and make sense;
- to feel that their contributions make a difference, that they have real value;
- to share in the making of the rules that govern the working environment;
- to know exactly what is expected from them;
- to be compensated fairly and adequately;
- to have responsibilities that are challenging yet reasonable;
- to be kept informed and see progress toward stated goals.



A Vision for All

Successful renovators have something in common with all successful businesses — everyone understands and shares in the business vision. You have to communicate your vision to everyone involved in your business.

Return on investment (ROI) is a vital concern and an essential part of the business vision; but ROI can also mean **return on individuals**. Renovators manage people — the art of management is to realize the maximum return from each individual.

Sharing your vision requires effective communications. This will depend upon your verbal, listening, and observational skills, your attitude toward your employees, the non-verbal signals you give off, and your ability to motivate each person you deal with.

Goals and objectives

The goals and objectives that you establish are the means of realizing your vision. For your business to be successful, it is necessary for your personnel to understand these goals and objectives. Goals are clearly stated, measurable steps along the road to achieving success.

Goals must be achievable — not necessarily easily — but achievable. Your goals must be openly stated. They must be fully understood and accepted by your staff.

Business goals and your staff

Since your employees' efforts will contribute significantly toward the realization of your business goals, you should involve them in development of the goals. The essential component of this exercise is the vision. As long as your employees understand and accept your vision for the business, the goal-setting exercise will be successful.

Motivation, communications and employee commitment will be greatly enhanced if they participate in a meaningful way in the establishment of your business goals.

Developing objectives

Goals are attained by achieving a series of objectives. Objectives should be relatively easy to achieve. They typically have short time lines and are narrow in focus. When you achieve your objectives, you are also realize you goals

It may be valuable for businesses to have senior management or owners have regular meetings to plan and evaluate the business, discuss goals, objectives, staffing requirements, and other issues.



...employee commitment will be greatly enhanced if they participate in a meaningful way in the establishment of your business goals.



Leading the Way

There are two basic leadership styles you can follow: the autocratic (boss-centered) renovator makes decisions without consulting others; and the democratic (employee-centered) renovator invites the participation of employees in the decisions that affect them.

How strongly do renovators feel that employees should have a say in decision making?

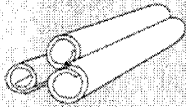
Many small renovators tend to use a democratic leadership style because of the nature of the business: workers are in constant contact with the customer and are making decisions that affect the business. The renovator, the employees and the customers are a team.

Building relationships

You should not abuse your power and position. You should share objectives, values, attitudes and interests with your employees.

Communication is the essence of good leadership. Your business vision, goals, objectives, must all be communicated to the people that work for you.

You must establish open, honest relationships with your employees to be an effective leader.



Effective communication is the essence of good leadership.

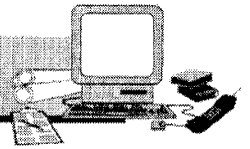
Motivation

Motivation is usually defined as the drive to achieve a goal.

What gives people this drive? What makes someone want to accomplish something? The expectation of a reward.

A reward is anything that helps an individual fulfill one or more of their needs. Remember, the needs of your employees are not always the same as your needs.

An employee's behavior is always motivated by the benefits they seek. Once you find out what an employee's needs are, you can translate them into benefits — and you will find it much easier to lead and motivate.



The Human Resources Plan

Some renovators may not have a detailed written business plan, but they do have a "gut" feel for how to achieve the vision. To succeed, renovators need good people and the full cooperation of these people every day.

When you need to hire someone, you must look closely at every aspect of the job and then prepare a job description and specification for the position.

A **job description** describes the work and duties that the employee must perform.

A **job specification** states the qualifications required of the person hired for the job.

With a job description and job specification for each position, you will be better able to hire the best available people for those positions.

Choosing your staff

The actual number of personnel needed to effectively operate your renovating business depends entirely on its size and your approach to business.



The actual number of personnel you need to effectively operate your renovating business depends entirely on its size and your approach to business.

The Language of Motivation

Your language on the job site may be a source of motivational problems with your employees. Most of the time, you plan and operate in terms of profit and loss, but your employees will usually think of their own needs before the company's needs. Your language of profit and loss may betray a lack of concern for the needs and interests of your employees. They may feel that you are only interested in making money for yourself. This can lead to an unhealthy working relationship between you and your employees.

When presenting instructions or ideas to employees, keep in mind their needs and concerns. Use words such as participation, opportunity, benefits and rewards, involvement, pride and meaningfulness.

Your language should consider your employees' needs to belong, to be recognized, and to have emotional and economic security.

You do not always have to put persons on the payroll as full-time employees. Many tasks can be done by contract employees hired to do specific and often specialized tasks rather than those continuous tasks required to keep the business running and visible. Money paid to these contract employees is based on the work done or service supplied. Examples of contract employees include:

- accountants,
- salespeople,
- bookkeepers,
- lawyers, and
- designers.



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The job description provides a clear explanation of the employee's responsibilities and authorities.

A successful renovator may have only one or two full-time employees but a large staff of contract employees.

If you are a small volume renovator, it is essential for you to use contract employees to access high quality professional employees and pay for their services **only** for the time that they are required. The difficulty is that contract employees may not be available precisely when you may need them, but this can be overcome through good planning and scheduling.

Contract employees may have a broader scope of knowledge and experience because of similar work arrangements with other contractors; however, they are generally more expensive than full-time employees because they must cover their own overhead costs as part of their contract fee. When the total amount of money being spent on a specific job function nears the amount that would be spent on wages, benefits and overhead for a full-time employee doing the same tasks — you should consider hiring a full-time worker.

The advantages of hiring contract employees are:

- you pay only for the services required;
- availability of high quality professional staff with relatively low financial commitment; and
- no need to provide office space or incur related overhead costs.

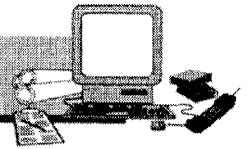
The advantages of hiring full-time employees are:

- immediate access to the person;
- the ability to train the employee to become more valuable in the business;
- lower cost-per-task if kept fully employed;
- an improved work environment because of interpersonal relationships that can develop; and
- the employee becomes part of the business culture.

Using job descriptions

The job description is used to describe and communicate the specific duties and expectations (performance standards) of the job to individual persons. It is also used to assess the suitability of the employee for the job and to evaluate the employee's performance. The job description provides an in-depth look at the job including such items as job location; duties and responsibilities; the equipment, tools or machines to be used; working conditions; and opportunities for promotion.

The job description provides a clear explanation of the employee's responsibilities and authorities.



Job descriptions as management tools

Job descriptions can be useful in different ways in the management of employees:

- **Self development** — Having employees revise their own job description will help them to understand their job responsibilities and prompt them to upgrade their skills.
- **Motivation** — A job description provides a clear description of the expectations of the person.
- **Employee termination** — The orderly termination of an employee can be vital for maintaining morale among the other employees. The job description is the central reference point used when terminating an employee.
- **Employee evaluation and control** — A performance standard provides the necessary criteria for assessing the employee's work. You can determine if work is being carried out adequately or if additional direction and control are required.

Effective Recruiting

Finding the right person to fill a job is not an easy task. Several steps are often involved in the recruiting process: taking applications, preliminary interview, tests, investigation of applicant's background, and the main interview.

The first steps normally taken will reveal whether or not you should reject an applicant. Thus, a physical examination might be placed ahead of the other steps if the job required strength or unusual manual dexterity, as in the case of a finishing carpenter or site labourer.

The main interview is usually the occasion when the applicant is either definitely hired or rejected. During this conversation you will make a final assessment of the applicant.

Knowing what to look for!

Knowing exactly what you are looking for is the best aid in selecting a new employee.

You are trying to find the closest match between the applicant and the job description.

Knowing the job requirements thoroughly will assist you in assessing the abilities of an applicant.

The following examples demonstrate the content of a typical job description and help to explain the overall duties of a renovator.

**Job Title:**

Renovator

General Accountability

This position is accountable to and reports to the owner(s) of the business. The renovator is accountable for all aspects of the business plan.

General Duties of the Job:

Assume responsibility for all aspects of planning, implementation and monitoring required for the renovation of low rise residential buildings as defined by Part 9 of the National Building Code of Canada.

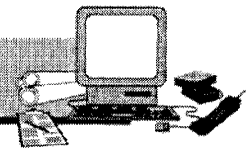
Establish the goals, ethical standards, staffing levels and policies to be used in operating the business. Ensure the development and implementation of a Business Plan which include financial, marketing, human resource and management plans.

Carry out the planning, estimating, selling, constructing and servicing of all jobs with the assistance of subordinate staff, consultants, sub-contractors and suppliers. Ensure accurate cost estimating and record keeping for projects and all aspects of the business. Arrange for the timely supply of all financing, material and labour necessary to successfully operate the business.

Establish and maintain a good working relationship with the customer. Establish and follow a standard of quality and ensure that workers and the occupants are safe by conducting all construction activities as per the occupational health and safety act. Ensure that all environmental requirements are followed.

Monitor performance of the business in terms of the Business Plan; make regular adjustments to the plan as required to reflect changing market and economic conditions.

Engage in activities which provide updating information about financing, market trends, new products, Building Code changes and local regulations.

**Job Title:**

Job Supervisor

General Accountability

Reporting to the renovator, this position is accountable for supervising renovation jobs and ensuring they comply with plans and specifications, are completed on time and meet business's established standards of quality.

General Duties of the Job:

The Job Supervisor may be given a number of jobs to follow through from beginning to end. The work is completed by employees and designated sub-trades. It is necessary for the Job Supervisor to co-ordinate the activities of these workers. The Job Supervisor's time will mostly be spent on the job, working with the customer, being on the lookout for any problems that might occur, directing the work, ensuring high standards of quality are being met, and developing good morale and co-operation amongst workers. Any problems or difficulties dealing with the customer, employees, sub-trades or inefficient plans, must be solved by the Job Supervisor as soon as possible.

The Job Supervisor maintains a scheduling record for each job and will ensure necessary inspections are carried out, keeping site workers informed at all times of upcoming completion dates to be met. The Job Supervisor will schedule and request delivery of all materials to ensure construction proceeds on schedule. The Job Supervisor will receive and inspect materials shipped to the site, noting shortages and damaged goods, and will attempt to schedule orders so as to minimize damage, theft or vandalism. The Job Supervisor will control business-owned tools and equipment, maintaining them in good working order at all times. The Job Supervisor will ensure that new materials are integrated with the existing construction in an acceptable and professional manner.

The Job Supervisor is responsible for ensuring that the plans have been reviewed for their correctness to detail and dimensions. The Job Supervisor is also responsible for ensuring that maximum use of materials in the construction process is obtained.

The Job Supervisor is in direct contact with the customer and must maintain good relations with them. As a business representative, it is imperative that the Job Supervisor project a positive business image and co-operate with the customer.



The job description is used to describe and communicate the specific duties and expectations of the job...



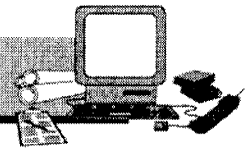
The hiring process

Hiring full-time employees requires patience and insight. The following suggestions may save you time and effort:



...make a list of the things the new employee should know and should be able to do...

- **Prepare a job description** — You will have difficulty if you don't know what you are hiring them for.
 - **Determine the required skills and knowledge** — Make a list of the things the new employee should **know** and should be able to **do** (job specification). This will help you assess the applicant when reviewing the job application and during the interview.
 - **Receive applications** — Advertise through the employment office, by word of mouth or by direct request of certain individuals.
 - **Review applications and shortlist** — Look for people who have the required skills and knowledge. Select the applicants who meet the basic requirements and invite them to an interview.
 - **Interview** — Interview each applicant at a convenient time, in a relaxed atmosphere and without interruptions. Look for these qualities:
 - does the person have the necessary **skills** to do the work?
 - does the person have the required **knowledge** for the job?
 - will the person **fit in** with your business?
 - will the person be able to **contribute** to your business as it responds to change?
- The applicant will probably ask about opportunities for advancement with your business. Discuss such options honestly.
- **Check references** — After selecting one or two finalists for the job, contact their references for further information about the candidate. Check with any other individuals who might know the candidate.
 - **Make the decision** — This is where your assessment skills meet the challenge. Choose the one who seems to be the best person for the job.
 - **Make the job offer** — Offer the terms of employment to the first choice. Agree upon all terms and conditions. Use the job description and specification as the basis of the agreement and to identify if the person needs further training. Make sure your new employee understands your vision, goals and objectives for your business. Establish a start date.
 - **Orient the new employee to the job** — Explain your business's goals and policies, review the specific job duties, introduce all personnel, provide necessary equipment and supplies, provide on-the-job training, provide encouragement and praise, and encourage the development of compatible relationships with others in the business.



Assessing Employee Performance

To conduct a job evaluation you need the job description and the job specification. Follow this procedure:

- describe how well the employee is doing in each of the duties described in the job description. If it helps, rate each duty on a scale of 1 to 10;
- have the employee do a similar assessment of their performance in each of their duties and in other things they may be doing as well;
- compare notes and discuss differences with the employee; and
- if necessary, make changes to the job description to reflect agreed changes in duties or responsibilities.

You should evaluate each employee at least once a year, or more often if they are not performing up to expectations.

Taking charge of poor performance

It is important to keep in mind that, in many cases, poor performance can be corrected, especially if you attend to it quickly.

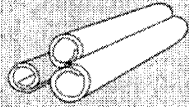
You have an investment in every employee; therefore look for constructive ways to turn a bad situation around.

The most important thing you can do is to take an active part in solving the problem. Stay in touch, increase feedback, and create a climate of trust and support by:

- listening effectively;
- asking questions and keeping up to date on the activities and feelings of the employee; and
- talking to the employee and listening to concerns in an objective way. Once the employee shares worries and problems, provide the assistance needed to get back on track.



The most important thing you can do is to take an active part in solving the problem.



Failure to document the valid reasons for discharge can result in a legal suit for wrongful dismissal.

Effective dismissal procedures

The termination of an employee may take two forms:

- discharge (permanent separation); or
- lay off.

While a layoff may be permanent or temporary, it casts no reflection on the competence or character of the employee, as it is usually associated with the reduction of staff in response to a reduction in workload.

However, you may discharge an employee because of incompetence, insubordination, laziness, or incompatibility.

Often, the employee's inability to get along with you, the client or subtrades is the main reason for discharge.

To discharge an employee, you must have proof that the employee is not properly doing their job. An accurate job description is necessary to help you assess whether or not the employee is doing their job.

Failure to document the valid reasons for discharge can result in a legal suit for wrongful dismissal.

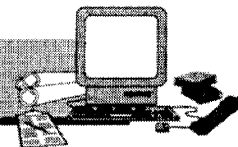
Even though employees may be working hard, they are sometimes dismissed without cause. In these cases, it is not uncommon for the discharged employee to receive a severance package.

The laws of every province are specific regarding discharges. You should consult these regulations and procedures before you discharge an employee.

Skills Development and Educational Upgrading

Renovators know that the success of the business depends on the quality of its employees. You will not always hire someone who is "ready-made" for the job. You will normally have to provide some sort of skills training to new employees.

Training for new employees may be necessary if the job functions are rather complex or where inexperienced people could not function without affecting the production flow. Certain types of work lend themselves to on-the-job training. In these situations, training may be provided by existing personnel or by outside instructors.



Keep them learning

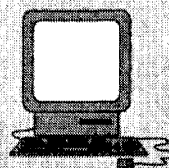
It is usually easier to upgrade an existing employee, providing that person with the ability to take on more difficult tasks, than it is to find exactly the right person on the open job market.

Field personnel and building trades can take advantage of industry training programs, such as provincially-sponsored apprenticeship upgrading programs.

Many business efficiency experts recommend that each member of a business staff receive a minimum of 40 hours per year of skill and knowledge upgrading.

All personnel should also follow a path of continuous skill development and educational upgrading. The benefit of employee upgrading to your business will be significant. The employee can take advantage of a blend of on-the-job and industry training or other training and educational offerings that exist in the community.

If you take an active interest in helping your employees to improve themselves you will find that they will become more productive and demonstrate greater commitment to your business.



...each member of a business staff should receive a minimum of 40 hours per year of skill and knowledge upgrading.

Assessing skills upgrading requirements

You should assess the educational background and aspirations of all staff members. Employees who did not finish high school may desire to get their diploma, but lack motivation to do so. If you can motivate (perhaps with some financial assistance) such a person to work toward this goal, you will be treated to an employee that's more committed, excited and productive.

Employees who lack certain skills, like reading or mathematics, are likely not performing at their best. By encouraging your employees to improve basic skills you are also increasing their abilities to contribute to the success of your company.

Specific job-related skill training requires targeted training that may not be readily available. You should take advantage of every opportunity to provide your employees with training and education. Assess the specific skill training that is required for each employee and determine the extent of educational upgrading they need. In summary, you should:


- assess the educational level of each employee (high school, university, technical school, community college, special programs, etc.);
- assess the basic skill levels of each employee (reading, mathematics, writing, problem solving, driving);



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Manufacturers and suppliers often offer product seminars and training workshops of a technical nature.



Knowing exactly what tasks are required for completing each stage of a job will help you match them with the appropriate skills and attributes of each employee.

- assess the essential job skills of each employee (bookkeeping, accounting, blueprint reading, estimating, designing, selling, motivating, supervising, scheduling, etc.);
- determine any deficiencies that exist in each employee's educational level, basic skills or job-related essential skills; and
- encourage employees to obtain required or new skills.

Educational programs

You should investigate all educational training opportunities available. These may be offered on a local, provincial or national level. The provincial and local affiliates of the Canadian Home Builders' Association, community colleges, private schools, university extension departments, Chambers of Commerce and local offices of the Federal Business Development Bank are good places to investigate.

Human Resources Development Canada (HRD) offers training opportunities for basic and advanced skill development. Manufacturers and suppliers often offer product seminars and training workshops of a technical nature.

For some skills, you and your business may be the best teachers.

Training schedules

Once you have developed a skill and educational inventory for each employee, and determined what educational upgrading and skill training programs are available, you can prepare a schedule of employee upgrading.

If you have a strong commitment to training and upgrading, the schedule may be aggressive and you may provide funding support. Of course you will have to grant employees time away from the job for job-related skill training.

Consider this time an investment in your employee and in your business.

You should work out an appropriate training schedule with your employee.

Finally, remember this distinction: communications is used to help people **know** things; training is used to help people **do** things.

Delegating Tasks

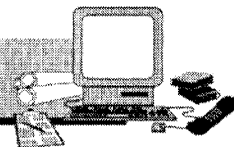
You can choose to perform all the required tasks yourself or you can delegate some of them, depending on your own schedule and preferences.

Knowing exactly what tasks are required for completing each stage of a job will help you match skills and attributes of each employee.

You should prepare either a verbal or written list of all instructions, information and details your employees need to complete each task properly. This will provide both you and the employees with the necessary feedback to monitor how the task is progressing.

Responsibility and authority

Next you must discuss the job task and instructions to the selected worker so that you both understand what is expected. You should allow the worker to express ideas and ask questions.



When you delegate a task to an employee, that employee assumes **responsibility** to complete the task to your satisfaction. This is known as empowerment.

Support and assistance

Not every delegated task gets done correctly. To help avoid poor results, make sure your employees feel comfortable in asking for instruction or assistance whenever they need it.

Clear and continuous communication between you and your employees will help ensure that all tasks are completed properly and efficiently and that problems are being solved as they arise.

Communicating effectively

Your ability to communicate skillfully and effectively is a central part of everything you do.

Surveys have shown that successful renovators spend almost 70% of their time in

some form of communication activity. The highest percentage of time is spent listening. Most "people" problems can be traced in part, or in full, to poor communication.

Effective communication is a process that requires the active participation of you and your employees.

Techniques to develop communication skills

- **Present one idea at a time** — Make a statement, then develop the idea by explanation or demonstration. Restate the idea, then suggest action that can be taken. Finally, suggest agreement.
- **Say it simply** — This is best accomplished by using words that both people can understand.
- **Make it brief** — Many people talk too much because it may be easier to talk around a subject than to talk about it directly.
- **Vivid images** — Images are usually easier to understand than long, complex explanations.
- **Get acceptance of one idea before moving on to the next** — No response may mean that the idea is not well understood. Get positive reaction to one idea before moving on to the next.



Effective communication is a process...



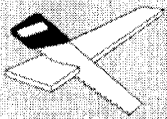
The Organizational Chart

You probably spend significant time planning the human resources for your business. An important step in the process is to let all workers know where the authority and responsibility lie. An organizational chart will help you communicate this clearly.

The organizational chart indicates the responsibility and authority of all people involved in the operation

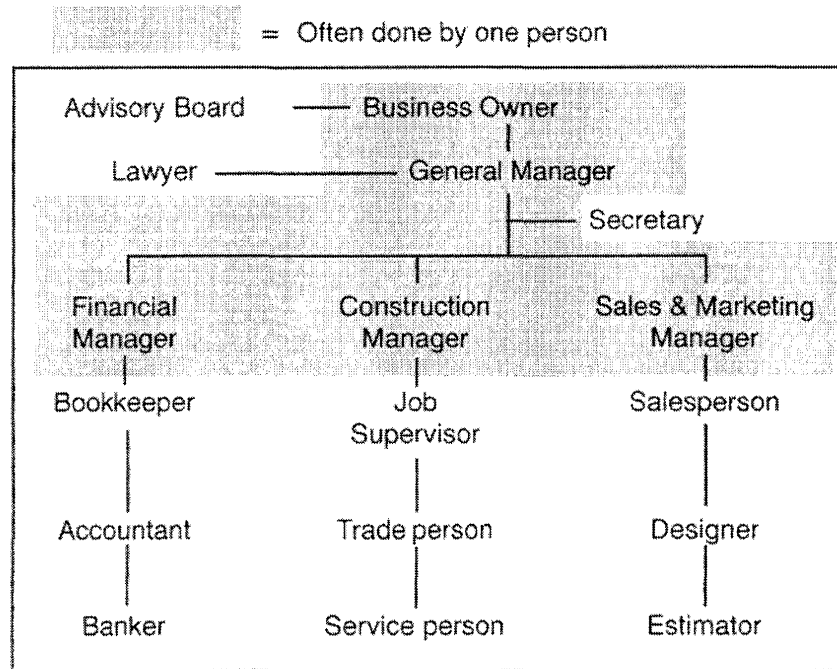
of your business, whether they are full- or part-time employees or subcontractors.

The organizational chart allows everyone to understand how the business has been structured and how it operates. This is important for the employees to know so they can function as efficiently as possible.



An important step in the process is to let all workers know where the authority and responsibility lie.

Typical Organization Chart





Office Equipment and Supplies

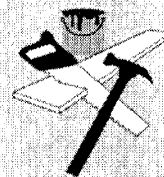
The typical small renovating business may not require much in the way of equipment and supplies because the office is generally operated out of the renovator's home, and full-time office personnel are often members of the immediate family. However, there are basic materials that every renovating business must have, regardless of its size:

- accounting books to keep and organize all pertinent financial records;
- stationery for written communications;
- business cards to promote the business and to facilitate communications with others;
- a telephone for normal business hours and an answering machine for after-business hours;
- a chequing account and an adequate supply of cheques imprinted with the business name;
- work space and furnishings adequate to conduct the necessary tasks required to operate the business; and
- sufficient filing and storage space for records.

Even very small businesses require office equipment to operate efficiently. As your business grows you will require more office equipment and supplies.

Office equipment typically includes:

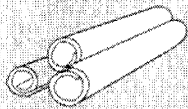
- computerized equipment to allow for the rapid preparation and printing of business letters, specifications and other types of written communications and client documents;
- a facsimile machine to increase the speed of written communications such as sending purchase orders to suppliers, trades and supplier quotations, etc.;
- computer accounting software to increase the quality of and frequent access to pertinent financial information;
- a photocopy machine to make copies of necessary records and to produce materials required by the business plan;
- computer estimating software to speed up the estimating process; and
- computer drafting and design software to speed up the process of developing alternative designs, if such a service is performed "in-house".



...there are basic materials that every renovating business must have, regardless of its size...



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Workers should be compensated fairly and adequately for the work they perform.

A word about computers

A computer can help you manage your business by reducing the time it takes to perform necessary tasks and by providing better quality information than might normally be produced.

A computer will be most helpful in your accounting process. A computer can handle the lists of receivables and payables, track costs, and prepare reports far more quickly than a person could.

A computer is also very useful in the preparation of written communications. Word processing

programs are very easy to learn and will save you valuable time. Most computers that are purchased to do accounting are fully capable of word processing.

A 1993 survey by Ekos Research showed the following computer utilization among renovators:

- accounting - 85%
- word processing - 82%
- payroll - 48%
- project management - 39%
- cost estimating - 37%
- computer-aided design - 24%
- project planning and scheduling - 15%

Salary and Benefits

Wages in the renovating industry are subject to a wide degree of variation. A labourer usually receives a smaller salary than a business manager; a drywaller usually gets less than a good salesperson.

Workers should be compensated fairly and adequately for the work they perform, including overtime compensation.

Competition between individuals and between companies may result in a variation of wages for similar job functions.

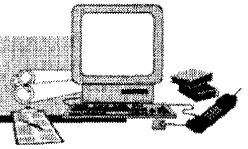
You must determine the salary and benefit expectations of your em-

ployees (full- and part-time) and your ability to pay within the context of your business plan. Employees' pay expectations will vary with their skills, education, work experience, demand and supply of labour, and amount of work available.

The most common methods of payment are:

- straight salary,
- hourly wages,
- bonus payments,
- piece-rate for exceeding targets,
- commission,
- shares or profit sharing,
- flat rate contract, and
- referral fees.

You may use a combination of methods to motivate and encourage higher levels of performance from your employees.



Business Ethics

When establishing your business goals and operational requirements, you should consider whether the business will run solely for the benefit of its owners or if it should be operated as well for the benefit of its employees, its customers, its suppliers and the general public.

Honesty and fair dealing make good business sense. The reputation of your business is built on the quality of your work and your relationship with your customers, suppliers and employees. The Canadian Home Builders' Association *Code of Ethics* encourages owners, managers, employees and sub-contractors to:

- comply with the National Building Code and all additional recognized and appli-

cable building standards as a minimum standard of performance;

- perform their services to conform to the principles of good community development;
- be honest and fair;
- cooperate, exchange information and experience, and encourage research to provide for better housing at lower costs;
- uphold the principle of reasonable and adequate compensation for services rendered; and
- avoid advertising that tends to mislead customers, deprecate competitors or bring the reputation of the industry in disrepute.



Honesty is the best policy

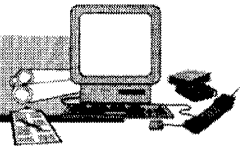


Chapter 3

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Chapter 3



APPENDIX

SCREENING AND SELECTION IN EMPLOYMENT

This guide is intended primarily to help employers when they interview and hire staff. An employment interview is conducted to learn more about the suitability of people under consideration for a particular job. The following are helpful "do's and don'ts" on the selection of questions to ask candidates, taking into consideration the Canadian Human Rights Act.

SUBJECT	AVOID ASKING	PREFERRED/COMMENTS
NAME	<ul style="list-style-type: none"> - about name change; whether it was changed by court order, marriage or other - maiden name 	
AGE	<ul style="list-style-type: none"> - for birth certificates, baptismal records, or about age in general 	<ul style="list-style-type: none"> - ask applicants if they are eligible to work under Canadian laws regarding age restrictions (if specific age is required for benefit purposes, determine after selection)
SEX	<ul style="list-style-type: none"> - males or females to fill in different applications - about pregnancy, child bearing plans, or child care arrangements 	<ul style="list-style-type: none"> - during interview or after selection, for purpose of courtesy, may ask which of Mr/Mrs/Miss/Ms is preferred - can ask applicant if the attendance requirements can be met
MARITAL	<ul style="list-style-type: none"> - if single, married, divorced, engaged, separated, widowed, or living common-law 	<ul style="list-style-type: none"> - if travel is involved, may ask if requirements can be met
NATIONAL OR ETHNIC ORIGIN	<ul style="list-style-type: none"> - about birth-place, nationality of ancestors, spouse, or other relatives - whether born in Canada - for proof of citizenship 	<ul style="list-style-type: none"> - if legally entitled to work in Canada (documents can be requested after selection)
LANGUAGE	<ul style="list-style-type: none"> - mother tongue - where language skills obtained 	<ul style="list-style-type: none"> - ask if applicant understands, reads, writes, or speaks languages required for the job (testing for language proficiency is only permitted if job-related)
RACE OR COLOUR	<ul style="list-style-type: none"> - any inquiry into race or colour, including colour of eyes, skin, or hair 	

SUBJECT	AVOID ASKING	PREFERRED/COMMENTS
RELIGION	<ul style="list-style-type: none"> - about religious affiliation, church membership, frequency of church attendance - if applicant will work a specific religious holiday - for references from clergy or religious leader 	<ul style="list-style-type: none"> - explain the required work shift, asking if such a schedule poses problems (reasonable accommodation of an employee's religious beliefs is the employer's duty)
HEIGHT AND WEIGHT	<ul style="list-style-type: none"> - no inquiry unless there is evidence they are genuine occupational requirements 	
DISABILITY	<ul style="list-style-type: none"> - for listing of all disabilities, limitations or health problems - whether applicant drinks or uses drugs - has ever received psychiatric care or been hospitalized for emotional problems - has received worker's compensation 	<ul style="list-style-type: none"> - ask if applicant has any condition that could affect ability to do the job - a disability is only relevant to job ability if it: threatens the safety or property of others; prevents safe and adequate job performance even when reasonable efforts are made to accommodate the disability
MEDICAL	<ul style="list-style-type: none"> - is currently under physician's care - name of family doctor - if receiving counselling or therapy 	<ul style="list-style-type: none"> - medical exams conducted after selection and only if employee's condition is related to job duties - offers of employment can be made conditional on successful completion of a medical
PARDONED CONVICTION	<ul style="list-style-type: none"> - whether an applicant has ever been convicted - if an applicant has ever been arrested - whether an applicant has a criminal record 	<ul style="list-style-type: none"> - if bonding is a job requirement ask if applicant is eligible - inquiries about criminal record/convictions are discouraged unless related to job duties
SEXUAL ORIENTATION	<ul style="list-style-type: none"> - any inquiry about the applicant's sexual orientation 	<ul style="list-style-type: none"> - contacts for emergencies and/or details on dependents can be determined after selection
REFERENCES		<ul style="list-style-type: none"> - same restrictions that apply to questions asked of applicants apply when asking for employment references



CHAPTER 4

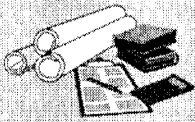
Sales and Marketing

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Sales & Marketing



A well thought out marketing plan can quickly lead to increased profitability.

The Marketing Plan

Marketing involves two fundamental tasks:

- discovering the types of renovations consumers need and want; and
- offering these products and services at prices they are willing to pay.

A marketing plan (one component of your business plan) is designed to provide a framework for:

- analyzing market opportunities;
- listing specific marketing objectives;
- planning how to achieve these objectives; and
- observing the marketplace to ensure that all important information has been considered in formulating a strategy and plan.

Your marketing plan should coordinate such diverse marketing activities as product development, pricing, sales forecasting, selling and market research.

By developing and following a marketing plan, you will have a great deal of control over the success of your business.

A basic marketing plan

A basic marketing plan:

- states the purpose of the plan;
- defines the target audience;
- states the business positioning which explains, from the customer's perspective, why your business services have value and thus why your business should be hired;
- lists the marketing tools to be utilized; and
- commits a budget to support the marketing tools.

After developing your marketing plan, you should create a promotional calendar that includes the details of all the marketing activities including when they will be used.

You should keep your marketing plan as simple as possible so it will be easy to follow and update.



Marketing Plan

This sample marketing plan for a renovator known as "Swinghammer's Sunspaces" includes five basic components:

Purpose — Swinghammer's Sunspaces wants to sell 200 sunspace additions priced at the lowest end of the market.

Target market — Adult couples 30 to 40 years old who are living in houses they bought 5 to 10 years ago and now require more interior living space for their growing families.

Positioning — The business will be positioned as a sunspace expert that provides guaranteed improvements in livability and family lifestyle at a low cost. This will involve establishing the credentials of our top-rated sunspace interior designer, demonstrating the accuracy of our computer-aided design system, and always offering low prices.

Marketing tools — Tools will include a combination of site signs, truck signs, home show displays, demonstrations, newspaper advertising, magazine advertising, yellow page advertising, client referrals and client encouragement for referrals. Marketing will also include keeping our trucks clean, maintaining a clean construction site and ensuring that all trades people treat our client's property with respect.

Budget — 8% of sales will be allocated to marketing.

Purpose of the marketing plan

The purpose of the marketing plan must be stated in terms of the goals and objectives of your business. Typical goals include:

- expanding into new market-places;
- introducing a new line of products or services;
- increasing market share; and
- selling new products to satisfied customers.

A clearly stated purpose is necessary to prepare the other components of the plan.

Targeting your market

Some renovators may spend most of their careers supplying the same product or service to the same market. These renovators may not have a conscious marketing program because they are content with their pace of life or because they have a steady flow of work.

If you want your business to grow and to offer more products and services, or if you are faced with tougher competition or a slow economy, you will have to develop a detailed marketing plan.

Statistics Canada Data Report 17-202, Demographic and Income Statistics for Postal Areas, may be helpful with identifying the target market (see Appendix).



...the purpose of the marketing plan must be stated in terms of the business objectives.



Your existing list of satisfied customers is a good place to start marketing a new product or service.

Market Potential

Typical questions that you must answer in determining the market potential for specific products and services include:

- How many people will be in the target market?
- How much income will households of varying sizes have?
- What is the competition doing, or is there any competition?
- What kind of lifestyle does the target market enjoy, and thus what requirements must the product or service satisfy.

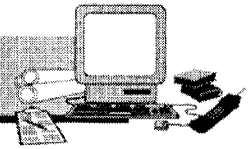
You must always know the number of potential customers in your market. If your business is specialized a market turn could quickly reduce the demand for your business's products or services. In these situations you must be prepared to respond quickly by offering revised products and services and prices that are more in line with new market demands. The existing list of satisfied customers is a good place to start marketing a new product or service.

Because many renovators supply similar products and services, the customer is often in the position to shop around for the best deal.

Offering exactly the right products and services to prospective clients, at a reasonable price, is your best response to competition from other renovators.

Customers have a right to demand quality products and services at a fair price. If you can't provide these, the customer will look elsewhere, especially in tough economic times.

To set your business apart from your competition, you must build a good reputation by guaranteeing quality, service and dependability.



Describing your product

Most renovators offer more than one product or service. A full-service renovator has to let the market know that they are a full-service renovation business capable of tackling any and all projects. Other renovators that specialize in niches, such as room additions, bathroom remodeling or historic restoration, must also make sure potential customers know about their specialty.

You probably won't try to do everything for everybody in your marketplace. You will carve out a particular segment of the market and concentrate your energies and resources there; that is, you will position your business to serve that segment, and target all of your marketing toward that segment.

You must describe your products and services in terms of what your potential customers are looking for. Customers usually look for:

- respect for them and their property;
- quality products and workmanship;
- quality design that improves and enhances their lifestyle;
- freedom to make changes during construction;
- friendly, courteous sales people and construction managers;
- a fair price that reflects the perceived value of their investment;
- a solid reputation; and
- a sense of genuine concern for their home and plans.

Positioning

Positioning means getting potential customers to think of your products and services exactly as you want them to.

David Ogilvy, an advertising guru, maintains that marketing results depend more on how a product or service is positioned than on anything else.

If, for example, you specialize in sun-room kitchens, the marketing plan should clearly and consistently reinforce this specialty. General claims suggesting that the "renovations are of the highest quality...call now" does nothing to let people know exactly what kind of work you specialize in.

When developing your marketing plan determine how your products and services will **satisfy the needs** of your target market. This is essential to establish proper positioning that will separate your business from your competition by offering a real benefit to customers. As many renovators tend to specialize in one type of renovation, their business must present the products and services that best satisfy consumers' needs.



**...determine
how your
products and
services will
satisfy the
needs of your
target market.**



Chapter 4



...other businesses may be providing similar products and services

As a successful renovator, you will have positioned your business so that its products and services will be seen by potential customers to be their best option.

Knowing your customer and your competition is essential to properly positioning your business in a tight marketplace.

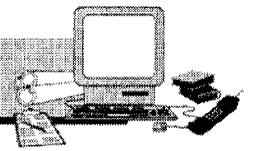
Fitting into the marketplace

Your ability to fit into the marketplace begins with the recognition that other businesses may be providing similar products and services.

Answering these questions will help you determine where your business fits into the marketplace:

- What type of products and services are being sold?
- What prices are they being sold at?
- What extras are being included at that price?
- How much mark-up are my competitors receiving on sales?
- Who is selling the most?
- Who is not doing well and why not?
- How many other businesses are competing in this marketplace?
- How big and how specialized is this marketplace?
- Is the market growing, shrinking or holding steady?
- Are businesses entering or leaving the marketplace?

Some of these questions can be answered by reviewing municipal permit information, which includes project descriptions, locations, owners and project values.



Creative Strategy

One of the most important parts of the marketing process is the creative strategy.

Your creative strategy is the unique way that you present your business to the target market.

Example — *The image of a person stretching with sunlight streaming in from behind is how the message will be carried. Swinghammer's Sunspaces promotions will convince our target audience, adult couples 30 to 40 years old, that they should purchase one of our sunspace additions as the most effective way of increasing their living space and improving family lifestyle. This will be accomplished by promoting the lifestyle benefits of living in a home with a Swinghammer Sunspace addition. The mood and tone of the advertising will be upbeat, natural, honest and warm.*

This one paragraph shows how the personality of the ads and the unique image they present will help achieve your purpose.

When developing your creative strategy, examine the creative strategies being used by your competitors in order to position your business "apart from all the rest."

The test of creative advertising is sales. If promotions are not helping with sales, you should look for more creative ways to advertise your products and services. If it is within your budget, hire a person to develop creative concepts for the business.

That person will need knowledge of your own products and services, knowledge of your competition, knowledge of your target audience, knowledge of current and past trends.

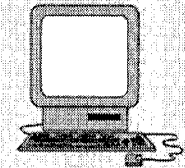
Developing a promotional message

The following steps can help you develop a promotional message that suits the type and style of your business:

What is exciting or unique about you product or service — Something about your product or service must be exciting, or it wouldn't be offered for sale.

Determine what meaningful benefit your product or service provides — Remember, people look for the benefits of features. Clients look for convenience, style and comfort in the products and services that they buy and live with.

State the benefits as believably as possible — Information may be 100% honest but people still may not believe it. State the benefits in the most believable way possible.



One of the most important parts of the marketing process is your creative strategy.



Chapter 4



Grab their attention with a creative slogan or image — something that will make them remember your business

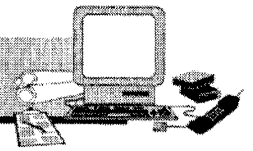
Grab attention — People pay attention to things that interest them. Grab their attention with a creative slogan or image — something that will make them remember your business.

Motivate potential customers — Encourage people to visit an 'open house' of a finished job or a demonstration. Get them to see your work firsthand — show them that you are a person, not just a name on the side of a truck.

Communicate your message clearly — People are turned off by confusing or misleading ads. Let

them know exactly what they can expect: *"Building your family a sunspace addition will give you more room, let you stretch out and make them happier."*

Measure the finished ad against the creative strategy — Use your creative strategy to guide your promotional campaign, whether it involves flyers, letters, brochures, or television and radio spots.



Marketing tools

Some renovators may do very little marketing. Their business names may not even suggest what type of work the business does. Successful renovators, on the other hand, engage in continuous marketing and use many different tools. Different types of renovation businesses will choose different types of marketing tools to get their message out:

- referrals,
- signs,
- canvassing,
- personal letters,
- telemarketing,
- circulars and brochures,
- classified ads,
- yellow page advertising,
- newspapers and magazines,
- radio and television,
- billboards,
- direct mail,
- demonstrations,
- consumer seminars,
- sponsoring events,
- exhibiting at home shows,
- public relations activities, or
- renovation parades.

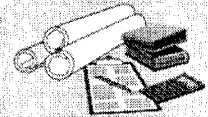
A dynamic marketing plan with a brilliant creative strategy will help your business stay ahead of the competition. However, problems can still arise by placing the right message in the wrong media. How do you choose the right one?

Selecting the appropriate vehicles

Every method of marketing has its own particular strength.

Referrals — Satisfied customers usually have friends and acquaintances who are looking to make changes to their current accommodations and would consider renovations to their existing home. Ensuring customers are satisfied is the first step to getting referrals, one of the best means of getting new business. Initiate a customer referral program that provides financial rewards for referrals that turn into sales.

Family and Friend Network — Your family and friends are excellent sources of leads. Establishing a network between family members



Successful renovators engage in continuous marketing and use many different tools.

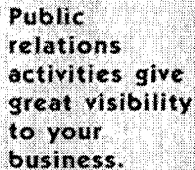
Making messages motivating

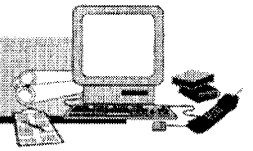
Picture the mind of a customer at the moment the purchase decision is made.

What were they thinking of? What led to their decision? What were their thought processes? What customer 'buttons' were pushed and how?

Most people can be motivated to take action by appealing to one or more of their basic needs:

- convenience,
- comfort,
- love,
- friendship,
- security,
- style,
- social approval,
- respect,
- health and well being,
- profit, and
- savings or economy.





Magazines — You can include more information here because readers are more willing to take more time looking at a magazine ad than a newspaper ad.

Each of these methods can be used for different purposes. Use the ones that are most appropriate to your business vision, your target market, and your budget. Use as many different advertising methods as you can.

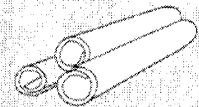
The marketing calendar

A marketing calendar will help you organize all the elements in your marketing plan. It will help you plan your budget and avoid un-

foreseen expenditures. A calendar protects you from engaging in hit or miss marketing.

Set up your marketing calendar based on a weekly basis and project it over a period of time, perhaps 3 to 6 months. It should show what marketing vehicles have been selected for each week, the type of promotion planned, how long each type of promotion should last and the cost expected for each. Remember that these costs must be reflected in the cash flow budget.

Developing a marketing calendar is not unlike preparing a job construction schedule. Each of the necessary steps are included with a plan of when to do them.

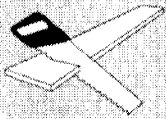


A marketing calendar will help you plan your budget and avoid unforeseen expenditures. A calendar protects you from engaging in hit-or-miss marketing.

What to say...where

When selecting the vehicles to use to reach the target audience, remember:

It's not necessary to say everything to everybody, nor is it possible. Instead, strive to say something to somebody. The marketing message is the "something" and the target audience is the "somebody". Take care in selecting what you say and to whom you say it. Saying the right thing to the wrong person is a waste of time and money.



The failure of a renovating business is most often caused by a lack of business knowledge, not a lack of technical knowledge.



All successful and long-lived renovators sell value — not price.

Sales

Sales begin with a solid marketing effort.

Marketing vs sales

The sales process is the end result of a solid marketing effort that makes customers aware of you and the type of products and services you offer.

Remember, to be successful you must provide a quality product. Brilliant marketing can speed the demise of an inferior renovator, since people will learn of the poor quality more quickly.

Value vs price

When you start out in business, selling may be difficult without a track record and you may have to take many small jobs simply because you can't afford to be choosy.

The failure of a renovating business is most often caused by a lack of business knowledge, not a lack of technical knowledge. To succeed, you must face and meet the price challenge. If many renovators are underpricing their work, you may find it difficult to charge a proper sales price. The solution to this problem is to see **value**.

Purchasers look for three things in all products and services — price, value and quality. The **price buyer** can't afford to buy on any basis except price. In some cases, the price buyer will not be the prime customer for a successful renovator.

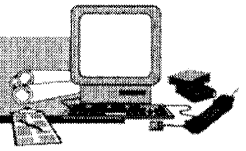
The **value buyer** is well aware of the price but factors it with determining value. Increased value may be provided by a track record, personal charisma, trustworthiness, reputation, design, or beautiful craftsmanship. You must sell the customer on the value of buying your service.

The **high quality** buyer has the money and often buys from the top source in town, whether buying a meal in a restaurant or a renovation job. If you are selling in this market you must be able to communicate quality and workmanship and present a high level of personal service.

All successful and long-established renovators sell value — not price. The role of the marketing plan is to communicate that value. Selling lowest price is easy but selling value and quality takes real selling skills and a comprehensive marketing plan.

In a highly competitive market you may not be able to charge a high enough mark-up that will allow for recovery of overhead and making a profit. Proper marketing can help avoid this situation by allowing you to:

- be more choosy when selecting jobs; and
- get the desired price from the jobs you accept.



Sales strategy

In many cases renovators act as their own salesperson. While they may have excellent trade skill or technical knowledge they may lack the necessary sales skills.

Successful renovators must use excellent sales skills and good product knowledge.

Good salespeople develop over time as they practice essential sales skills and utilize their knowledge of both process and product.

Sales documents

The salesperson must be familiar with the procedure for processing a sale. The salesperson must know which documents need to be completed and what information must be included in each of the documents. The salesperson should know what options clients have to choose from, which choices must be made, what financial arrangements must be put in place, what documents require customer signatures and how all documents are routed.

Documents

The sales procedure may vary from renovator to renovator. Some renovators may do business on the strength of a handshake, with plans, selections, changes and even the price being decided as the job proceeds.

This is not a recommended business practice. Salespeople normally get agreement upon all aspects of the job, including selections and financing arrangements, before the job begins. Sales documents describe the arrangements agreed to between you and the customer. Putting all agreed-upon conditions in writing is necessary to protect you if any misunderstandings or disputes arise later on.

Price vs margins

An essential component of the market planning process is forecasting market price. This will help you determine return on investment, a fundamental measurement of the success of your business.

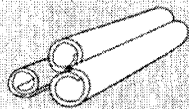
Profits are necessary to finance the acquisition of new equipment, to support credit from the lender, and to allow the business to grow in volume or service in order to provide a return on investment.

Prices quoted on competitive bids must include adequate provision for overhead recovery and profit.

These pricing strategies are derived through the development of a comprehensive marketing and financial plan.



Chapter 4



Sales documents describe the arrangements agreed to between you and the customer.

Typical Sale Documents

The basic sale documents include a detailed agreement, drawings and plans and a list of specifications for the job. Most disputes that arise during a renovation are the direct result of incomplete or inadequate sale documents. Misunderstandings may develop into major arguments because the job was never fully discussed and agreed upon prior to beginning the work.

It is strongly recommended that every aspect of the agreement between you and the customer be clearly identified in the sales documents. This process will minimize or eliminate disputes during and after the job.

Essential documentation

Each component of the sales documentation should contain specific information.

Contract:

- name of the renovator;
- location of the property;
- name of the customer;
- address of the customer;
- customer phone numbers;
- complete financial details including deposit amount, progress advances, financing details and holdbacks;
- details of how and when payments must be made;
- how extra charges and/or credits will be handled;
- warranty provisions;
- dispute settlement procedure; and
- default procedures.

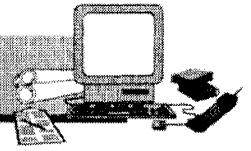
Drawings and Plans:

- drawings and plans showing all applicable dimensions;
- site plans showing how an addition is to be positioned on the site;
- legal description and civic address;
- location of electrical lights, plugs and switches;
- swing of doors;
- location of plumbing fixtures;
- plan showing heating and ventilation equipment and ducting locations;
- exterior finishes;
- wall construction details;
- floor construction details;
- roof details;
- window and door locations; and
- cabinet/vanity locations.

Specifications:

(if applicable)

- listing of all equipment used in the job, including product brand, model number, description;
- cabinet and vanity description;
- description of all floor finishes, including type, material, brand, pattern, colour;
- type and size of windows and doors, type of glass, glazings, special features, hardware;
- detailed description of the building envelope construction;
- detailed description of any floor construction;
- details of any roof construction;
- type of electrical wiring, switches and light fixtures;
- type of plumbing fixtures;
- type of paint or wall coverings; and
- specialty equipment for persons with disabilities.



Selling

Once you, in your role as salesperson, know the procedure for processing a sale, the next step is to get customers signed up. Now is when you must apply the skills and knowledge of the sales process to move the prospect from an initial contact through to a committed customer.

The greeting is your first contact with a prospect. Try to establish a positive and comfortable climate for both you and the prospect. Greeting can take place in person or over the telephone.

First impressions are crucial; you must take great care to create an impression of trust and honesty.

Here are some specific actions to take when greeting a prospect for the first time.

Introduce and Welcome —

Introduce yourself to the prospect immediately. Thank them for calling, visiting your job site, showroom; display.

Get the Prospect's Name —

Don't be afraid to ask directly for a prospect's name; or you can ask them to fill in a survey form that is used to monitor the marketing program. Thank the prospect for completing the brief survey and commit their name to memory.

You can give a memento, such as a unique fridge magnet or key chain, etc., to help keep the name of the business in the prospect's mind.

Make sure the item is given in return for the customer's name. Don't leave these items sitting out for anyone to pick up.

Be friendly and positive —

Smile, relax and think only of the prospect. In order to attract their attention and evaluate their interest in your product or service, ask a general question such as, "How long have you been planning this renovation?" or "Our company is well known for our high quality sun spaces and competitive prices; what have you heard about us?"

The prospect's response leads into the next step in the sales process — qualifying.

Qualifying — Qualifying takes place when you ask questions that require more than a yes or no answer and that provide more detailed information about the prospect.

The objective of qualifying is to determine the prospect's ability to pay for the size or type of renovation they are looking for; in other words to determine what they can or cannot afford.

The conversation should focus on:

- **urgency** (do the prospects need the work done soon?);
- **financing** (what can they afford? do they need to borrow money?);
- **needs and wants** (size and type of job, reason for the changes, etc.);



First impressions are crucial; you must take great care to create an impression of trust and honesty.



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The objective of qualifying is to determine the prospect's ability to pay...

- **quality** (the level of quality required); and
- **the most common types of renovations** (being carried out in their neighbourhood or city).

This conversation can take place in person or on the telephone. The qualification process is not an interrogation. Keep the conversation pleasant and let the prospect relax. Remember to listen closely to their answers. Qualifying questions may include:

- "May I ask how you learned about us?"
- "What kind of renovations are you considering?"
- "Have you seen any similar renovations that you like?"
- "Where have you seen what you want?"
- "How long have you been looking for a renovator?"
- "What appeals to you the most about our products and services?"
- "Are you planning to get started on the job soon?"
- "Approximately how much do you expect your renovation to cost?"

Learning all you can about the prospect will help you to help them decide exactly which of your products and services are most suited to their needs and their ability to pay.

If you work with prospects without qualifying them, you may waste time that would be better spent with a serious buyer.

The qualifying process

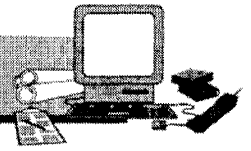
The qualifying process can have two different results:

- The person is **not** a qualified prospect and the sales process stops. This often happens when there's an excessive difference between the scope of the proposed job and the cost, making it become clear that the prospect does not have enough financial resources. You should then try a downsell, or politely disengage from the sales process; or
- The person is now a qualified prospect and the sales process continues. The qualification process can take place away from the job site; however, the sales negotiations should take place on-site, after an inspection of the prospect's home.

Product knowledge

Each prospect will have a different level of understanding and knowledge about renovations. Prospects are looking for specific information from salespeople, such as:

- plans, ideas and technical information;
- prices;
- how long it takes to do certain types of work;
- levels of quality;
- product information;
- types of selections available;
- service and warranty provisions;



- energy-saving and environmental features;
- friendliness, honesty and a positive attitude from you; and
- indication of your concern and respect for their property and home.

If you cannot supply the specific information that a prospect is seeking, you shouldn't lead them on. Instead, refer them to the place where the information can be obtained, or, better, commit to get the information for them. Do not lie or give false information.

You, and your sales staff, should attend product shows, new model homes and product displays whenever possible as a means of becoming familiar with new products. It could be embarrassing to work with prospects who are more knowledgeable about products than you are.

Renovators who act as their own salesperson may know too much about the product and too little about the prospect. If you are going to do your own sales, you should know as much about selling techniques as you do about renovating techniques.

Assessing wants and needs

The essence of sales is the ability to provide the prospect with a reason to buy.

The best way to get someone to do something is to make them want to do it. You must determine how your product or service can provide what the prospect wants, and then explain that to the prospect.

One barrier to identifying wants and needs may be the prospect's lack of understanding of their own desires and needs. As a good salesperson, you should be able to help the prospect recognize what they want, then help them decide how to get it.

It is usually easier for you to determine the prospect's needs in their own home, where they feel comfortable and you can see for yourself what their living needs really are.



Prospects are looking for specific information from salespeople...

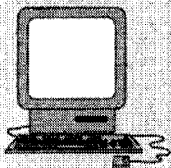
Crystallize thoughts

One of the best methods to help prospects crystallize their thoughts is to ask them **specific** questions. Questions make people think and the best question to help a prospect think through their argument is the question "why".

Prospects may be hesitant or uncertain about their purchase decisions. By asking direct questions, you can help the prospect organize their thoughts and feel comfortable with what may be for them a major investment or a dramatic change in their lives.



Be a good listener — show polite and genuine interest.



People naturally tend to interpret what other people say in terms of their own experiences and desires.

The Key Issue

As a successful salesperson, you must identify the key issue that motivates the prospect to undertake a renovation and then show the prospect how you can satisfy it with quality products and services.

Identifying the key issue

During the sales process, you should know when to speak and when to listen. In some cases the salesperson may get busy discussing the product because it's much easier to talk than to ask appropriate questions.

Remember, some people like to talk about themselves. Be a good listener — show polite and genuine interest. Ask questions and listen. Soon the prospect will reveal, or you will be able to determine, what their key issue is.

If the prospect believes you are honest and genuine, they will tell more and more about what's important to them (their key issue).

The prospect is most likely considering a renovation in order to satisfy one or more of their basic needs:

- convenience,
- comfort,
- love,
- friendship,
- security,
- style,
- social approval,
- health and well-being,
- profit, and
- savings or economy.

When listening to the prospect talk, try to understand things from their point of view. People naturally tend to interpret what other people say in terms of their own experiences and desires. You must be careful, however, to understand what their experiences and desires are.

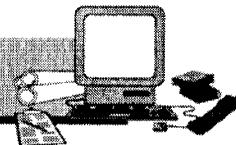
Matching the product to the key issue

Once you and your customer have identified the key issue the next step is to determine how to provide them with what they really want.

This little story will help emphasize the importance of this point.

"The story is about Bill Powers, an executive with General Motors. Bill wanted to do some renovations in his Detroit home. He called in a renovator, one of the smartest salespersons he would ever meet. The renovator listened as Bill talked, and after a while found out that for all of Bill's life he had wanted to live by a forest. The renovator prepared a design for the needed work but also included glass walls and skylights that seemed to bring a nicely wooded section of Bill's backyard right into the home. When he presented the plan to Bill, the renovator stood up and pretended to peer out the new window. 'Look at those gorgeous trees, he said to Bill — twenty eight of them!'

Bill looked at those trees, admired them, and then asked him how much the job was going to cost. The renovator said \$XXXX. Bill asked the renovator to get out his pencil and sharpen it, but he wouldn't adjust the price a nickel.



When Bill suggested to the renovator that he could have anybody else do the work for less money, the renovator responded, 'If you can, more power to you, but look at those trees — one, two, three, four....'

Each time Bill talked price, the renovator counted trees.

The renovator ended up selling Bill a glorious picture of twenty eight of his own trees — and threw in the renovation!

That's salesmanship. The renovator listened until he found out what Bill really wanted, and then sold it to him."

Sales tools

Some tools that you may find helpful during the initial sales visits include:

- examples of detailed designs;
- specification lists;
- product information sheets;
- photographs;
- warranty certificates;
- testimonials; and
- the company portfolio.

Be careful not to overwhelm prospects with excessive use of sales tools. The central point of the sales meeting is to share information that's relevant to the prospect.

Sales tools can be used to assist the prospect clarify their understanding.

When you are discussing plans and options, it's important to help the prospect paint pictures in their mind of the finished product. Remember that the prospect may have difficulty visualizing a three dimensional room from a two dimensional drawing. Very few people know how to read and understand blueprints and floor plans. A visit to a furnished display home will help the prospect translate plans into actuality.

Using Questions

Benefits to asking strategic questions are that it:

- helps to avoid arguments;
- helps to avoid talking too much;
- enables you to help the prospect recognize what they want and then them decide how to get it;
- helps crystallize the prospect's thinking;
- helps find the most crucial point with which to close the sale — the key issue; and
- gives the prospect a feeling of importance by showing that you respect the prospect's opinion.



Be careful not to overwhelm prospects with excessive use of sales tools.



When the key issue has been satisfied, you should confirm whether the prospect is ready to sign the contract.

Translating features into benefits

A good sales technique is to discuss benefits rather than features — describing how a feature will satisfy one or more of their wants or needs is more helpful and important than how a feature will be built or installed.

For instance, new kitchen cabinets should not be described as a piece of wood with certain non-stain properties but rather as a place to put items away with ease and have a central showpiece in the kitchen.

Closing

The most difficult aspect of closing may be knowing when the prospect has made the buying decision. When the key issue has been satisfied, you should confirm

whether the prospect is ready to sign the contract.

At this point, you should also be able to identify those prospects that could become difficult customers and try to develop a smooth working relationship from the very beginning.

Reality check

How many times do prospects decide not to buy because of being “over-sold”? Realize when your prospect is ready to become your **customer** and stop there. People are turned off by pushy sales people. You may make a sale and then lose it right away if you are too aggressive.

Objections are overcome by satisfying a want or need. Helping the prospect clarify their thinking and understand how their want/need has been satisfied is the key to success.

Overcoming objections

A prospect may give a dozen reasons for not buying. But a serious, qualified prospect **wants** and **needs** the renovator to:

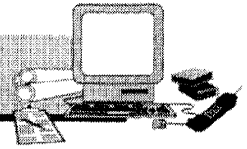
- identify their key issue;
- identify other wants and needs;
- teach them about the product and service options available;
- help them clarify their thinking;
- help them deal with and overcome their concerns;
- facilitate the buying process by removing unnecessary red tape; and
- support and reinforce their purchase decision.

The successful salesperson will always be aware of the prospect's possible objections. A clearly defined objection allows you to develop a solution.

Most sales people have experienced the disbelief and annoyance when prospects reverse their position on items already agreed upon — with no apparent reason. Remind your prospect of how their objections were overcome and how the work you are doing will satisfy one or more of their needs or wants.

During the sales process review and summarize with the prospect everything that you both understand and agree to.

Reassure the prospect that you will review the work in progress with them at different stages. You can



answer any questions or complaints they may have, and help them visualize once again how the final product will improve their lives. When a layout has been approved, a product selected, or a design agreed to, use these points of agreement to move ahead. Keep the summary tight and to the point, no long winded discussions. Point form is best.

When the time is ready — the key issue has been identified and dealt with — when all of the objections have been handled — when the list of summarized agreements is long — place the sales document in front of the prospects, and ask them to write their names here.

Finally, when the deal has been signed, **ASK FOR THE DEPOSIT.**

Keeping ahead

The best prospects are the ones who provide honest objections. Many objections are really buying signals. They are signals of what issues the prospect needs to deal with, what barriers they need removed.

Keep the sales process moving. Do not allow the prospect to go back to the start.

Summarize what has already been agreed upon, then carry on with the process. If you deal directly with the key issues and the prospect's real needs, you will have a greater chance of success.

Selling a renovation job often takes many meetings with the prospect before the final agreement is reached. Each meeting must build on the last and move the process ahead. Remember to summarize agreements often and especially before ending a meeting.

Successful salesmen say that receiving the deposit may be the most satisfying moment of the sales process. After closing, ask the customer to provide a letter from the bank stating that funds are available to do the job. If you are helping to arrange financing, work with the customer until all financial details are in order.

How to Find Prospects

One of the easiest ways to find prospects is through customer referrals or by working in a show room. Referred customers are already in the buying process. People go to show rooms to look for new ideas, examine products, and to check out prices.

Many people can and **would like** to renovate; however, they need someone to work with them to overcome the barriers and fears they perceive toward making the decision.

You should concentrate on finding these qualified prospects and work with them closely. This is why some renovators continue to generate excellent profits even in markets that are severely depressed.



Chapter 4



...receiving the deposit may be the most satisfying moment of the sales process.

This is why even in markets that are severely depressed, some renovators continue to generate excellent profits.

Additional ways to find prospects

While the show room is an easy place to meet people there are many other places where people interested in improving their lifestyle go. One such place is the home show. Most communities have home shows and the people who attend are usually interested in fixing up their homes. Setting up a booth in a home show is an investment of your time that may be rewarded handsomely.

Another technique used by one enterprising salesperson was to find out the names of people who were doing renovations with competitors. The salesperson then

placed a notice on the door knobs of the neighbours confirming that their friend or neighbour is investing in a renovation and that the salesperson would be willing to help them look into doing the same thing. Sometimes the initiative of a neighbour was enough to spur the person into thinking about a renovation for themselves.

Many people who would like to invest in a renovation are unsure about taking the first step. One renovator spent time getting to know the people at the moving companies in town. A referral program was established that allowed the moving company to give the names of people that were moving into town.

The renovator would then contact the customer to see if they needed any repairs or renovations done to make their newly acquired home more comfortable.

Keeping abreast of local corporations and their moving of people into the city is always a good investment of time, as large corporations often assist their employees with their housing needs.

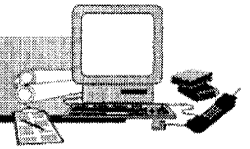
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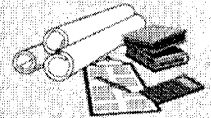
Other customers

A good motto is, "Never forget a customer: never let a customer forget you." Satisfied customers are enthusiastic and happy about the work they had done. When they are excited and proud, they are anxious to tell their friends and neighbours about it.

Regular courtesy calls can result in more good prospects for renovations. In one city, out of 55 renovation-buyers who were questioned, it was found that the salesperson had made courtesy calls on only 17. Eight of the 17 gave the salesperson names of prospects, who called them and sold 3 renovations. Just being courteous resulted in significant new business. If all 55 customers had been followed up promptly several more renovation jobs could have been sold.

Some groups of people who must renovate include people who are being forced to comply with bylaws; people who are disabled; and people needing maintenance on their homes. Your marketing plan should target these groups.

Other customers can be found by hosting a special event in a shopping centre located in a district whose age and income characteristics meet your business's market niche.



Regular courtesy calls can result in more good prospects for renovations.

Personal Organization

Everyone, including the salesperson, is faced with the problem of organizing their time: making plans, preparing "to do" lists and other types of organizational behaviour.

Many human resource directors confirm that one of their most difficult tasks is finding people who will think and do things **in the order of their importance.**

You will be more efficient and productive if you schedule tasks according to their importance.

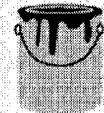
Take advantage of an extra hour in the morning or short breaks during the day for reading and study. In addition to this time, you should set

aside one-half day a week for self-organization.

Most successful salespeople fill out a planning sheet that clearly describes their plan for the week. Meetings, events and regular duties are pre-planned. This will help you to stay on track and not be pulled off schedule so easily. Having sufficient time scheduled for responding to client calls and meeting other responsibilities allows you to take control of your life and live with much less stress.

You will have to deal with stress whether it comes from dealing with clients, suppliers or employees, or from paying bills or constantly repairing equipment.

Planning, and commitment to planning, can empower you to be more productive, much happier and



...schedule tasks according to their importance.



Chapter 4



...establish an assessment system that recognizes small successes as the prospect progresses...

much less stressful. For renovators who do their own sales, keeping up with both production and sales can be even more stressful.

You will feel great satisfaction in life from getting things done and knowing that they have been done to the best of your ability. If you are having trouble getting organized, if you want to increase your ability to think, and to do things in the order of their importance, take more time to think and plan. Set aside a self-organization time during a definite period of time each week.

The secret of freedom from anxiety over not having enough time lies not in working more hours, but in doing the right things in the hours that are worked.

Staying positive

Meeting with prospects over and over without getting a signed contract can soon become depressing. Not every prospect becomes a customer, but you must invest time and effort in each prospect. When too many rejections fill the space between successes, how do you stay positive?

A good way to maintain a positive attitude is to establish an assessment system that recognizes small successes as the prospect progresses through the stages of the sale process.

For example, examine the initial meeting with a prospect (on-site or off-site). The goal of the sales person is to get the essential

information that will allow a follow-up:

- prospect's name;
- basic idea of what kind of work is needed;
- basic information about the prospect's family and their expressed wants and needs;
- address and phone number;
- basic capacity to pay; and
- time available for a house call.

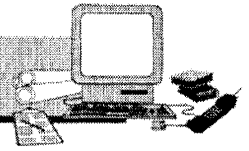
Getting this far is better than getting nowhere at all.

At the next meeting, you must advance the sale by focusing on the specific wants and needs of the prospect and by providing a specific and planned exposure to the product or service. Again, gain confidence with each step that the prospect has been moved along the sales process.

Subsequent meetings must focus on further understanding prospect's key issues and the providing of specific information designed to help the prospect move ahead in the decision-making process.

If the prospect has had all concerns addressed and still decides not to buy, have you lost? No. If you have been helpful, personable, professional and provided valuable information or benefits to the prospect along the way, you are in an excellent position to gain a referral from the lost prospect.

If your expectations are unreasonable, it will become very difficult for you to be successful and maintain a positive attitude.



In summary, those salespeople who take the loss of a prospect personally — feeling that they have been rejected because of something they did or didn't do — will not last long in the business.

The salesperson who can rebound from the loss of a prospect — feeling that they did the best job possible with the resources and products available — is on their way to success.

Success in failure

Even the loss of a prospect can provide some measurable success.

For example, this is a good way to handle the follow-up after losing a sale.

"I appreciate the opportunity to have met and worked with you Bob and Betty, and I know that you will be happy with the renovator you chose, as they too are excellent renovators. Our product, service, designs, or price did not meet your exact needs, but some of your friends or acquaintances may be able to benefit from the opportunities we have to offer. Who would you recommend I contact?"

In most cases, the lost prospect will be very helpful in trying to make up for not accepting the offer.



Even the loss of a prospect can provide some measurable success.

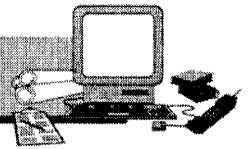


Chapter 4

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Chapter 4



APPENDIX

Sample Renovation Contract

Reliable Renovators

123 Anywhere Street, Boom Town, Canada, I4Y 2R1 (789) 765-4321

This **AGREEMENT** made this _____ day of _____ 19 __ ,

BETWEEN :

Owner

hereafter known as the "Owner";

AND

RELIABLE RENOVATORS

123 Anywhere Street, Boom Town, Canada, I4Y 2R1

hereafter known as the "Contractor";

WHEREAS the Owner is registered as owner of

_____ ("the land"), and is desirous of having certain renovations done to the residence upon such land;

AND WHEREAS the Contractor has agreed to perform certain services and/or to supply certain materials in connection with such renovations as more particularly described herein;

NOW THEREFORE this agreement witnesseth as follows:

I. The Contractor agrees to perform such services and work, and to supply such materials as are described in the "Contractors responsibilities" in **Schedule A** annexed hereto, the plans/drawings and the specification. The Owner shall be responsible for "Owners responsibilities" described in **Schedule B** annexed hereto. Any alteration or deviation from the specifications described therein will only be executed by written change orders reflecting agreed cost adjustments.

II. The Owner agrees to pay to the Contractor the sum of \$ _____ for such services and materials which payment shall be as follows:

- | | |
|--|--------------|
| a) upon execution of this agreement | \$ _____ .00 |
| b) upon completion of framing | \$ _____ .00 |
| c) upon completion of drywall | \$ _____ .00 |
| d) upon completion of air conditioner | \$ _____ .00 |
| e) upon completion of deck | \$ _____ .00 |
| f) upon completion of contractors final duties | \$ _____ .00 |

II. a) LIEN ACT

The Contractor acknowledges the right and responsibility of the Owner to withhold ten (10) % of each payment as per the provincial Lien Act.

II. b) INTEREST

The Owner further agrees to pay to the Contractor interest on all sums due by the Owner to the Contractor at the rate of _____ % per annum from the date each sum is due to the date of the sum is paid.

III. QUALITY STANDARD

The Contractor agrees to use only good quality materials and that all work shall be completed in a good and professional fashion using only skilled, experienced and competent personnel and sub-trades to perform the work."

IV. INSURANCE

The Owner agrees to be responsible for all fire insurance for the home including the new work or any part thereof.

V. PERMITS

The Contractor shall obtain and pay for all necessary building permits.

VI. START AND COMPLETION

The Contractor agrees that it shall commence work and shall proceed expeditiously to complete the work and provide the materials required hereunder. The Contractor shall use its best efforts to complete its responsibilities, subject to delays beyond the contractor's control. The Contractor agrees that it will commence work by _____ and be fully completed by _____.

VII. WORKERS COMPENSATION AND LIABILITY INSURANCE

The Contractor shall maintain such insurance and pay required assessments to protect the Contractor and the Owner from claims under the Workers Compensation Act and from any other claims for damages or personal injury, from its operation under this contract.

VIII. INSPECTION OF THE WORK

The Owner or anyone acting on their behalf with their authority shall have the right of access to the work, but in so doing neither the Owner or their agent shall hinder, alter, or interfere with the work being performed by the Contractor.

IX. SIGNS

The Contractor shall be entitled to display a sign on the property until the date of actual completion of all work.

X. WARRANTY

The Contractor shall be responsible for the proper performance of the work only to the extent that the plans and specifications permit such performance, and agrees to correct promptly, at its own expense, defects or deficiencies in the work which appear prior to and during the period of one year from the date of substantial completion. Notice must be in writing to the Contractor, within this time period. The Contractor shall not be responsible for any damage or loss whatsoever as a result of cracking, shifting, breaking or other damage to concrete foundations, walls, floors, caused by frost or soil shifting, expansion or heaving.

XI. ARBITRATION

Disputes between the parties as to the interpretation, application or administration of this agreement or any failure to agree when agreement is called for shall be determined by arbitration and the provisions of The Arbitration Act for the Province of _____ shall apply. If the parties cannot agree upon the selection of an arbitrator, then either of the parties hereto may apply to the Court of Queen's Bench, in the Province of _____, for the appointment of a single arbitrator. The award and determination of the arbitrator shall be binding on the parties hereto, and their respective heirs, executors, administrators, successors and assignees. Refusal by one part to submit to arbitration shall entitle the other part to terminate this agreement upon five days written notice to that party.

XII. WCB CLEARANCE

Prior to receiving final payment the Contractor will provide to the Owner a Worker's Compensation Board Clearance certifying that all payments in relation to the contract, as are lawfully required, have been made.

Owner

Reliable Renovators

Schedule A

Contractor's Responsibilities

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Owner

Reliable Renovators

At the time of the study, the following information was available from the National Health Service (NHS) register:

Schedule B

Owner's Responsibilities

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There is no text or other markings on the paper.

Owner

Reliable Renovators

General Information

Name of owner _____

Name of co-owner _____

Job Address _____

Owner Phone _____ Co-Owner Phone _____

Brief Description of Job (Scope of Work)

- ◊ Addition _____
- ◊ Siding _____
- ◊ Kitchen _____
- ◊ Roof _____
- ◊ Baths _____
- ◊ Windows _____
- ◊ Basement _____
- ◊ Garage _____
- ◊ Porch _____
- ◊ Other _____

Qualifying Information

When do you hope to start construction? _____

How much do you plan to invest in the job? _____

How long have you owned your home? _____

Do you have plans and specifications? _____

Where have you seen something that you liked? _____

Which other contractors have you contacted? _____

How did you learn about our firm?

Previous client/referral _____

Type of advertising _____
(truck sign, yellow pages, jobsite sign, direct mail, newspaper, home show, other)

Follow-up

Salesperson _____

Date of meeting 1st ____ 2nd ____ 3rd ____ 4th ____ Date bid given : _____

Date contract signed : _____

If competitor won, who? _____

How much? _____

Prospect Information Sheet

General Information

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Marketing Tools Checklist

Program Publications

- ◇ Brochures
- ◇ Business cards
- ◇ Direct mailing
- ◇ Leave behinds
- ◇ Newsletters
- ◇ Postcards
- ◇ Show handouts

Cooperative Advertising and Promotions

- ◇ Manufacturers and suppliers
- ◇ Related business
- ◇ Other business in the neighborhood
- ◇ Associations

Customer Referrals

- ◇ Customer questionnaires
- ◇ Customer letters and phone calls

Employee Referrals

- ◇ Employee referral bonus

Giveaways

- ◇ Key chains
- ◇ Refrigerator magnets
- ◇ Pens
- ◇ Rulers, tape measures, etc.

Media Advertising, Editorials, Responses, and Reprints

- ◇ Magazines
- ◇ Newspaper
- ◇ All advertisements newspaper
- ◇ Other periodicals
- ◇ Radio
- ◇ Television
- ◇ Yellow pages

Association and Community Groups

- ◇ Community associations
- ◇ Business associations
- ◇ Service organizations
- ◇ Home & school associations

Public Relations

- ◇ Open Houses
- ◇ Sports team sponsor
- ◇ Speeches
- ◇ Community awareness events
- ◇ Workshops and demonstration projects
- ◇ Classes, seminars

Signs

- ◇ Bench boards
- ◇ Billboards
- ◇ Bus boards
- ◇ Fence boards
- ◇ Vehicle signs
- ◇ Site signs

Surveys

- ◇ Canvassing
- ◇ Customer evaluation
- ◇ Direct mail questionnaires
- ◇ Focus group
- ◇ Personal interview
- ◇ Telemarketing

Shows

- ◇ Home shows
- ◇ Mall shows
- ◇ Show contests or drawing
- ◇ Audio visual presentation

Sources of Leads – How People Have Learned of your Program?

Program Publications

- ☐ Brochures
- ☐ Business Cards
- ☐ Direct mailing
- ☐ Leave behinds
- ☐ Newsletters
- ☐ Postcards
- ☐ Rolodex cards
- ☐ Show handouts

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- ☐ Grand drawings
- ☐ Speeches
- ☐ Special events
- ☐ Community awareness events
- ☐ 'Good Citizenship' award
- ☐ Workshops and demonstration projects
- ☐ Classes, seminars

Signs

- ☐ Benchboards
- ☐ Billboards
- ☐ Busboards
- ☐ Fenceboards
- ☐ Project Vehicle signs
- ☐ Site signs

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- ☐ Personal interview
- ☐ Telemarketing
- ☐ Volunteer evaluation

Shows

- ☐ Home shows
- ☐ Mall shows
- ☐ Show contests or drawing
- ☐ Audio visual presentation

Monthly Sales Report

For the month of _____

Salesperson _____

Sales Volume to Date _____

Average monthly volume _____

Source of Sales

To Date :

No. Lead	No.	Volume	Estimated Profit
1. Add on with present client	_____	_____	_____
2. Previous client	_____	_____	_____
3. Referral by client	_____	_____	_____
4. Referral by friend	_____	_____	_____
5. Friend or Relative	_____	_____	_____
6. Referral by employee	_____	_____	_____
7. Truck sign	_____	_____	_____
8. Jobsite	_____	_____	_____
9. Brochures	_____	_____	_____
10. Home show	_____	_____	_____
11. Mall show	_____	_____	_____
12. Newspaper ad	_____	_____	_____
13. Yellow pages	_____	_____	_____
14. Direct mail	_____	_____	_____
15. Referral from home builder	_____	_____	_____
16. Other (explain on back)	_____	_____	_____
Totals	_____	_____	_____

Agreements Written

Sales Source	Job Name	Type of Project	\$ Amount	Est. Gross Profit
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Proposals Submitted

Totals (for sales manager's use only)

Number	_____	This Month	Year to Date
Total volume	_____	_____	_____
Average volume	_____	_____	_____
	No. of leads	_____	_____
	No. of leads lost	_____	_____
	No. of sales	_____	_____
	Closing percentage	_____	_____
	Average volume	_____	_____
	Average gross profit	_____	_____

Demographic and Income Data

[illegible]

Lead Recorder and Evaluation for Full-line Remodeling

Lead # _____

Taken By _____

Date _____

Name _____ Co-owner or spouses name _____

Address _____

Job Address _____

Phone home: _____ office: _____ Co-owner: _____

Directions _____

What type of project are you planning?

- | | |
|--|----------------------------------|
| <input type="checkbox"/> Additions | <input type="checkbox"/> Siding |
| <input type="checkbox"/> Kitchens | <input type="checkbox"/> Roof |
| <input type="checkbox"/> Baths | <input type="checkbox"/> Windows |
| <input type="checkbox"/> Basements | <input type="checkbox"/> Garage |
| <input type="checkbox"/> Porch | <input type="checkbox"/> Other |
| <input type="checkbox"/> Scope of Work | |

When do you hope to start construction? _____ What is Your Budget range? _____

How long have you owned your home? _____ Do you have plans? ☐ Yes ☐ No

Have you spoken with other contractors? ☐ Yes ☐ No Who? _____

How did you learn about our firm?

Previous client? (who) _____

Other referral? (who) _____

Employee referral? (who) _____

- | | | |
|--------------------------------------|---------------------------------------|--------------------------------------|
| <input type="checkbox"/> Advertising | <input type="checkbox"/> Truck Sign | <input type="checkbox"/> Yellowpages |
| | <input type="checkbox"/> Jobsite Sign | <input type="checkbox"/> Direct mail |
| | <input type="checkbox"/> Newspaper | |
| <input type="checkbox"/> Home show | | |
| <input type="checkbox"/> Other | | |

Is lead qualified? ☐ Yes ☐ No

Followup

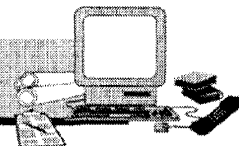
Salesperson _____ Date of first meeting _____

Bid Given _____ If yes, amount? _____

If no, Why? _____

If competitor won, who? _____ Bid Amount? _____

The Job Estimator User's Guide



CHAPTER 5

Costing & Estimating

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Casting & Estimating



Regardless of the variables involved, renovators must strive to prepare as accurate an estimate as possible.

Estimating

You must recognize the importance of estimating in the renovation business. The success of your business will be proportional to the quality of your estimating process and the reliability of its results. The renovation industry is inherently risky: completing a thorough and accurate estimate reduces the risks.

The estimating process requires certain knowledge, experience, skills and abilities.

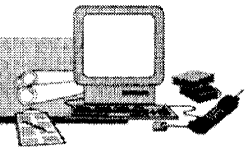
The estimating process can involve a number of people, although it is the estimator who does the majority of the actual work. The salesperson provides information acquired from the customer. The business owner must be involved because substantial commitment will have to be made to both the customer, the trades and suppliers. Of course, you may be owner, salesperson and estimator. The customer will be involved in any design and selection process.

What is estimating?

Estimating is the formation of an approximate judgment or opinion regarding the value, amount, size, or weight of something. In renovation, an estimate is an expression of opinion or the prediction of the probable future costs of certain renovation activities, usually based on some data and having an acceptable degree of reliability.

Estimating the cost of a renovation is subject to many variables that may affect the actual renovation. Regardless of the variables involved, you must prepare as accurate an estimate as possible. Estimating is not a "guessing game". Carefully organized work, based on your best judgment and records of past jobs completed, will result in accurate bids.

The basic principles of estimating are not difficult to absorb, and they are easy to apply. The risk in estimating will diminish as the principles are understood and applied.



Types of estimates

There are different types of estimates you can use.

Area Method — This is usually based on the type of work being done. It is a very vague and rough estimate. For instance, when developing a basement recreation room, a rate of \$35 per square foot may be used. This type of estimate should be used only as a guide when comparing this job to other similar jobs. It is okay for general budgeting, but not for final quoting.

Guesstimate — Some people also refer to this as the “rule of thumb” method. This method is often used by either those who are very experienced and know a lot about renovations or those who know very little and may thus get into trouble.

An experienced renovator may use guesstimates by remembering previous similar jobs and then making some judgments to either reduce or increase the costs. This method should be used only for preliminary budgets, not for final quotes.

Detailed Quantity Take-off — This method is sometimes referred to as the “stick” method. It is based on a detailed, item by item breakdown of material, labour and time

of operation. It can be done only with the accurate use of the plans and the detailed reading of the specifications.

Here accuracy, experience, previous similar work and previous job records play an important role.

This method is time-consuming and may require a lot of pricing from the subcontractors.

The benefit of this method is that it is the most accurate and that it also provides a complete materials list which can then be used for purchasing.

Unit Cost Estimate — This method evolves over a period of time, in a particular area where the renovator has accurately taken quantities of many jobs and is able to arrive at a figure based on a square foot of finish floor or on linear footage for a grouping of elements. This would apply to a particular component that is part of an overall estimate for a structure. For instance, a rate of \$8 per linear foot may be used to strap, insulate, vapour barrier, drywall and paint a foundation wall.



The benefit of this method is that it is the most accurate and that it also provides a complete materials list which can then be used for purchasing.



Chapter 5



"Quality" is part of the business purpose: insist on a minimum standard of quality to every customer.

Basic steps in the estimate

Carrying out an estimate involves four basic steps: determining the standard of quality; carrying out the take-off; doing the pricing; and summarizing.

Determine the Standard of Quality — You must review the inspection report, the pictures or video, the work description, the proposed conditions of the contract, the drawings, the specifications and all other information in connection with the job in question. Make notes of all issues likely to affect cost, time or quality. "Quality" is part of your business purpose: insist on a minimum standard of quality to every customer.

Always visit the site of a proposed renovation to assess what needs to be done to meet this standard.

The Take-off — The take-off involves measuring and recording the work to be done in a standard format. This process should be done on a room by room basis:

- **Classify** work to be done at a number of levels in the estimate. For example, painting work is classified separately from carpentry work.
- Make a **description of items** of work to be done at each level. For example, within painting work, list items such as painting, staining woodwork, staining handrails, and so on. Bids from subcontractors would have all of this in one firm price.

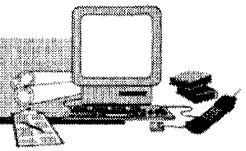
- Note the **dimensions of items** of work to be done from the drawings either by scaling, by reading the dimensions directly or by on-site measurement. The number of doors to be painted, the number of feet of handrail to be stained, etc. is extracted from the plans. Scaling should be done only as a last resort when other information is missing.
- Summarize the **extensions of dimensions** in order to total lengths, areas, and volumes.

Pricing — Unit prices are determined by researching costs, taxes, labor productivity, equipment output and related items, and then calculating the probable price. Use quotations from trades and suppliers to help you with pricing.

Pricing is done on the basis of either total cost or unit cost. Compare these prices with previous costs or records to ensure that they are fair and accurate.

For convenience, set up a data base for costs in the same order that the estimate is done.

The Summary — After you have established the quantities and prices, the final step is to prepare a summary of the estimate. This summary will generally show the work of the various trades, arranged into some suitable sequence. Add the mark-up for overhead and profit at the end of the overall summary.



Value of utilizing an Estimator

Utilizing the services of an estimator can benefit your renovation business. When proper estimates are done, you can realize profits on all jobs, and extras can be priced before the work is done. An estimator can free up your time to manage the business.

Aptitudes required by the estimator

The estimator must have many skills, abilities, knowledge and plenty of experience in order to effectively and competently price a job.

Estimating abilities

The following attributes will help you in your role as estimator.

Clarity of Thought — The ability to think clearly and in an organized manner will help you identify problems and discover their solutions, which in essence is the primary task of the renovator.

Creativity in Ideas — Since estimating is as much an art as a science, you must have the ability to see creative or imaginative solutions to new or everyday problems.

Independence of Action — Although renovators may follow some common and widely used

procedures in their work, the ability and strength of character to make independent decisions and to follow separate courses of action is often necessary. Each house, home and customer is different; therefore each job must be treated differently.

Problem Solving — The ability to apply sound problem-solving methodology to the many difficulties and uncertainties that confront you is a most useful attribute. (Refer to cause and effect diagram in the appendix.)

Estimating knowledge

You must have reliable knowledge and experience of the main elements in many categories of information.

Bidding — You should fully understand the procedures for bidding. Strategies for bidding may provide an edge when bidding on jobs.

Knowledge or information about the competition is always important when putting forth a bid. If possible, find out who your competition is.

Costs — You must have knowledge and experience in the main factors affecting the costs of labor, materials, equipment, permits, waste disposal and other elements.



An estimator can free up your time to manage your business.



Knowledge or information about your competition is always important when putting forth a bid.



Time is money: extended completion times mean loss of revenue and loss of customer goodwill.

Cost Accounting — The principles and practices of cost accounting are essential for you to understand the elements of cost of sale and mark-up.

The more detailed information you have from previous jobs, the more accurate your pricing will be for future jobs.

Documentation — You must be familiar with the terminology used in renovation specifications and contracts.

Materials — It is essential that you be fully conversant with common renovation materials, products, and systems, particularly those relevant to the special interests of the company. You must know sources of specialty products required for particular design, structural or decorative elements.

Methods — You will require detailed knowledge and experience about the way in which specific parts of buildings are actually assembled in the field. A knowledge of historical construction practices can also be helpful.

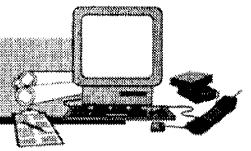
Productivity — You should be familiar with labour productivity and equipment output factors used to gauge the amount of effort required for various types of work. Good job cost records are helpful in determining this type of information.

Time to complete — Time is money: extended completion times mean loss of revenue and loss of customer goodwill. Site constraints and daily clean-up for occupants must be included in the productivity estimate and schedule.

Principles — You should have a general knowledge of the house as a system and building science having to do with air, heat and moisture movement and control. The impact of the renovation on the behaviour characteristics of the house must be explained to the customer during the design and sale stages.

Regulations — There is a vast array of codes and building standards, occupational health and safety regulations, zoning bylaws and environmental legislation which apply to the renovation process and specifically to the use or disposal of specific materials, methods, or systems. A general knowledge of this field is essential to avoid litigation, accidents and rejected work.

Site safety must be considered so that the cost of protecting the workers, the occupants and the public is fully accounted for.



Estimating skills

You should either possess or acquire a reasonable degree of skill in:

Calculation — Although it is not necessary to have a knowledge of higher mathematics, you should be skilled in the application of the basic arithmetical functions and be able to apply some simple algebraic functions. Algebraic functions include formulas for areas, volumes and perimeters for various shapes.

Communication — You must be able to communicate ideas to others using a variety of verbal, graphical and numerical representations. You should be reasonably skillful in writing, drafting or drawing and in dealing with numbers.

Interpretation — You must be able to correctly interpret meanings of verbal, graphical, and numerical data.

Measurement — You must be skilled in techniques of measuring quantities of materials, labour or other items and skilled in recording and using such measured data. You should be conversant in both metric and imperial units. Some municipalities and government agencies may work in metric, but most construction work is still in imperial.

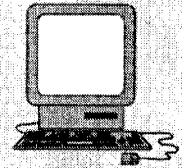
Organization — You must be organized in carrying out the work. This will allow others to assist when necessary and make dealings with those bidding go much smoother.

Mensuration — You must be proficient in this area of work (or have someone that is). A good portion of your time is spent calculating.

You must be able to correctly apply the appropriate formula for a number of basic geometric plane shapes and solid figures to determine perimeters, areas, volumes of whole or part figures.

Square Measure — A plane is a flat surface bounded by straight or curved lines and having no thickness. The surface of a roof, floor or sidewalk is a plane figure when regarded solely in terms of its boundary lines. The main point to remember about plane figures is that they are considered as having area only. Area can therefore be thought of as describing the extent of the plane figure.

Areas are calculated in terms of square feet, square yards, and so forth. There are many standard shapes for which the areas are quite easy to calculate since there are simple formulas for these figures. These include rectangles, triangles, circles, hexagons, trapezoids, trapeziums, etc.



You must be able to correctly interpret meanings of verbal, graphical, and numerical data.



Chapter 5



A renovation job should never be priced without a site and structural inspection.

When the area of a more complicated shape must be calculated, the shape must be broken into the simple shapes for which formulas exist.

Cubic Measure — Cubic or volume measure gives the size of a body in terms of its bulk. Volume measurements are used for things such as concrete, fill and air movement.

Just as with a square measure, simple formulas exist for many common shapes such as cylinders, cones, frustums, spheres, and triangular prisms. If the volume of a complicated shape must be calculated, break it into more simple objects for which formulas exist.

How to prepare an estimate

For larger renovations, you must use a complete set of plans and specifications. In many cases you will have prepared the plans and specifications for a fee during the selling stage. In some cases, however, the homeowner has a designer or draftsman prepare the plans and specifications and then attempts to get competitive price bids from a number of different renovators.

If you have not been involved in preparing the plans, a site visit is necessary. A renovation job should

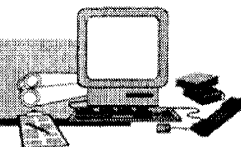
never be priced without a site and structural inspection. Existing power, plumbing and heating should be inspected by control agencies or specialists.

Jobsite information should include details about the existing structure, access to the job site, location of trees, shrubs and other such details. During the qualifying stage, you will have made an assessment of the owner and the potential difficulties that may arise while working with the owner. It is also good to have an inspection checklist so that when you visit the site, no areas are missed that could affect the estimate.

You must read the specifications and plans carefully and then list all items to be estimated on a estimate or summary sheet. Subcontractors can then be invited to bid on their particular phase of the work.

When all this is complete, you may begin the take-off and estimate of each of the items. After you have estimated and checked all the items and included the mark-up, the job is ready for final review and a definite bid. In completing the bid, you should have taken into consideration:

- the plans and specifications,
- the house inspection,
- a renovation check-list,
- a material take-off,
- a labour take-off,
- the mark-up, and
- a summary sheet.



Estimate Checklist

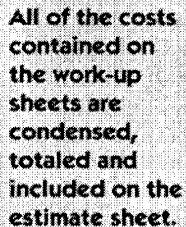
1. Carefully check the drawings, specifications, inspection report and pictures or video to make sure everything is present. Make sure pages or addenda are not missing.
2. Visit the site or get information about the site. Get an assessment of owner from the salesperson. Go through the site checklist if one is used.
3. Study the pictures or video and scan the drawings to get a "feel" for the house or building. Things to note are its size, its shape, unusual features, materials used, etc. Written notes should be made of the exterior finish, amount of glass, access to the site and unusual features. Virtually all renovation jobs have unusual features, due to the "meshing" of old and new materials and systems.
4. Review the floor plans. Look for unusual features. Follow through the rooms, starting at the front entrance.
5. Examine the wall sections for materials, assemblies and makeup of the building. Note any unfamiliar details and circle them for future reference.
6. Note the structural drawings and what type of systems are used. Note anything unusual.
7. Review the mechanical drawings, paying attention to how they will affect the general construction, underground work, chases in walls, etc.
8. Read and study the specifications carefully. Remember that you are responsible for everything on the plans and specifications.
9. Once you are familiar with the job, have a meeting with the proposed job supervisor to discuss construction methods, time schedules and personnel.
10. You can now begin to take off quantities. Each item must be accounted for as accurately as possible. Whenever possible, the estimate should follow the general set-up of the specifications. This work is done on a work-up sheet.
11. While you are preparing quantity take-offs, other things should be happening:
 - subcontractors, suppliers and manufacturers must be notified for pricing on the job; and
 - you should begin a listing of all general conditions and overhead items for later use.
12. Transfer the information on the work-up sheets to the summary sheet. Be aware of common errors such as:
 - errors in addition, subtraction, multiplication and division;
 - omission of items such as materials, labour or overhead;
 - errors in estimating the length of time to complete the job;
 - errors in estimating wastage;
 - errors in estimating quantities of materials; and
 - errors in transposing numbers from the work-up sheet to the summary sheet.



Virtually all renovation jobs have unusual features due to the "meshing" of old and new materials and systems.



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All of the costs contained on the work-up sheets are condensed, totaled and included on the estimate sheet.

When taking off the quantities, make it a point to break each item down into different sizes, types and materials. For instance, in listing floor joists, consider the different sizes required (2x8, 2x10, 2x12), the various lengths (10', 12', 14', etc.) and the type of wood (spruce, hem-fir, doug-fir). If any of these items vary, list them separately.

Each renovation business should make up its own general estimate sheet that contains all building components and allows for calculations, extensions and specifications.

The estimate sheet should list all of the information required, but none of the calculations and sketches that were used on the work-up sheets. It should list only the essentials, yet still provide information complete enough for the person pricing the job not to have to continually look up sizes, thicknesses, strengths and similar information.

Client Bill and Mary Black Sheet No. 8 of 24
Address 777 Lucky Street Date 15/15/99
Component Countertop Code No. _____ Estimator Jerry

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Keeping information current

You must be in constant contact with suppliers and trades to get up-to-date information on unit prices for materials and labour. Depend-

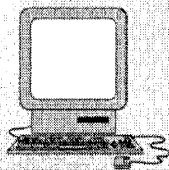
New Products — You must know the various construction materials and their uses. You must also be acquainted with equivalent materials and acceptable substitutes which are available in your area.



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Cost control is important for each job, and with a computer, this is made relatively simple.

You should be constantly looking for new systems and products to use in the construction process, and new equipment and processes to improve productivity and maintain or increase quality.

Just as in evaluating the bid, you must look at a new product based on price, value, availability, serviceability and other factors that affect the overall job.

Computers — Computers can be a very efficient way of tracking costs and comparing actual costs to estimated costs. You should keep abreast of what programs are available for estimating. Some renovators have designed their own computer estimating systems that work well for them.

Cost control is important for each job, and with a computer, this is made relatively simple. Purchase

orders, past history, and up-to-date actual costs can all be tracked quickly to ensure that budgets are maintained.

Understanding plans and specifications

The term “building plans” generally means those plans that are prepared by a designer, the owner or you. These, together with the accompanying specifications, are intended to show or to describe all the work.

What can't be shown on the plans should be described in the specifications. In general, dimensions, shapes and other items of information that can best be shown graphically are put on the plans.

You should note that not all information about the existing structure and conditions can be indicated on

Building Codes

You must be aware of what is required by the National Building Code and your provincial code for the work being done and also if there are implications for the existing structure or equipment. Any new work being done obviously must meet the current codes, whether for the structure or for the services.

There may also be instances where the existing services throughout the whole house must be upgraded whenever any renovations are being done. This would apply mostly to the plumbing and electrical equipment. Lead pipes may have to

be replaced with copper lines and GFI outlets may have to be installed. This would greatly affect the price of the job, so you must determine if any extra work will need to be done **before** you make a final quote.

You must know about these implications since it is your responsibility to carry out the work in compliance with the Code. If there are any such implications, you should consult the appropriate inspector. If there are, you must make the customer aware of them and price the job accordingly.



the plans and specifications. For these items, you must rely on the site inspection to account for all items.

Plan Reading — Plan reading involves specification reading as well, for although plans may be complete in every respect, the materials to be used and the workmanship desired are generally found only in the specifications. Even the plans and specifications together do not give every little detail of building work. It is assumed that you know how buildings are constructed, and for this reason you must have training in the practical use of plans and specifications.

A logical system to follow when preparing an estimate is to examine the entire set of plans in order to become familiar with the overall job. This would involve studying the site plan, each of the plan views, sectional drawings and special details.

Impractical details and ideas should be discussed with the client prior to forwarding a bid. It is also valuable to have notes on the plans or information about how existing elements will be handled. Items such as moving existing walls and salvaging or reusing old materials should be indicated where possible.

Symbols are used on plans to save time in making the plans and in reading them. National trade associations have endeavoured to standardize the electrical, plumbing and other symbols. Despite this, you must read the plans carefully in order to avoid embarrassing mistakes.

You must also be aware of incomplete plans. Renovation plans must show renovation work and the existing structure or space affected by the proposed work. As well, plans may call for prefinished lap siding, but this could mean masonite, vinyl or aluminum. Unless the specifications clarify this, there may be problems with the estimate.

Types of Drawings — The term “plans” refers to all the drawings, including floor plans, elevations, sections and other drawings as well. Most plans are drawn to scale, which may not be consistent from one drawing to another. Variations in scale may be particularly noticeable on elevations and on details.

Here are the basic types of drawings and the basic information that should be on these drawings:

- **Floor plans** look directly down on any particular floor or foundation. They show the room arrangement, chimneys, fireplaces, stairs and closets. They usually also show additional things such as plumbing fixtures, lighting outlets, heating apparatus and mechanical appliances.
- **Elevations** are views similar to a photograph, but they lack perspective or depth.

Exterior finishes, grades, overhangs, roof pitches and sometimes window designations are typically shown on exterior elevations. Elevations usually refer to the exterior, but interior elevations are also possible for kitchen cabinets, closet shelving and fireplace facings.



Items such as moving existing walls and salvaging or reusing old materials should be indicated where possible.



Chapter 5



Written specifications supply you with a description of units of work, types and methods of installation, and all other items that could not, or do not, appear on the drawings.

- **Sections** show the interior of a building. A section is obtained by imagining a building cut through vertically, with one section of it removed. This shows the various floors, one above the other, with the roof at the top. It shows the thickness of the floors and the heights of the basement and other stories, as well as their relation to the ground level. For renovations, sections may be most important in matching an addition to an existing building.
- **Details** are parts of the drawings that need to be increased in size for purposes of clarification. They may be made of parts of floor plans, sectional drawings, or elevations, and they may be distributed throughout the various pages of the drawings.
- **Dimensions** are the all-important guide for you. The plans should show dimensions for all rooms, window and door locations, including heights and so forth for those parts of the house affected by the renovations.

Missing dimensions can be found by scaling, but direct measuring will avoid possible inaccuracies in the drawings.

If errors are found, it is always best to get some clarification rather than assuming what may be correct. You may have to consult the client or draftsman to work out any problems.

Specification Analysis

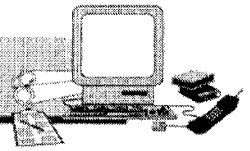
Written specifications supply you with a description of units of work, types and methods of installation, and all other items that could not, or do not, appear on the drawings. The specifications also explain units that are not fully described by the working drawings. The specifications are part of the set of plans, and a set of working drawings without specifications is not complete.

The specifications are divided into sections which cover the requirements of each trade involved. Each section will document in detail what work is to be done and perhaps what is not included.

Assessment of site conditions

It is extremely important that you inspect each site prior to estimating and submitting a bid. There are many variations from job to job, and many existing defects or concerns that must be investigated and accounted for. A thoroughly completed inspection report and documentation by photographs or a video is critical.

Inspection Report — An inspection report must be completed and made available to the estimator. This report can be completed by the salesperson, the estimator or you as long as that person has the experience and knowledge to do a competent job. It is usually best that the renovator or estimator do the inspection and complete the report.



The condition of the existing structure, replacement or upgrading of existing equipment and access to the site are just a few of the things that need to be reported. Without this information, a proper job of estimating cannot be done.

Any damage must also be noted. Things such as chips in plumbing fixtures, scratches on walls, broken glass and peeling wallpaper must be noted. This can best be documented by photographs or videos.

Photographs and videos — Photographs and videos of the existing house complement the inspection report. Items difficult to explain on paper are often very clear in a picture.

Documentation of existing damage or defects will eliminate any claims by the customer for damage not done by you or your employees. If a plumbing fixture is damaged, or if a wall has some scratches, a picture of the existing condition will protect you from liability for this damage.

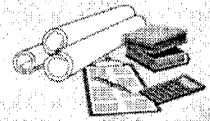
Tendering

The tendering process involves getting accurate information out to bidders, analyzing the returned bids and then selecting one of the bidders to work with. You may choose to negotiate with a single trade or put the job out to bid on an invitation basis.

Some renovators tender every job while others tender their work occasionally. Many renovators develop relationships with a group of subtrades and suppliers and work with them over an extended period. No changes are made unless the relationship deteriorates because of pricing or service problems.

You should keep subtrades and suppliers on their toes — always look for ways to save money and provide better service.

Bid Invitation — You may invite bids either formally or informally. You will usually contact suppliers and subtrades directly to request a bid on a particular job. In private negotiations, bid security is seldom requested, since the bidding suppliers and subtrades are well known to you.



Documentation of existing damage or defects will eliminate any claims by the customer for damage not done by you or your employees.



Tender Package

Instructions to Bidders —

This document usually consists of a written list of specific directions that allows all bidders to bid on the same basis, with respect to such elements as time and place to receive bids, periods for which bid prices have to be held firm, and types of documentation that must accompany each bid.

Your instructions to bidders may be verbal but a written version is preferable.

The time frame for the job may be difficult to determine. It is important to make sure you know for how long the returned prices are guaranteed.

Plans — The plans must be complete and any changes must be noted. An addendum should be supplied if necessary. It is always best to give each bidder a complete set of plans.

Specifications — The working drawings without the specifications do not make a complete

document. The specifications provide additional details beyond what the plans contain. The specifications may also contain additional requirements for the bidder, such as imposing restrictions on product substitution or producing evidence of WCB and liability insurance coverage.

Bid Forms — You may want to include a prepared bid form that the subcontractor or supplier can complete. A bid form is simply a standard form that everyone uses to submit information, so that it can be easily compared with others. A prepared bid form will allow you to evaluate all bids on the same basis.

The bid form stipulates the price for which the subtrade or supplier agrees to supply all items described in the documents. Suppliers need to describe delivery arrangements, procedures for special or custom orders, availability and materials on back order in order to prepare a realistic schedule.



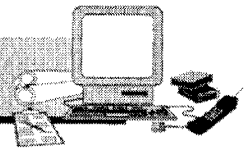
Good client relation skills are often more important than technical skills.

Proper tendering practices

You will often handle bids from various subtrades. You will not necessarily give the job to the lowest bidder, as other factors play a role in making your decision. Things such as service and warranty, company image, client relations and work habits in occupied spaces are items that you must consider when reviewing all bids.

Good client relation skills are just as important as technical skills. It is a good idea to make a courtesy call to unsuccessful bidders.

In some cases, you may invite bids only to check prices of current trades or suppliers. You should explain this to the bidders so they do not have undue expectations.



Another practice that is sometimes used is to have one bidder match a lower price of another bidder. However, this practice may hurt your business in the long run because often corners will be cut or the bidder will not be able to perform because of financial restraints.

As well, if this is common practice, the bidders will start to come in quite high initially, fully expecting to have to reduce their price.

Analyzing the Bids — After you have received all the bids, you must check them for compliance with your bid request. You should also check them for their treatment of taxes, WCB coverage, other insurance coverage and whether the product is F.O.B. Jobsite. You must then evaluate all bids that comply and make a final decision. You will generally reserve the right to reject all bids and accept a bid that is not the lowest.

When evaluating each of the bids, you will use a number of criteria such as price, quality of the product, service, dependability, client relation skills and acceptability of workers to the customer. Because some of these criteria may be subjective, it is often not easy to make a decision.

You must also know how to evaluate substituted products when they are proposed. Often this will not be a problem for things such as insulation manufacturer, drywall manufacturer and other similar products. It may make a considerable difference, however, when finish products are substituted because selection options may be restricted.

Awarding the Contract — After reviewing all the bids, you will accept the most appropriate bidder and notify the unsuccessful bidders. The bid form is attached to the contract, which is then signed by both parties, and the work can get under way.

General Conditions

The easiest part of preparing an estimate is determining the material quantities and costs. Labour is more difficult to estimate, as productivity varies from day to day and from task to task. Often, however, the operational costs of the job are the most difficult to estimate. Some of these costs are direct job costs and some would normally be considered overhead. The following section highlights costs that must be accounted for in some way.

Insurance

There are various insurances and other coverages for which you may be responsible. You must be sure to include these in the estimate.

Renovators' Public Liability

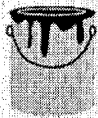
Insurance — You must carry public liability insurance covering bodily injury or death suffered as a result of any accident occurring from or by reason of, or in the course of operation of, the renovation job. This includes accidents occurring by reason of omissions or act of you or any of the subcontractors, or by people employed by you or the subcontractor.



You will generally reserve the right to reject all bids and accept a bid that is not the lowest.



Often, however, the operational costs of the job are the most difficult to estimate.



Recycling, at this point, may involve extra costs, but taking demonstrable steps toward preserving the environment will greatly enhance your corporate image in the community.

This insurance is usually paid annually and is usually considered an overhead expense, but it is possible to break this down per job by prorating a percentage of this cost to each job.

Fire and Extended Coverage —

You must ensure that adequate insurance coverage is in place to cover direct loss at the job site from fire, windstorm, tornado, water, theft and so forth. While this type of insurance might be handled by the customer, it is in your best interest to ensure the customer has proper coverage, and that you are properly identified and covered by the customer's policy by obtaining a copy of the insurance rider.

Permits and inspection fees

There are numerous permits that you must secure, beginning with the building permit, and including electrical, plumbing and occupancy permits. Some of these you are responsible for and some the trades generally cover. This must be specified in the contract with the trades and the owners.

Waste management

Waste management can become a significant item when you consider the waste lumber, the packaging for appliances and equipment, etc. This cost varies greatly across the country, but no renovator should willfully overlook or give away money. In addition, dumping fees are dramatically increasing in many locations, and restrictions

are also being put in place to exclude certain materials from being sent to the landfill.

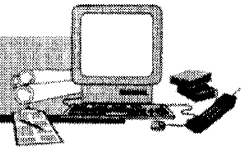
Reusing or selling some of the used products will actually save you money, reduce waste and have a positive impact on your bottom line.

Using scrap lumber for backing and cut-up batts of insulation for attic insulation are just a couple of examples of using scraps instead of new material.

Recycling, at this point, may involve extra costs, but taking demonstrable steps toward preserving the environment will greatly enhance your corporate image in the community. Returning drywall scraps for recycling, making wood chips from lumber scraps and returning cardboard boxes for recycling are some examples of recycling waste materials.

Winter protection

You must protect the work from the elements, as well as protecting the client's property and keeping it livable. The most costly item is winter protection. This includes rigging of canvas or plastic around the structure and heating the inside by temporary means. This could involve renting propane tanks and heaters, the cost of the fuel and preventing fumes from entering the occupied work and living space. In the case of electric heat, the homeowner will have to be reimbursed for the use of electricity. You must know the time frame for the job to get a proper estimate for this item.



Site clean-up

Daily household cleaning is generally part of the job requirement, since most jobs involve work in occupied premises. In addition, there is usually some requirement for you to provide general site cleaning, even if the trades are expected to clean up after completing their work. A final, thorough clean-up prior to completion must be accounted for and may be done by subcontracting to others. Not only the renovated space but the entire house often needs to be cleaned.

Security

Depending on the size and type of the job or past problems, security may be required. In the case of large additions or excavations, it may be necessary to fence or otherwise prevent trespassing in order to reduce theft and to prevent unauthorized access that can be a safety liability.

If exterior walls are removed, or if window and door openings are left exposed, temporary barriers may be necessary to prevent access and guard the customer's property. In some cases, a security person may need to be employed to guard the premises.

Job signs

The cost for this promotional item is generally not large and may fall into the sales cost. It may be put in as a general overhead expense.

Temporary heat, light and power

You may provide this service to the trades and staff that are working on the job. Generally, you will have a written agreement worked out with the customer to use the utilities and facilities on the premises. Any costs that have been agreed to be paid to the client must be included.

Callbacks and warranties

Callbacks are not always considered by renovators. You should allocate an amount for each job that will allow you to provide for callbacks not covered by suppliers and subtrades and that are obviously a defect that must be corrected.

This money should be set aside, since the costs will be incurred after the job is complete. In this way, the money for this item will be there when it is needed and you will then not be reluctant to carry out the work.

Contingencies and allowances

Your estimate must allow for selections that are to be made by the customer. These items typically relate to materials and equipment that the customer selects based on options or colours. In most cases, you will allocate a fixed amount of money for those items, with any costs over the allowance being paid for by the customer.



...a sum of money (or a percentage) added to the bid for items overlooked or left out.



A bidding checklist that lists virtually any item that may be used in a renovation can be used to give the estimator some confidence that items have not been missed in the estimate.



...the renovator may find that a lower price is required to secure the contract. In these cases, unless direct costs are cut, the lower mark-up means overhead costs and profits are not being paid.

On virtually every job there are some items that are left out or were not foreseen when the estimate was prepared. In some cases the items left out could not have been anticipated at the time of estimating.

You may consider including in your estimate a contingency amount, that is, a sum of money (or a percentage) added to the bid for items overlooked or left out.

Some people contend that contingencies are an excuse for using poor estimating practices, while others do not believe in estimating every nail that is used and would rather use contingencies to handle this. Whichever approach you use, it is important to be as accurate as possible in the items being estimated and also to be as close as possible in estimating contingencies.

A **bidding checklist** that includes virtually any item that may be used in a renovation can be used to give the estimator some confidence that items have not been missed. This may reduce the amount of contingency that may be required.

Mark-ups

Mark-up is the amount of money added to the direct costs of a job needed to cover your overhead expenses and provision for profit. This amount is calculated by adding a percentage of the direct costs that are estimated for the job. A full explanation of mark-ups can be found in Chapter 2.

If you are using a mark-up of 89%, and if the direct costs on a specific job are estimated to be \$5,000, then you must add \$4,450 to the direct costs as mark-up to cover the overhead and profit.

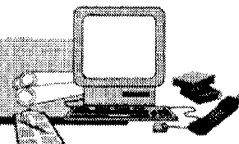
In some cases, it may be desirable to use different mark-ups for different components of the direct costs. You may decide to mark-up subcontracts by 40%, materials by 75% and labour by 125% instead of marking everything up by 89%. The important point to remember is that the total amount of mark-up must be at least \$4,450 for that particular job, or else your overhead and profit will not be covered.

Some renovators may argue about the degree of control they have over the amount of mark-up they can get. Some will argue that the marketplace will dictate the selling prices, while others will argue that renovators have considerable ability to establish prices.

In either case, you should have a "feel" or estimate for the approximate mark-up that the market will bear.

The required mark-up may not be achievable on every job. For those jobs where competition is tight, you may find that a lower price is required to secure the contract. In these cases, unless you cut direct costs, the lower mark-up means overhead costs and profits are not being paid.

For each job that allows a lower mark-up, you will have to charge a higher mark-up on other jobs to break even.



When the market is willing to pay higher mark-ups than required you should take them, but don't take unfair advantage of customers.

In the renovating business, as in any business, you have to take the good with the bad. Of course, if you have a strong position in a good market niche (the ideal situation), you have the option to refuse all contracts that do not have sufficient mark-ups.

Purchasing

You will probably be involved in the purchasing and accounting operations of your company. If this is the case, you should also verify invoice prices and purchase order numbers against quotations and assign them to the job account.

Using purchase and work orders

One of the best ways of tracking costs and keeping them under control is the use of purchase orders. It is recommended that all businesses use purchase orders. The more jobs under way at the same time, the more likely it is that your memory will fail and problems occur.

You can use purchase orders in a number of ways. Some renovators do not allow any purchasing without the use of a purchase order. Other renovators use purchase orders only if an extra is being ordered beyond the original estimate.

Still other renovators use purchase orders only for those individuals who don't normally have signing

authority, such as the subtrade ordering on behalf of the renovator.

In many cases, a supplier or subtrade will not supply to companies who always use purchase orders but then call in orders without purchase order numbers. This reduces the liability to the supplier and the subtrade and also to the renovator. The use of a fax when available is a good means of delivering the purchase order. You should develop a purchase order system to suit your business.

Subtrade contracts

You should sign a contract with each subtrade.

There is no perfect standard contract, since every business operates differently. There are, however, some general items that should be contained in this contract.

You should work with a lawyer to draw up an appropriate contract for your business that includes:

- a description of each of the parties involved;
- a description of the location for the work to be done;
- a description of the labour and materials to be supplied in as much detail as necessary;
- the amount of payment for the labour and materials;
- the terms of payment including provisions for progress payment, holdbacks and Statutory Declarations by the subtrade;
- details about responsibility for permits, licenses and certificates relative to the work;



You should work with a lawyer to draw up an appropriate contract for your business.



Chapter 5



Since the estimate is sometimes used for ordering, future orders will also be more accurate.

- provisions for changes to the work (written change orders are recommended);
- provisions of maintenance manuals, instructions, guarantees, and warranties;
- the responsibility of the subcontractor to use competent workers who employ good client relation skills;
- the responsibility of the subcontractors to protect their work from damage and not to cause damage to the work or property of others;
- a provision for the guarantee of the work;
- a provision for daily housekeeping and clean-up by the subcontractor;
- a provision for insurance to be carried by the subcontractor including evidence of:
 - Comprehensive General Liability Insurance, and
 - Automobile Liability Insurance;
- a provision for submitting WCB certificate before and after job;
- a provision for rejected work;
- a provision for doing the subcontractor's work or for terminating the contract;
- a provision for assignment of the contract;
- a provision for insolvency and bankruptcy; and
- a provision for settling disputes.

Feedback on quantities and inventory

You must have feedback from the job manager on excesses or shortages of material in order to ensure that future estimates are more accurate. If you do the cost accounting, and particularly if purchase orders are used, extras or shortages can usually be identified.

If there is a surplus of materials on a job, they can either be placed into inventory and then assigned to another job, or they can be returned to the supplier.

If the surplus materials are placed in inventory and then to another job, you must account for the labour and transportation involved. In addition, the accounting process must ensure that the excess materials are charged to the new job, not the job that they were originally delivered to.

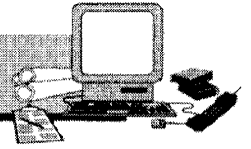
If you return excess materials to the supplier, there will likely be a restocking charge and possibly a transportation charge. Damaged materials will either not be accepted or will further be reduced in value.

One final consideration when purchasing materials is that of bulk buying. This may be a desirable option if the price is considerably better than buying on a job-by-job basis. There are costs involved in doing this such as financing the purchase, storage of the materials and transportation of the materials to the various jobs.

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Chapter 5



APPENDIX

Inspection Checklist

Address of Building: _____

Client: _____

Date of Inspection: _____

Client Address: _____

Inspector: _____

Phone No. Res: _____ Office: _____

Homeowner Information

Family Characteristics

Size

-3 persons _____ -5 persons _____ +5 persons _____

Daytime Occupancy

-2 persons _____ -5 persons _____ +5 persons _____

Heating Costs

Electricity Costs

Expected Water Usage

Low _____ Medium _____ High _____

Other:

Construction Issues

Services Available

Power _____ Water _____ Toilet _____ Parking _____

Material Storage _____ Heat _____

Access to Site

Good _____ Difficult _____

Special Requirements

Permits Required

Building Permit _____

Inspections Required

Electrical _____ Plumbing _____ Municipal _____

Drawings Available

Yes _____ Incomplete _____ Inspector's Sketch _____

Other:

House Condition

House Condition

Damage Noted: _____

Photographs

Taken _____ Not taken _____

Walk thru Video

Taken _____ Not taken _____

Inspector's Sketch Should Show

Basement:

Support beams _____ Joist direction _____ Floor drain _____

Main drain stack _____ Electrical panel _____ Furnace _____

DHW tank _____

Living Floors:

Bearing Walls _____ Joist or truss direction _____

Plumbing stacks _____

Site Plan:

Slope _____ Driveways _____ Major restrictions _____

Basement/Crawlspace

Foundation Walls

Type

Can't see ____ Concrete ____ Block ____ PWF ____

Condition

Can't see ____ Good ____ Poor ____

Description: _____

Cracks, Movement

Can't see ____ None ____ Minor ____

Notable: _____

Water Leakage

None ____

Location and description: _____

Moisture Pass-through

None ____ Efflorescence ____ Dampness ____

Description: _____

Condensation

None ____

Location: _____

Insulation

None ____ Interior ____ Exterior ____ Fibre ____

Foam ____ R- ____

Vapour Barrier

Good ____ Poor ____ None ____

Potential for Frost Heaving

Little ____

Significant: _____

Other:

Floor

Construction

Poured ____ Dirt ____ Finished ____ Raised ____

Condition

Can't see ____ Good ____ Poor ____

Description: _____

Cracks, Movement

Can't see ____ None ____ Minor ____

Notable: _____

Water Leaks

None ____

Location and Description: _____

Moisture Pass-through

Efflorescence ____ Dampness ____

Description: _____

Floor Drainage

None ____ Drain ____ Sump pump ____

Location: _____

Other:

Floor Support

Beam Construction

Can't see ____ None ____ Wood ____ Steel ____

Size: ____

Condition

Good ____ Poor ____

Posts

Can't see ____ None ____ Adequate ____ Poor ____

Floor Joists

Can't see ____ Size: ____ Spacing: ____ Span: ____

Condition

Good ____ Cutouts ____ Rot ____

Heating System

Type

Oil ____ Gas ____ Electric ____

Forced air ____ Hydronic ____ Baseboard ____

Capacity

General Condition

Good ____ Questionable ____ Poor ____

Furnace Air Filter

Good ____ Needs replacement ____

Combustion Air

Supplied ____ Signs of Spillage ____

Accessory Operation

Humidifier ____ Air Cleaner ____ Pump ____

Air Conditioner ____

Problems: _____

Other:

Hot Water System

Type

Oil ____ Gas ____ Electric ____

Ownership

Rental ____ Owned ____

Other:

Supply Plumbing

Type

Copper ____ Iron ____ Plastic ____ Mixed ____ Lead ____

Shut-off Valve

Can't find ____ Operational ____

Not operational: _____

Condition, Leaks

Good ____ Questionable ____ Poor ____

Location: _____

Potential for Freezing

Safe ____ Questionable ____ Possible ____

Other:

Drainage Plumbing

Type

Cast Iron ____ Plastic ____ Copper ____

Stack Location:

Other:

Electric Service

Capacity

60 ____ 100 ____ 200 ____

Wiring

Type

Copper ____ Aluminum ____

Age/Condition

Good ____ Old ____ Unsafe ____

Ground Fault Breaker

Bathrooms ____ Outdoors ____

Locations Missing: _____

Main Floors

Exterior Walls

Construction

2 x 4 _____ 2 x 6 _____

Insulation

Can't see _____ None _____ Fiber _____ Foam _____ R- _____

Finish

Drywall _____ Plaster _____

Cracks

None _____ Minor _____

Notable: _____

Moisture Problems

None _____

Description and location: _____

Other:

Interior Walls

Finish

Drywall _____ Plaster _____

Cracks

None _____ Minor _____

Notable: _____

Evidence of Renovation

None _____ Well done _____

Problems: _____

Other:

Ceilings

Finish

Drywall _____ Plaster _____

Cracks

None _____ Minor _____

Notable: _____

Stains

None _____ Roof leak _____ Attic Problems _____

Cold Corner _____

Other:

Floors

Finish

Carpet ____ Tile ____ Linoleum ____ Hardwood ____
Ceramic ____

Level

Good ____ Foundation Movement ____ Interior ____
Support ____ Sag ____

Squeaks

None ____ Acceptable ____ Correctable ____

Other:

Windows

Type

Fixed ____ Awing ____ Sliders ____ Casement ____

Glazing

Single ____ Double ____ Single & Storm ____

Condition

Good ____ Poor ____

Seal

Good ____ Poor ____

Sill Condition

Good ____ Moisture damage ____ Rot ____

Other:

Plumbing Fixtures

Leaks

None ____ Damage Yes ____ No ____

Location and description: _____

Flow Rates

Good ____ Low pressure ____ Restricted Flow ____

Hot Tub

None ____

Condition: _____

Other:

Electrical

Type

Grounded ____ Ungrounded ____ Aluminum Wiring ____

Number and Distribution

Good ____ Needs addition ____

Fans

None ____ Kitchen ____ Bathrooms ____

Sauna

None ____

Condition: _____

Other:

Fireplace

Type

None _____ Open _____ Doors _____ Zero Clearance _____

Stove _____

Chimney Condition

Good _____ Dirty _____

Problems: _____

Combustion Air

Supplied _____ Not supplied _____

Evidence of Spillage

None _____

Description: _____

Other:

Attic/Ceiling Space

Type

Flat roof ____ Cathedral ceiling ____ Peaked ____

Structure

Can't see ____ Joist ____ Rafter ____ Truss ____

Condition

Can't see ____ Good ____ Rot ____ Damaged ____

Sheathing

Plank ____ Plywood ____ Composite ____

Condition

Can't see ____ Good ____ Rot ____ Damaged ____

Insulation

Can't see ____ None ____ Upgraded ____ Blown ____

Batts ____ Mica ____ Cellulose ____ R- ____

Evidence of Leaks

Can't see ____ None ____

Description and location: _____

Evidence of Condensation

Can't see ____ None ____ General staining ____

Wet or packed insulation ____

Ventilation

Can't see ____ Soffits ____ Peak ____ Gable ____

Mushroom ____ Adequate ____ Inadequate ____

Evidence of Air Leakage

Attic Hatch ____ Plumbing Stack ____

Other:

Exterior

Foundation

General Condition

Good ____ Poor ____

Description: _____

Cracks

None ____ Minor ____ Notable ____

Location: _____

Other:

Exterior Walls

Finish type

Brick ____ Stucco ____ Wood ____ Aluminum ____

Vinyl ____ Stone ____

Cracks

None ____ Minor ____

Notable: _____

Attachment

Good ____

Notable problems: _____

Signs of Moisture

None ____ Exterior source ____ Interior source ____

Description: _____

Other:

Roofing

Type

Asphalt shingle ____ Wood shingle/shake ____

Tar/gravel ____

Expected Life

1 year ____ 5 years ____ 10 years ____ Longer ____

Roof Drainage

Good ____ Pooling ____

Eave Protection

Good ____

Potential Problems: _____

Local drainage

Good ____

Potential Problems: _____

Other:

Chimney

Condition

Good ____ Repoint ____ Rebuilt ____

Pool

None ____

Condition: _____

Architectural Features

Condition/Description: _____

Bidding Checklist

GENERAL ITEMS

Plans; building permit; sewer connection or septic system; water connection; survey; surveyor's certification; fire insurance fee; city taxes; lawyer's fee for contract; temporary power; electric bills; water; cable; telephone; gas; electrical; cleaning-up house and windows; removing rubbish.

EXCAVATING AND GRADING

Clear site; remove topsoil; excavating for foundation; piers; footings; pumping seepage water; backfilling; earth fill; earth removal; rough and finish grading; topsoil; fertilizer; seeding; sodding; shrubs; evergreens; trees; fencing; planning; labour.

CONCRETE WORK

Concrete labour; wall footings; chimney and pier footings; foundation walls of concrete or blocks; anchor bolts; basement floor; garage floor; breezeway; curbs of concrete or blocks; sidewalks; stairs; asphalt; concrete or gravel driveway; culvert; forms; reinforcing steel; crushed stone fill; concrete; cement finishing; color; floor hardener; waterproofing; drain tile around foundation walls; gravel fill; drainage; labour.

MASONRY

Masonry labour; facebrick; back-up brick; concrete blocks; cinder blocks; stone; copings; window sills; door sills; chimney caps; flue-lining; wall ties; asphalt paper; mortar; masonry cement; anchor bolts; angle-irons; reinforcing; firebrick; hearth; mantel; dampers; ash dumps; cleanout doors.

STEEL AND MISC. METAL

Steel beams and posts; bearing plates, columns; angle irons; inside railings; outside railings; window wells; steel joists; ash dumps; cleanout doors; chimney thimble.

ROUGH CARPENTRY LABOUR

(a) BUILDING LAYOUT –

Measuring; setting batterboards; setting plumbing lines; staking piers; porches; sidewalks; steps; walls.

(b) FORMS AND SCREEDS –

Columns; foundation; patios.

(c) WOOD FLOORS AND FRAMING –

Placing of basement columns; girders; floor joists; sills; plates and headers; bridging; laying of subfloor; building paper.

(d) EXTERIOR WALLS –

Laying plates; studding; placing headers; bracing; blocking; sheathing; placing building paper; siding.

(e) ROOF FRAMING AND SHEATHING –

Placing ceiling joists; cutting and placing rafters; placing trusses; bracing; sheathing; laying shingles.

(f) EXTERIOR TRIM –

Building and placing louvers; placing moldings; cornerboards.

(g) INTERIOR ROUGH CARPENTRY –

Laying plates; studding; placing door headers; bracing; blocking.

(h) DOOR AND WINDOW FRAMES –

Setting door and window frames.

LUMBER MATERIALS – ROUGH

(a) BUILDING LAYOUT –

(b) FORMS AND SCREEDS –

Rough lumber.

(c) WOOD FLOORS AND FRAMING –

Basement columns; girders; first floor joists; wall plates and sills; box headers; bridging; rough wood or plywood subflooring; building paper.

(d) EXTERIOR WALLS –

Top and bottom plates; studs; braces; headers; blocks; corner posts; wall sheathing; building paper; bevel siding; vertical siding; battens.

(e) ROOF FRAMING AND SHEATHING –

Ceiling joists; roof rafters; hip and valley rafters; trusses; rafter braces or collar ties; ridgeboard; lookouts; plywood or boards; roof sheathing.

(f) EXTERIOR TRIM –

Fascia boards; soffits lining; louvers; bed molding; quarter round; shingle mould; cornerboards.

(g) INTERIOR ROUGH CARPENTRY –

Top and bottom plates; studs; headers; braces; blocks.

(h) DOOR AND WINDOW FRAMES –

Door frames; window frames, prehung doors.

ROOFING

(a) SHINGLES ROOF –

Wood; asphalt shingles; slate; tile; copper or tin roofing; metal roofing; roofing paper; labour.

(b) BUILT-UP ROOF –

Roof insulation; felt paper; single ply membrane; tar; gravel; labour.

PLUMBING

(a) WATER SERVICE –

Piping and fittings; tanks; pump; water meters.

(b) PLUMBING –

Sewers and drains; copper pipe and fittings; kitchen sink; laundry sinks; bath tubs; showers; lavatories; water closets; whirlpool; hot tub; water heater; water softener; sump pump; dish washer; garbage disposal; hose bibs; roof flanges; labour.

GAS SERVICE

Meter; furnace; space heater; hot water heater; range; clothes dryer; exterior lights, BBQ hookup.

HEATING, AIR CONDITIONING AND VENTILATION

Hot air; or hot water heating system; ducts; cleats; dampers; pipes and fittings; valves; radiators and valves; convectors; registers and grilles; electric heaters; humidifying and air conditioning equipment; radiator covers and enclosures; thermostat; zoning controls; air cleaners; gas or oil burner; boiler or furnace; fans; exhaust fan; HRV's; combustion air supply; oil tank and fittings; wiring; labour.

EAVESTROUGHING AND FLASHING

Gutters; downspouts; downspout brackets; valleys; flashing; vents; canopies; labour.

ELECTRICAL WORK

Service to building; wiring for wall and ceiling outlets; receptacles; switches; chimes; transformers and buttons; intercom; conduit for telephone outlets; cable; wiring for stove, oven, dryer, garburetors, chimes, water heater, time clock, washer, dishwasher, bathroom heater, oil burner, gas burner, refrigerator, freezer, fans, inspections; labour.

(a) FIXTURES ALLOWANCE –

For ceiling lights; wall brackets; fluorescent lights; valance lighting.

(b) BUILT-IN APPLIANCES –

Built in oven; exhaust fans; refrigerator; washer and dryer; built in dishwasher.

GYPSUM BOARD AND INSULATION

Vapour barrier; aluminum foil; fiberglass; rockwool or loose insulation; gypsum board; metal lath; concrete; cornerbead; staples; gypsum wallboard; tape; joint filler cement; topping cement; labour.

STUCCO

Hard wall plaster; bondercrete; fertilite or vermiculite plaster; gauging plaster; plaster of paris; crystalite masonry and portland cement; sand; lime; coloring; labour.

CARPENTRY LABOUR – FINISH

Hanging window sash; installing storm windows and screens; placing window trim; placing window shutters; hanging doors; installing door screens; placing door trim; thresholds; placing jambs and casings; placing baseboard and base shoe; installing cabinets; placing countertops; building built-in closets; installing closet poles; placing shelves; building built-in bookshelves; building stairs; strapping; paneling; placing ceiling or acoustic tile; installing finish hardware.

LUMBER MATERIALS – FINISH –

(a) WINDOWS –

Frame windows; storm windows and screens; basement windows; outside blinds or shutters.

(b) DOORS –

Exterior doors; door frames; storm doors and screens; combination doors; pocket doors; folding doors; sliding doors; garage doors.

(c) CABINETS –

Kitchen cabinets; vanities; pantry; medicine cabinets; china cabinet; phone cabinet; built in clothes closets; linen closet; broom closet; shelves; bookcase; ornamental partition; planter boxes; formica or arborite countertops.

(e) TRIM –

Window jambs; linings; stops; stool; apron and casing; door jambs; stops and casings; thresholds; case openings; attic trap; baseboard; combination base; stringers; treads and risers; newel posts; handrails and balusters; folding stairway; bar in recreation room; strapping; paneling; ceiling tile; acoustic tile; moldings.

GLASS AND GLAZING

Window glass; low E windows; argon windows; triple glazed windows; obscure glass; plate glass; insulating glass; ornamental glass; glass blocks; mirrors; glazing compound; labour.

HARDWARE

(a) ROUGH HARDWARE –

Common, finish, roofing and lath nails; screws; anchor bolts; joist hangers.

(b) FINISH HARDWARE –

Door butts; door and latches; door bumpers; push button plate; metal thresholds; sliding door track; window locks and lifts; hinges; catches; pulls or knobs; closet rods; clothes hooks; handrail brackets; pocket door hardware.

WEATHERSTRIPS AND CAULKING

Weather strips for doors and windows; caulking around doors and windows; labour.

PAINTING AND DECORATING**(a) EXTERIOR PAINTING –**

Painting or staining exterior frames; sash; wood and metal work; exterior house painting; exterior primer; exterior paint; labour.

(b) PAINTING AND DECORATING INTERIOR –

Interior finishing of floors; baseboards; doors; door and window trim; cabinets; bookcase; closets; painting walls and ceilings; wall paper; wall murals; stain; shellac; varnish; interior undercoat; interior paint; putty turpentine; enamel; latex paint; paste; labour.

FLOORS AND TILE**(a) FLOOR TILE –**

Linoleum tile or yard goods; vinyl tile; carpet strips; linoleum tile cement; waterproof cement; slate; hearth; mantel; stair nosings; labour.

(b) WALL TILE –

Ceramic or plastic tile; tile cement; bathroom fixtures; labour.

(c) HARDWOOD FLOORS –

Strips hardwood flooring; prefinished hardwood; wax paper; staples sanding; stain; shellac; varnish; waxing; polishing; labour.

EXTRAS AND OTHER ITEMS

Plumbing; heating; electric framing; trimming and other extras. Winter protection; rentals; repairs; tub enclosures; shower doors.

TOTAL CONSTRUCTION COST

Total of labour; materials subcontracts; and other direct costs.

COMMISSION OR SELLING COST

Salesmen salaries; sales commission.

OVERHEAD COSTS

Office salaries; executive salaries; supervision salaries; employee benefits; education and training; rent; telephone; fax; cellular; heat light and power; stationary and printing; business association memberships; subscriptions; donations; legal and accounting; insurance; repairs and maintenance; depreciation of equipment; small tools; auto and truck expenses; computer equipment; traveling and entertainment; taxes and licenses; misc.

MISCELLANEOUS COSTS –

Interest; bank charges; bad debts; changes to completed jobs; other costs.

TOTAL ESTIMATED COST

Total of labour; materials; subcontracts; selling costs and overhead costs.

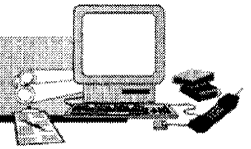
BID PRICE OR SELLING PRICE

Total of labour; materials; subcontract; selling cost; overhead costs; and profit.

SAMPLE ESTIMATE SHEET

PROJECT _____ LOCATION _____ DATE _____ SHEET NO _____

						LABOUR		MATERIALS		
Description	No. Pieces	Dimensions	Extensions	Quantity	Unit	Unit Cost	Total Cost	Unit Cost	Total Cost	Total
									SubTotal	
									Mark-up	
									Total	
									GST	
									Bid Price	



CHAPTER 6

Managing the Job

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Your most important pre-renovation task is to ensure that the work to be done is clearly documented and agreed to by the customer.



Every renovator may handle the overlap between sales and production differently, but all renovators must have a system that effectively moves the sale into the hands of the people on the job . . .

Managing the Job

The Renovation Process

You should have a system of checks and balances with the people on the job to reduce errors, avoid re-doing work, ensure customer satisfaction and focus employee attention on the job's cost and schedule.

The goal of a renovation system is to:

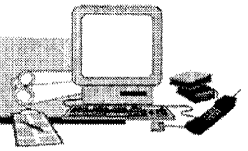
- assess the job in detail before starting and work out all problems that can be anticipated; and
- increase profitability and customer satisfaction.

Your most important pre-renovation task is to ensure that the work to be done is clearly documented (using plans, specifications and diagrams) and agreed to by the customer. It is essential that the salesperson prepare the job properly for hand-off to the people on the job. For each job, the salesperson should prepare:

- two copies of the signed contract;
- two sets of signed plans;
- two sets of detailed specifications;

- the estimate with a clear and concise summary of the subtrade bids, material lists with prices, and the source of the prices;
- a detailed report of any special promises or commitments the salesperson has made and an explanation of how the customer anticipates the final job will look, feel, or perform. This report should also provide any information about the customer's personality that may be valuable to the renovation team;
- the site inspection report, including any pictures or videos; and
- a key to the building in which the work is to be done, if one is required.

Every renovator may handle the overlap between sales and production differently, but all renovators must have a system that effectively moves the sale into the hands of the people on the job with little loss of information and with a minimum of confusion.



The renovation process is comprised of a series of activities:

- getting the contract signed;
- collecting the deposit;
- setting up the job files;
- doing the site walkthrough;
- conducting the pre-renovation meeting with the customer;
- scheduling the project;
- contracting the subtrades;
- ordering custom materials;
- updating the schedule regularly;
- collecting progress payments;
- processing change orders;
- inspecting and maintaining quality control;
- conducting final inspection with the customer;
- collecting final payment; and
- handling service callbacks.

Establishing job files

Some renovators may use the 'Where Is It?' system for necessary documents and information. When somebody needs something, they ask around for it and slowly they assemble their own data file. While this system works, it is very inefficient.

You should set up two files for each job:

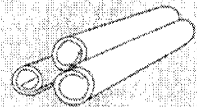
- the **office file** to contain the contract, plans and specifications, sales information, subcontracts with amounts, detailed estimate of labour and materials by task, change orders, purchase orders, and any other financial commitments, confirmations, permits, renovation schedule, customer records, change orders and notes; and
- the **job pouch** to contain plans, specifications, details from the contract, copies of change orders, renovation schedule, customer records, telephone numbers of subs and suppliers, and copies of material orders, to be used by the site supervisor.

At the completion of the job the job pouch is added to the office file for storage.

The job walkthrough

The salesperson, renovator and site supervisor (or just you, if you are handling all three roles) must conduct a walkthrough of the job. Before participating in the walkthrough, review the job plans and specifications, and write down any questions. This walkthrough allows everyone to discuss the exact nature of the work, review the existing condition of the property, and help identify potential problems.

An effective walkthrough of a moderately sized job should take approximately one hour. It should include the renovation strategy for the job as well as the actual renovation details.



An effective walkthrough of a moderately sized job should take approximately one hour.



Your customer may have discussed many options during the design and bidding process, and may believe that some items are included that really are not.

Some of the typical questions you must address are:

- How will the surrounding household areas be protected?
- Where will materials be stored?
- Will a bathroom be available for use or where can a portable be set up?
- Will a telephone be available, and if so where?
- How will material delivery vehicles access the site?
- Where can the waste management containers be located? and
- Will the workers have the use of the utilities at the job?

The pre-renovation meeting

You can schedule the pre-renovation meeting with the customer immediately following the job walkthrough. It will be most productive if it includes the salesperson, the renovator, the site supervisor and the customer. The meeting has a number of objectives:

- to introduce the customer to the site supervisor;
- to make clear to the customer that the site supervisor is taking charge of the job;
- to discuss the control of any pets;
- to review with the customer in a quiet setting exactly what is going to be done and what is not included, to resolve any differences in understanding or expectations;

- to set up working hours in cooperation with the customer;
- to review the schedule of activities;
- to let the customer know how to work with the renovation people and what will be expected of each party; and
- to agree on the existing conditions of the home and property.

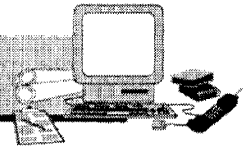
You should review the plans and contract specifications in great detail with the customer. If any selections are open, or change orders are pending, handle them at this meeting, or give the customer a deadline for handling them.

Any potential problems should surface at these meetings. Your customer may have discussed many options during the design and bidding process, and may believe that some items are included that really are not.

Finding out about them at this stage, when the customer has the option to include them, is better than having an angry, disappointed customer later.

Job scheduling

Coordinating the activities of a single renovation can be complicated enough. Coordinating a series of renovations requires good planning skills and excellent interpersonal skills. When preparing the job schedule, you must take subtrades and suppliers into consideration. A good schedule that allows for the orderly and timely flow of materials and labour at the job site will lead to a quality finished product. A good race horse capable of winning the Kentucky



Derby still needs a jockey to be successful. The same can be said about the renovation schedule. The jockey is the site supervisor, but the site supervisor must use intelligence, humour and hard work instead of a leather whip.

Scheduling benefits

A proper schedule will help you visualize the renovation, understand the relationships among tasks more clearly, and identify critical tasks. It will help you make the best use of both people and money.

A good schedule will allow for effective communication among everyone involved. It will also make it much easier for the site supervisor to manage the job.

Project scheduling principles

Your first step in scheduling a renovation is to identify the required tasks to complete the job. These include items ranging from ordering materials and arranging for labour to putting in place insurance and calling for inspections. A comprehensive checklist will help you account for each of these items. Your second step is to arrange the tasks in proper sequence. Certain "critical" tasks must be completed before the next task can begin, while other tasks can take place at the same time. This is called the **critical path method** of scheduling. It will determine the quickest path to completion of the job.

Your final step is to put restraints on the critical path, such as customer restraints identified in the pre-renovation meeting. Other items to consider may be limited labour, contingency time for bad

weather, scheduling around cash flow and delivery time for materials.

By using the critical path method, you will complete the job in the shortest possible time, which will result in a satisfied customer and more profits for yourself.

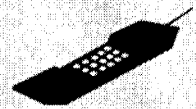
Getting Under Way

You should have a checklist of the various tasks that need to be carried out on a typical job. This checklist depends on the type of work being done or the way work is handled between employees and subtrades.

The checklist should be relatively detailed and should be set up for the most complicated jobs that have more items and activities to consider.

An overview list of renovation activities should include:

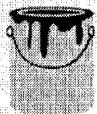
- plans and permits,
- site preparation,
- temporary relocation of utilities,
- excavation and grading,
- concrete work,
- structural steel,
- lumber materials,
- carpentry labour,
- glazing,
- masonry,
- siding,
- eavestroughing,
- roofing,
- plumbing,
- HVAC,
- electrical,
- insulation,
- drywall,
- finish carpentry,
- finish materials,



A good schedule will allow for effective communication among everyone involved.



Chapter 6



Should some unforeseen delay occur, you will not have to adjust the completion date unless all of the planned contingency time has been consumed.

- sealants and caulking,
- floors and underlay,
- painting and decorating,
- hardware, and
- landscaping.

You should also assign a time frame to each task — the amount of time it will take to complete each task from start to finish.

Scheduling construction activities

Once you have identified the tasks on the checklist, put them in order according to the minimum time it will take to complete the job. This is called the **critical path**.

You will typically include on the critical path items such as foundation, framing, rough-ins, insulation, and drywall. These items are called **critical tasks** since one task cannot begin until the previous task is complete. The framing cannot begin until the foundation is in, the rough-ins cannot begin until the framing is complete, and so on.

In order to determine how long it will take to complete the job, you must assign a time limit to each task. The time totaled for each critical task will be the minimum time that it will take to complete the job.

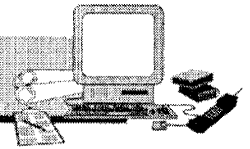
Based on these tasks and times, you can accurately predict the completion date.

Should some unforeseen delay occur, you will not have to adjust the completion date unless all of the planned contingency time has been consumed. Whenever any changes are necessary, you must inform the customer through regular meetings.

Task and Time Examples

For a simple addition, the list of critical tasks with their time requirements could look something like the following:

Task	Time (days)
Removal of needed materials	2
Dismantle/demolish	2
Service relocation	1
Foundation	7
Grade beam	3
Contingency	2
Frame and windows	5
Rough-ins electric	3
Insulation	2
Drywall	7
Contingency	2
Prime walls	1
Finishing	5
Inside painting	6
Contingency	2
Vinyl flooring	1
Finish rough-ins	3
Carpets	1
Final clean-up	1
Appliances	1
Contingency	2
Internal inspection	1
Final walkthrough	1
Total time	61



Typical Set-backs

Contingency time is needed to compensate for problems that can occur and are generally beyond your control, such as:

- the cabinets are back ordered and delayed one week;
- the siding installer slips and falls through the living room window;
- the customer is dissatisfied with the drywall and wants the living room retaped;
- the roof leaks and damages the ceiling with water markings; and
- during painting, the bathtub is damaged and must be replaced.

Other tasks that are not critical to the completion of the project are then fitted within the time frame of the critical tasks. For instance, siding cannot commence until the framing is complete, but it does not need to be complete before the rough-ins commence.

It takes considerable discipline to stick to a schedule. It always seems much easier to plan today's work today and let the job proceed at its own pace.

If you don't "run" the schedule and control the process, many days can easily be lost. There never seems to be the same sense of urgency early on as there is later in the schedule.

All of this scheduling is pretty much common sense to anyone who has been working in the industry for some time but it may be unique to the customer. It can get tricky

when a number of jobs are proceeding at the same time.

Developing a multiple-job schedule is an interesting exercise because some aspect of the labour or material supply is always a limiting factor. Because of this, some renovators like to work with only one special cabinet supplier, or one plumbing contractor.

When conflicts or delays occur, you must reschedule all projects and advise the customers. Remember, the customer will not be impressed by too many changes that should have been avoided.

Rescheduling done manually can be time-consuming; if done by computer, however, the process will take only a few minutes and the new schedule will be ready for use.

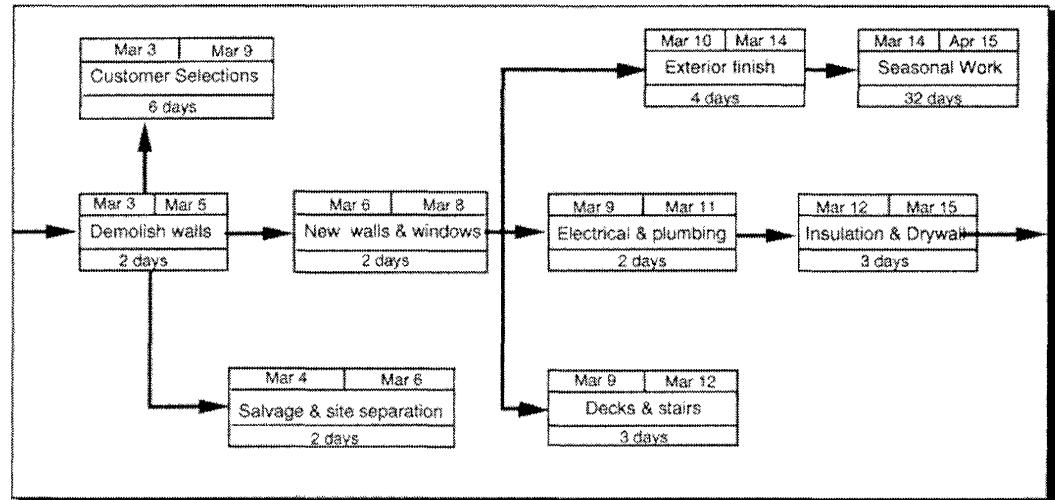
Even an experienced renovator can benefit from using a computer to do scheduling. If the scheduling is done manually, jobs may be sitting idle, but with the aid of a computer, you can eliminate much of the down-time and save money.



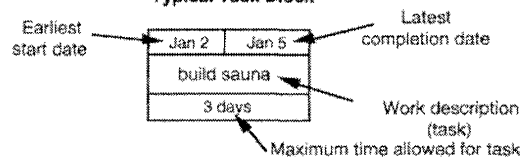
There never seems to be the same sense of urgency early on as there is later in the schedule.



Critical Path Schedule (example section)



Typical Task Block



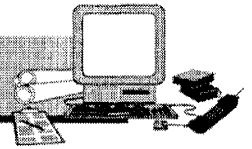
Material Control

Material availability is generally not a problem, but certain materials require special consideration. You must order in advance items such as custom windows or doors, trusses, some cabinets and some types of flooring, to allow for manufacturing or delivery time.

Lower levels of inventory being carried by suppliers and the demand for specialty items by customers may mean longer lead times when ordering. You may have to send purchase orders to the suppliers well in advance of the required date to allow for the

necessary lead time. The purchase orders should indicate the date that the material will be required on the job.

You must take special attention to ensure that customer selections are made on time to allow for timely delivery to the job site. Include the selection process in the schedule to ensure that all ordering is done on time.



Material protection

It is important to have the proper type and quantity of materials on site **as they are needed**, to prevent delays.

Having a good working relationship with your suppliers will help ensure timely deliveries.

Just-in-time delivery means that the materials needed on the job are delivered just before they are needed, not in advance. This means they are not stored on the site where they can get in your way and slow production.

Early delivery of material may also result in damage or theft. Damage usually results from having no place to store the materials or having to move them around.

You can reduce damage to materials stored on-site by:

- arranging with the customer to close off access to certain parts of the home;
- installing temporary protection;
- adjusting the schedule to bring in materials just-in-time; and
- having materials placed only where required.

Theft can be a problem on some jobs. Often it is only a few scraps of wood, but sometimes it can involve major materials. Unless you properly secure materials, your insurance will usually not cover theft. This means that materials should be delivered just-in-time and locked up if possible. Protection of your customer's property is also important, as many people may be working on the job and on occasion, the house may be missing a window, door or entire wall.

There are many steps you can take to reduce theft, including:

- keeping the job site secure, thereby making it difficult for items to disappear;
- having materials delivered just-in-time and placed exactly where needed;
- marking materials ;
- making it clear to suppliers that you will not be responsible for materials delivered early; and
- making sure every job site has continuous activity each day.

Material substitution list

Occasionally materials will be back-ordered or simply not be available when you need them. The decision to substitute materials is usually made as the occasion arises, but you should always be prepared.

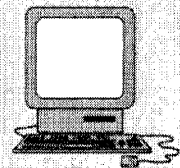
When substituting materials:

- do not install a material of lesser quality;
- check for compatibility of the new material with other installed materials (such as colours, designs, textures, and size); and
- ensure your customer is aware of and approves of the substitution as per your contract.

Upgrading the quality of the substituted material may cost you some money now, but it will be cheaper in the long run by keeping the project moving and eliminating extra carrying charges. If the fault lies with the supplier, they should bear the cost of the upgrade.



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Chapter 6



Waste can take the form of misused materials, damaged materials, excess materials not returned for credit, idle employees, jobs sitting idle, poor judgment and errors . . .

Determining equivalents

The Building Code has certain requirements for various building components. Many products must have CSA or a similar type of certification.

If you are substituting products, it's important to check for these certifications, especially if products are imports. Suppliers may not always identify that the product is imported or that a substitute has been delivered.

Supplier relationships

Suppliers are an important element in keeping the renovation progressing in a timely manner. Your working relationship with suppliers should be spelled out in the contract.

Some of the items to consider when entering an arrangement with a supplier include:

- delivery capability of the supplier;
- the use of purchase orders;
- notice required for delivery;
- quality of product;
- return of excess materials; and
- replacement of substandard material.

There are also a few things you must keep in mind to help the supplier with delivery, including:

- reasonable access;
- a clean site; and
- stairs.

Waste control

Many people take great pleasure in spending money. You have the ability to spend large amounts of money, or to save large amounts of money — depending on how jobs are handled. One of your greatest costs is waste.

Materials and labour account for the largest portion of your expenditures and the wasteful management of either can cost you a lot of money. Waste can take the form of misused materials, damaged materials, excess materials not returned for credit, idle employees, jobs sitting idle, poor judgment and errors.

You can eliminate, or at least reduce, most of this waste by proper planning. Waste control begins with implementing proper systems and following them in an orderly and consistent fashion.

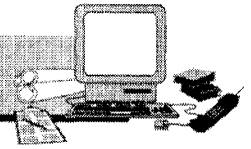
Job Site Management

The job site management cycle has four activities:

- planning,
- scheduling,
- implementing, and
- controlling.

Each of these activities happen whether the job is well-supervised or not.

One of the primary responsibilities of a good site supervisor is the utilization of labour resources at maximum efficiency in a hazard-free environment. This involves direct employees, as well as subtrades.



Scheduling work for subtrades and employees and giving them proper supervision is an important skill. This skill involves judging how long it will take people to complete a job and which subtrades and employees can be on the job at the same time. You may make numerous trips back to the job to complete a task in order to accommodate the customer. These must be properly scheduled.

You should not allow subtrades to do their own scheduling when they are under contract to you. As a site supervisor, you must demand a commitment from subtrades to show up and to be completed on time as agreed.

In some cases, unavoidable delays occur and time must be made up. You should be prepared to negotiate with subtrades in these situations.

Finally, you must decide who will do what on the site. If you are not the site supervisor, you must have enough confidence in your site supervisor to delegate full on-site authority, including the dismissal of subtrades.

The site supervisor must maintain full cooperation and support of the customer in order to properly manage the site. Without this cooperation, conflicts may arise and any goodwill that was created could be lost. Good customer relations are critical for the site supervisor and everyone else on the job.

Schedule changes

The cooperation of key subtrades is paramount in keeping to your renovation schedule. You must explain the consequences of not meeting deadlines to each trade on site. Cooperation and flexibility should be stipulated in the contract with the subtrade.

You are also responsible for giving subtrades proper notice and having the job site in a condition that allows them to carry out their work properly. If subtrades show up and the job is not ready, it could cost you money.

You must also inform subtrades if their work quality is slipping or if problems are arising. This seems



... you must have enough confidence in your site supervisor to delegate full on-site authority, including the dismissal of subtrades.

Being sensitive to customer and worker concerns

Top quality work will be performed only when the workers are happy with what they are doing. You must be sensitive to any concerns the customer and workers may have.

You must give attention to occupational health and safety, an unrealistic schedule, poor quality materials, etc.

Major concerns for subtrades are cancellations and rush jobs. Sometimes subtrades will be contacted to do a job in three days time, only to be notified the night before that the job is not ready for them. This prompts trades to overbook because they expect cancellations.

Rush jobs do occur, but not every job should be a rush job. Subtrades find it particularly annoying when they are told it's a rush job and then the job site sits idle for three days after they leave. Don't cry wolf too often.



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If documentation is missing, this money may not be collectible.

obvious, but if items must be fixed or completed by subsequent workers, it costs you time and money.

Completing site paperwork

Paperwork is another form of communication in which you must be proficient. This may be your main vehicle for communicating with office staff, suppliers and inspectors.

Some of the paperwork may include:

- purchase orders;
- verification of waybills;
- change orders;
- changes to plans;
- deficiencies;
- material shortages;
- updates on scheduling;
- daily and weekly reports; and
- occupational health and safety reports.

It is usually best to work with standard forms so that everyone in the operation knows what to look for and what it means.

It is also important to keep accurate records. You may want to refer back to specific projects for information such as length of time to

complete a certain task, problems with a certain subtrade, problems with certain materials, how certain problems were solved, and so on.

Completing change orders

It is absolutely essential that you complete and sign all change orders properly. Change orders become part of the contract and can involve large sums of money. If documentation is missing, this money may not be collectible.

Some of the things to include on the change order are:

- date of change order;
- items being changed;
- selections required by the customer;
- time implications necessitated by the change;
- extra charges or credits because of the change;
- customer's signature; and
- your signature.

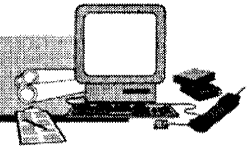
You may work with the customer and calculate cost implications of the change, or leave this to your site supervisor if you are not working in that capacity. Ideally, you should handle the changes because they may affect financing and scheduling. Copies of all signed change orders should be provided for everyone involved in the change.

It may be wise to complete a change order even if no charge is involved. Change orders provide documentation and agreement from all parties to any change that takes place.

Ensure a tidy and safe site

A clean and tidy site not only gives a good impression about you, but it is more conducive to productivity on the site, and is safer for both the workers and the occupants.

Garbage left on-site will distract from site signs and may hinder the installation of services or exterior work.



It is important to follow up the change to ensure your employees or subtrades incorporate the change into their work. You may need to revise the construction schedule to accommodate the change.

Quality Control

When you are trying to meet a schedule there never seems to be enough time to do it right, but when the customer complains about problems, you are forced to make time to do it over, thereby paying twice for the job.

Communicating standards to all workers

Every worker must know what you expect from them regarding the quality of their work. Your business should thrive on its reputation for quality.

Quality requirements are set by your business and are partially reflected in the plans and specifications. Everyone bidding on the job knows the code requirements and knows from the project specifications what is expected. However, the actual quality often goes beyond the specifications and is evident in the care with which the work is performed.

It is often necessary to meet with subtrades before work begins to review their tasks and to make sure they have a clear understanding of what you expect of them. Clear up any misconceptions at this time and establish a minimum standard of quality for the finished product.

In many cases, your quality expectations may be higher than the industry's normal practice. For instance, the industry norm may be to apply two coats of joint filler prior to texturing the ceiling, while your policy is to apply three coats.

Recognizing substandard work

Regular checking by you or the site supervisor not only identifies deficiencies, but also identifies future problems and assists in updating the work schedule. It is important that work verification be thorough and comprehensive.

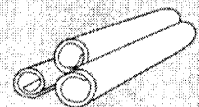
You must know the essentials of each component of the job, what to look for and when to look for it.

You must have a good understanding of the Building Code and bylaws. You must be able to recognize if heating ducts are installed properly and have a "feel" for the proper sizing. A good deal of this expertise comes with experience.

Quality may mean more than a standard of work; it may also mean the quality of materials being supplied. You must monitor both labour and materials closely to ensure they are up to agreed-upon standards.



Your business should thrive on its reputation for quality.



In many cases, your quality expectations may be higher than the industry's normal practice.



Site Safety


Occupational Health and Safety on the work site is a big issue right across the country. Task forces established in most provinces report that residential construction has the highest incidence of injury among the construction industry as a whole.

In addition to legislative requirements, there are many benefits to having a site safety program. Some of these benefits are economic for both you and the subtrades. Other benefits include the image that you present and the feeling the workers have because their interests are being taken care of. The homeowner also appreciates a clean site that provides less risk of injury.

Everyone is regulated by Provincial Occupational Health and Safety Regulations. These regulations spell out what is required in various situations. You should have copies of these regulations and ensure that you are complying with them.

You must provide the awareness and training that is necessary for worker safety. Your business must establish and enforce minimum safety guidelines for all workers on the job in order to argue "due diligence" if an incident occurs. Some of the more general provisions for safety include:

- Personal protective equipment
 - head protection
 - eye protection
 - foot protection
 - limb and body protection;
- First aid requirements;
- House-keeping;
- Safe access and egress;
- Equipment
 - electrical cords and grounding
 - guards
 - manufacturer specifications;
- Compressed gas cylinders
 - to be upright and secured from falling;
- Fall protection
 - workers are to be protected from falling where it is possible to fall a vertical distance of 3.5 m;
- Ladders
 - construction ladders complete with filler blocks
 - use of safety feet
 - securement of ladders
 - to extend 1m above landings
 - sectional ladders with a minimum 1m overlap
 - no work from top 2 steps of portable ladders;
- Floor, wall, and roof openings
 - to be covered over or guardrails installed around them;
- Scaffolding (requirements may vary)
 - all bracing to prevent lateral movement
 - secured every 4.6m vertical and 6.4m horizontal
 - planking at least 500 mm wide
 - planks to extend at least 150 mm but not more than 300 mm
 - planks to be inspected and secured; and
- Guardrails
 - top rail .92m to 1.07m
 - intermediate rail.



Other benefits include the image that you present and the feeling the workers have because their interests are being taken care of.



Some infractions are obviously more serious than others, and many are not picked up until an accident occurs.

Prosecutions

The Occupational Health and Safety Branch can prosecute you for violations of the Provincial Occupational Health and Safety Act whether or not an accident occurs. Some examples of recent actions are:

- A renovation company was fined \$1,100 for failing to ensure scaffolds were constructed and used in compliance with regulations. The company was also fined \$100 for failing to ensure workers wore safety hats. Charges were laid following similar infractions for which Notices of Contravention were issued.
- A company was fined \$2,000 for failing to ensure holes were equipped with guardrails or covered as required by regulations. Charges were laid after a worker fell into a hole at a worksite.
- Another company was fined \$900 for failing to ensure scaffolds met requirements of the Occupational Health and Safety Regulations. Charges were laid following several similar infractions. No accident had occurred.

may have to be put off until the worker returns, or a replacement may have to be found. This disruption can affect the overall schedule of your project, depending upon who the worker is. If the worker needs replacement, a hiring process will be required which may be time-consuming. The new employee may also require training, again depending upon the skill level required.

A poor safety record can also mean more frequent safety inspections and safety related fines and increased WCB premiums for you and the subtrades. This all leads to less profitable projects.

Safety and the business image

Your policy toward site safety is usually reflected in the appearance of the site. Generally speaking, the cleaner and neater a site, the safer it is.

It is valuable to give the customer's friends, relatives and neighbours a good impression. Customers will have a good feeling

about the quality and attention that you use in doing the renovation, which can lead to future work.

A clean site will also have an impact on those working on the job. If the site is neat and clean, your workers can do a better job and can usually work more efficiently. This means that they are more likely to be cooperative with the site supervisor and help keep the site clean and tidy.



Generally speaking, the cleaner and neater a site, the safer it is.

Implications of poor safety

The economic implications of having a poor safety record will affect you and the trades in both the short term and in the long term.

In the short term, there will be a disruption in work. The injured person may be a valuable worker and may be off anywhere from a few hours to a few months. Work



Chapter 6



The customer is ultimately responsible for coverage for everyone on the job site, whether they are employed directly by you or indirectly by the subtrades.

There are safety inspectors who travel to various construction sites looking for deficiencies. Their job is to protect your workers and to keep claims to a minimum.

WCB requirements

The main reason for having the Workers' Compensation Board is to protect you, the worker, and the customer. This coverage ensures the worker of full medical coverage and income replacement in the case of an accident while on the job. You and the customer are protected from claims from an injured worker when coverage is in place. It is for these reasons that enrollment and payment of fees is so important.

Every business with employees must register and be covered by the Workers' Compensation Board. Your business must fill out a registration form at the beginning of the year and estimate the amount of wages that will be paid for the year. Your premiums are then assessed based upon the total wages.

You must instruct each worker what to do in case of an accident. If an injury occurs and any medical attention is required, you must be notified and you must file a report to the Workers' Compensation Board within a prescribed period of time.

Customers would be wise to check with the Workers' Compensation Board to verify that you and all subtrades are registered and have paid your premiums — otherwise, the customer may be held responsible for payment of premiums or for injuries sustained by uninsured workers.

Hazardous materials

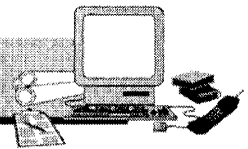
The **Workplace Hazardous Materials Information System (WHMIS)** is a legislated system to provide information on the dangers and safe handling of materials used in the workplace. Application of the legislation is uniform throughout the provinces and territories of Canada.

Federal legislation requires suppliers of hazardous materials to provide specific information on their products through Material Safety Data Sheets (MSDS) and labels.

You are required by provincial regulations to inform your workers of the risks related to the use of products and materials, and to implement safe work practices.

In order to comply with the regulations, you should:

- Review harmful chemical and biological substances in the workplace, and identify the jobsites where these products are used or produced
- Determine which products are controlled products by identifying those that meet the criteria for compressed gas, flammable and combustible material, oxidizing material, poisonous and infectious material, corrosive material and dangerously reactive material. While there is no list of controlled products, materials bearing a label with specific symbols will be controlled products.



- Obtain a Material Safety Data Sheet (MSDS) which is a document that describes the dangers and safe handling of the material. The MSDS must be provided by the supplier where the material is sold. The following is recommended:
 - examine the MSDS and ensure that work practices used at the workplace are safe, and
 - make copies of the MSDS for posting at the job sites.
- Ensure that all containers are suitably labeled. A supplier must affix a defined label on the containers of all controlled products. Where material is transferred from the original container to another container by you, the supplier, or sub-trade, a workplace label with information for the safe handling of the material must be attached to it.
- Arrange for a training program, in consultation with the Occupational Health and Safety Committee, at the workplace, for all workers in close proximity to any controlled product.
- Inform the owner or occupant of procedures being used on site and of WHMIS program requirements.

Establishing a safety program

Establishing an effective occupational health and safety program is an excellent means of providing a safe workplace and offering a "due diligence" defense in case of an accident. You should follow these steps:

Be Committed — A visible commitment by the renovator has been shown to be the single most important factor contributing to a good health and safety record.

Get the Personnel Involved — Involve your workers in health and safety matters and explain the procedures to the owner or occupant.

Put Health and Safety into All Work Plans — Do this by:

- determining the hazards;
- establishing work procedures to avoid or control these hazards;
- ensuring workers are given necessary instructions; and
- identifying responsibilities of the site supervisor and workers.

Provide Orientation — This should include information on how to identify and control hazards, use equipment safely and respond to emergencies. Young workers and those inexperienced in their present jobs are most likely to be injured. They must be closely supervised by a competent site supervisor.



Young workers and those inexperienced in their present jobs are most likely to be injured. They must be closely supervised by a competent site supervisor.



Chapter 6



The best way to handle a disappointed customer is to keep them from becoming one in the first place.

Conduct Regular Inspections — There can serve many purposes, including:

- improving communication with workers;
- identifying unsafe conditions;
- identifying unsafe work practices;
- developing corrective action; and
- providing an opportunity for follow-up.

Investigate Accidents — You are required to report work-related fatalities and serious accidents to the Occupational Health and Safety Branch. When an accident occurs, an investigation should commence immediately to determine what factors led to the accident and what can be done to prevent a recurrence.

Evaluation — A general review of the program should take place each year.

Preventing Defects Through Quality Assurance

The best way to handle a disappointed customer is to keep them from becoming one in the first place.

From foundations and insulation through to cabinets and flooring, problems are the direct result of poor quality materials, inappropriate materials or poor quality workmanship.

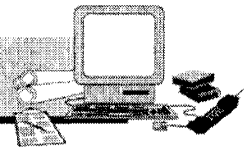
Quality applies to everything, including materials, design, workmanship, customer relations and attitude.

Finding causes

How do you identify the cause of common defect problems?
Any problem or defect in a renovation will be due to:

- faulty materials; or
- poor or improper work; or
- a system failure, where incompatible products are brought together or materials are used incorrectly; or
- a combination of one or more of these.

A system failure is the most difficult to analyze.



Common defects

Having to match many different and new component parts to the existing house increases the chances of something going wrong with a renovation job. Materials often change form or size after being installed or do not match existing elements. This will lead to other problems, and so the spiral begins.

Before you can be correct any common defects, you must determine exactly what they are. This is often the most difficult task because the science behind some of these obvious problems can be very complicated. For example, an addition built to super energy-efficient standards will behave differently than the rest of the house. However, once you have identified the cause of a problem, the solution often becomes very obvious.

Faulty products are normally easy to spot. Manufacturers are constantly adjusting product quality control procedures to ensure that their products are free from defects, but these procedures are not perfect.

A quick inspection of materials before you install them can save you time and money down the road.

Faulty workmanship is often difficult to detect because the method of construction becomes part of the building system, thus creating some confusion between the building system and the workmanship.

The system of combining materials together to achieve a specific utility makes it very difficult to analyze when a problem emerges. Is it the materials causing the problem or

the way the materials are used together?

For example, let's look at a squeaking floor. Is it caused by delaminating subfloor material, improper gluing, improper nailing, dirty surroundings causing contamination and glue failure, excessive shrinkage of new wet joists tied to old dry joists — or a combination of all these potential causes?

Avoiding costly problems

Most potential problems could be avoided if you wanted to do something about them. The problem, however, is not just in having a solution, but in having a **cost effective** solution.

For example, to build a floor system that's not springy and won't squeak, you can use short-span floor trusses and ensure that the subfloor is glued and screwed firmly to the trusses. This floor will not squeak and will be very solid.

However, this costs extra money. Will the customer pay for this? Does the customer even know that this type of floor system is available?

You must consider whether or not there are other things that you can do to eliminate squeaking without having to go to seemingly elaborate options and expenses, and without compromising quality.

For example, clean, kiln-dried joists with proper glue application and correct nailing or screwing of quality subflooring will result in a squeak-free floor.

It will be very expensive to rip up and replace a floor after the job is finished. Avoid problems by doing things right the first time.



You may not be able to eliminate some problems but you can remove them as a problem from the customer's point of view.



Quality assurance is how you manage your business in order to produce a quality product or service and make your customers confident that an acceptable level of quality has been achieved.

Defect elimination program

An active program for defect elimination involves everyone in your business. You must first make a commitment to support the process of defect elimination.

You must then identify and analyze specific problems to be eliminated. Make a list that includes a serious investigation of past service activity of your business. Then develop appropriate solutions for each problem.

You may not be able to eliminate some problems, but you can remove them as a problem from the customer's point of view. For example, adjusting doors because of changing weather conditions may be a service carried out as required.

A floor system that produces occasional squeaking will require a more coordinated approach. The supplier needs to know that eliminating floor squeaking is a priority and that damaged, dirty or less-than-perfect flooring materials will not be accepted at the site. You

must establish and clearly communicate your expectations to the supplier. Make it clear that all materials shipped to the site must be clean, dry and free of defects, and that delays by having to pick through materials or wait for replacement materials are not acceptable.

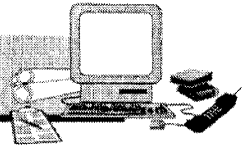
Next, you must communicate your expectations to all workers. For example, the workers must know that they are to use only undamaged materials that are clean and dry, and that proper installation procedures must be employed. Glue that is applied to joists that are wet or have mud or ice on them is guaranteed to produce a squeak in the floor at some future point. Glue that is applied to the joists and left too long before subflooring is installed will not bond properly. Do not accept substandard workmanship.

Defect Elimination

In order to avoid defects and problems, or correct them if they do occur, you must:

- know what problem is to be eliminated;
- analyze and develop the most cost-effective solution that will yield the desired quality product;
- devise a plan to eliminate the problem;
- communicate your desires, commitments and expectations to everyone involved, including subtrades and suppliers;
- ensure that materials and labour meet your standards; and
- praise the efforts and support of everyone who helped to solve a problem successfully.

You must keep updated on new materials, building systems and installation techniques, as part of your business's quality standard. Although things seem to stay the same, building technology is advancing all the time.



Do not tolerate nailing procedures that leave nails that just catch the edge of the joist, or that do not put sufficient nails along the edge of subfloor panels or along joist paths. These are guaranteed squeakers.

Maintaining your quality assurance program

Quality assurance is how you manage your business in order to produce a quality product or service and make your customers confident that an acceptable level of quality has been achieved.

A true quality assurance program has a manual created specifically for the business, as part of the business plan, that documents in a systematic manner all company activities which affect the quality of the final product.

The manual helps explain to new people in your organization, such as subtrades, suppliers, and workers, how your business operates so as to achieve the required level of quality.

The manual, and the documents that it may reference or use (such as inspection reports, independent tests, etc.) is also of value to provide the customer with documented evidence that all of those activities required to produce a quality product have been carried out.

Benefits of a quality assurance program

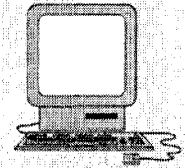
Businesses that operate a quality assurance program are simply better businesses. By documenting the structure of the business, giving a clear description of responsibilities within the company, and describing activities and how they are to be carried out (performance standards), the manual provides for better management.

A quality assurance program, while costing money to set up and implement, should lead to a cost reduction in the overall operation of your company.

Renovators and other businesses that have quality assurance programs have demonstrated repeatedly that the savings in the warranty claims, scrap, rework and other inefficiencies should more than compensate for the cost of operating the program.

The objective of a good quality assurance program is:

To ensure the right things are done ... and to do them right the first time.



A quality assurance program, while costing money to set up and implement, should lead to a cost reduction in the overall operation of your company.

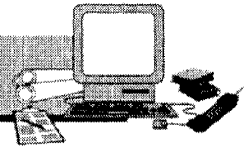


Chapter 6

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Chapter 6



APPENDIX

Purchase Order

Reliable Renovators

123 Anywhere Street
Boom Town, Canada, I4Y 2R1
(789) 765-4321

Customer _____ Job No : _____

Date Ordered: _____

Delivery Date: _____

Ship To: _____

Supplier: _____

Please Supply The Following:

Quantity	Description	Price

Copies : 1- Supplier
2- Job file 3- Accounting

Purchase Order No. **5634**

Change Order Agreement

Reliable Renovators
123 Anywhere Street
Boom Town, Canada, I4Y 2R1
(789) 765-4321

Reliable Renovators
123 Anywhere Street
Boom Town, Canada, I4Y 2R1
(789) 765-4321

Date: _____ Change Order # _____

Customer _____

The following changes are to be made to the job located at _____

Description		Extra	Credit
Total			

Previous Contract Amount	\$ _____
Extra/Credit	\$ _____
Revised Contract Amount	\$ _____

The Customer hereby approves the above changes and authorizes Reliable Renovators to process and to adjust the Contract Price as shown above.

AGREED

Customer

Reliable Renovators

Copies: 1- Customer 2- Job file 3- Accounting

Sample Work Up Sheet

Client _____ Sheet No. _____

Location _____ Date _____

Subject _____ Code No. _____ Estimator _____

Description of Work	Quantity	Unit Price	Amount
PST			
Total			

Bid Form

to

Reliable Renovators

123 Anywhere Street
Boom Town, Canada, I4Y 2R1
(789) 765-4321

Supplier/Subcontractor _____

Project _____ Address _____

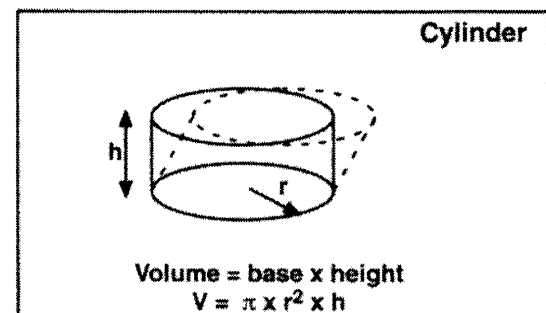
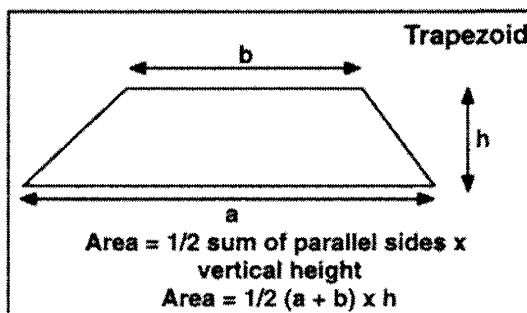
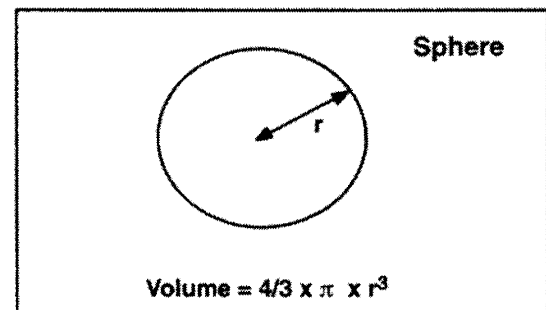
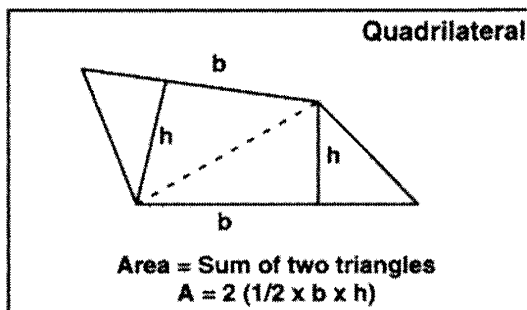
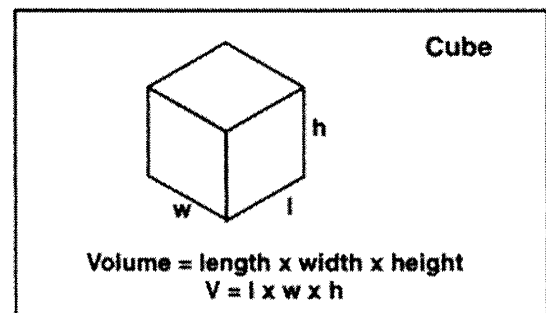
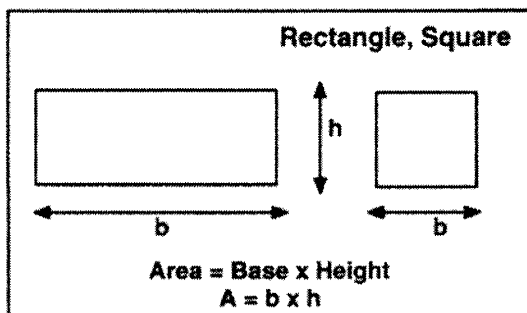
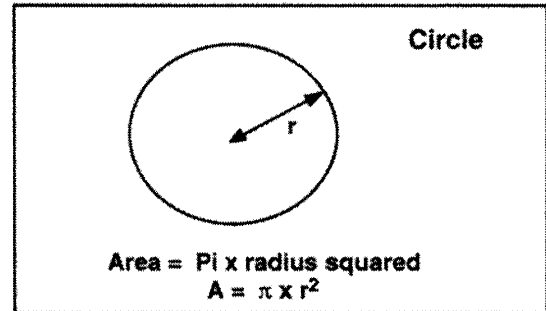
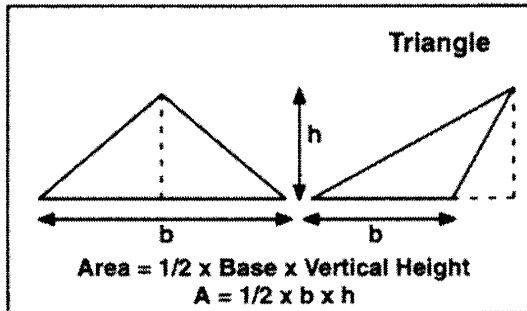
Materials and/or labour to be supplied:

Quantity	Description	Amount
Provincial Tax		
GST		
Total		

This bid is valid until _____ at 12:00 noon.
date

Supplier/Subcontractor _____ Date _____ 19____
Authorized Signature

Geometric Shapes



Sample Subtrade Contract

This agreement made this _____ day of _____ 19 ____.

Reliable Renovators
123 Anywhere Street
Boom Town, Canada

(hereinafter called the "Contractor")

and

ABC Heating
642 Main Ave.
Boom Town, Canada

(hereinafter called the "Subcontractor")

agree to the terms and conditions listed below.

1. The Subcontractor shall provide the materials and labour to do the following work:

2. The above noted work shall take place at a residence located at:

3. The Contractor agrees to pay the Subcontractor the amount of \$_____ in the following manner:

- 90% upon completion of the job; and
- 10% forty days after completion of the job and upon receiving a Declaration from the Subcontractor that all suppliers and workers have been paid.

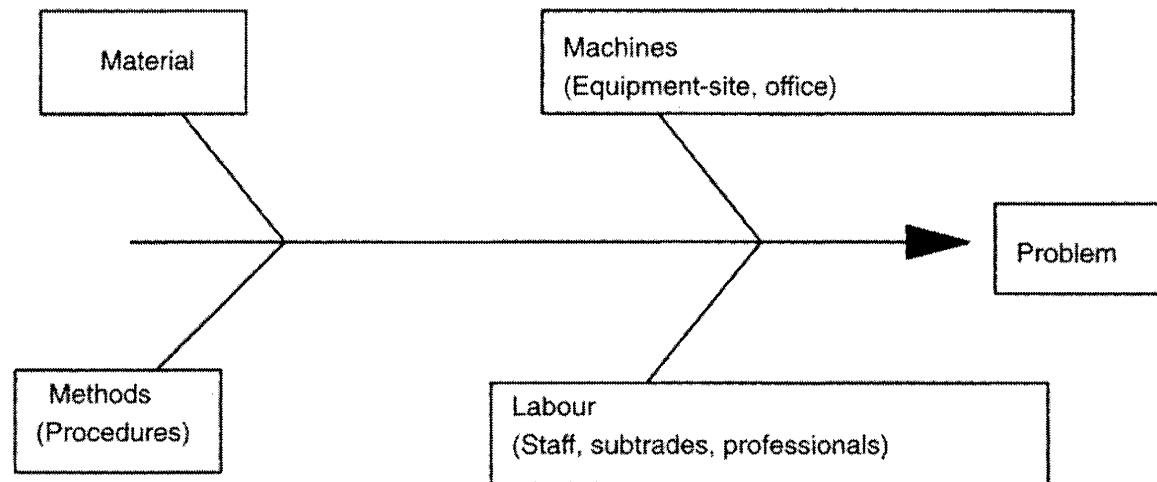
4. The above price includes all taxes and permits, with the amount of GST specifically being identified.
5. Any changes to the work noted above shall be documented by a written change order signed by both parties.
6. The Subcontractor agrees to provide all manuals for equipment installed and shall provide a one year warranty on all work.
7. The work shall be done in a professional manner and all work shall meet all applicable codes and standards. If the work does not meet current standards, it shall be modified to meet those standards. The Subcontractor agrees to protect the property from damage and agrees to keep the job site clean at all times.
8. The workers agree to maintain good relations with the customer/occupant.
9. If the Subcontractor should fail to complete the work or become insolvent, the Contractor shall have the right to complete the work and deduct the cost of such work from any moneys owing the Subcontractor. If the Subcontractor is unable to do the work, the Contractor may assign the work to another Subcontractor and have no further obligation under this contract. In the case of a dispute, both parties shall agree on a third party who will make a binding decision.
10. The Subcontractor agrees to providing evidence of the following:
 - Comprehensive General Liability Insurance
 - Automobile Liability Insurance
 - WCB coverage both before and after the job
11. Cooperation and flexibility is expected in the execution of the work described in this contract.

Both parties agree to the above and witness such with their signatures below.

Reliable Renovators

ABC Heating

Cause-and-Effect Diagram



What?

A cause-and-effect diagram is a graphic depiction that represents the relationship between an effect (problem) and its potential causes.

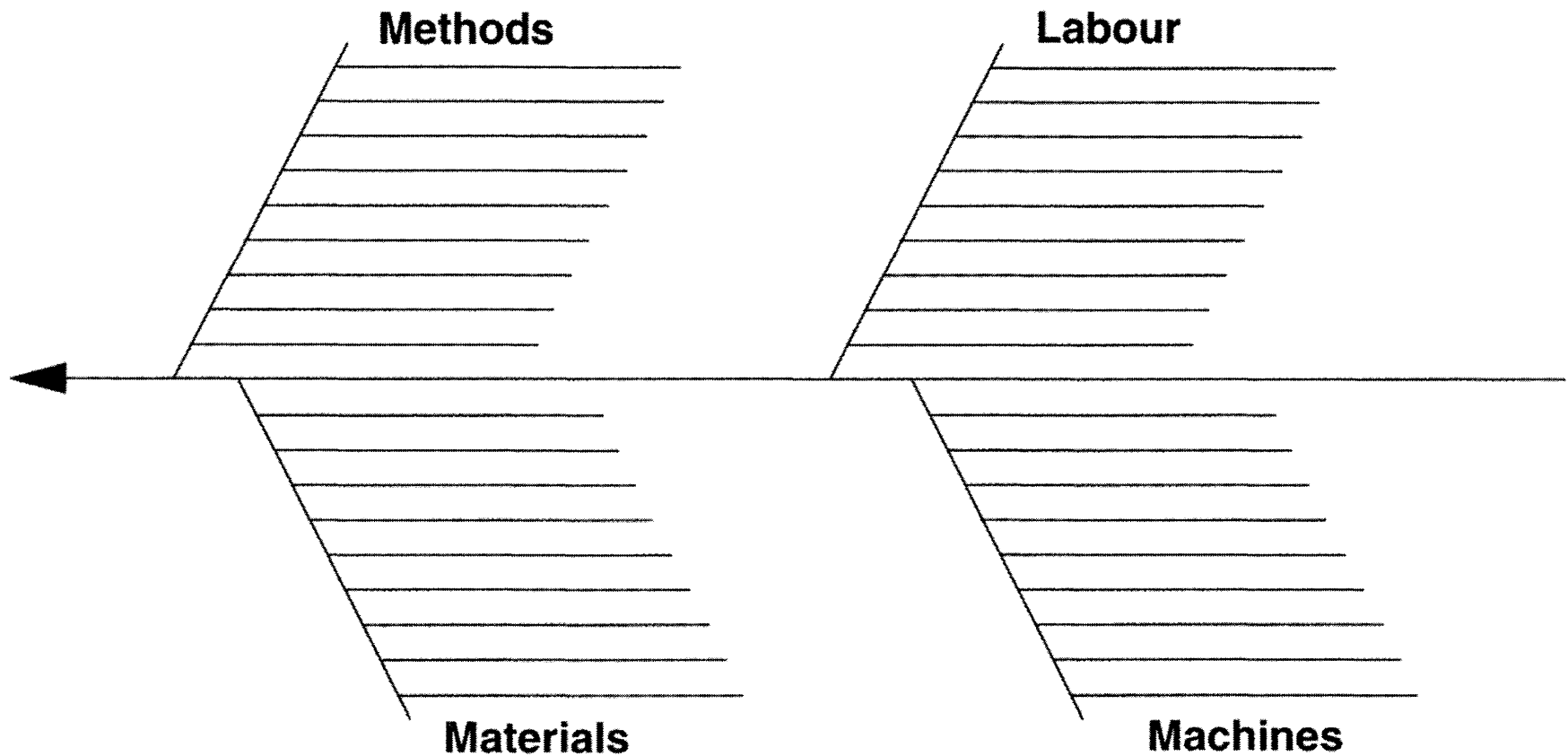
Why?

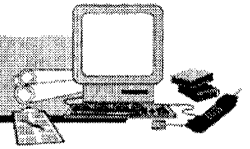
The diagram is drawn to sort and relate the interactions among the factors affecting a process.

How?

1. Name the problem.
2. Identify the major categories for the causes of the problem. Major causes may include data and information systems, budget, environment, hardware, materials, measurements, methods, people and training.
3. Brainstorm for more detailed causes.
4. Eliminate causes that do not apply.
5. Discuss the remaining causes and decide which are the most important.
6. Work on the most important causes.
7. Desensitize, eliminate, or control causes.

THE CAUSE AND EFFECT DIAGRAM





CHAPTER 7

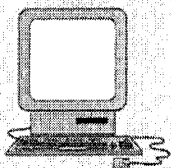
Client Relations

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Client Relations



The average business spends six times more to attract new customers than it does to keep old ones.



Your reputation is very important, and a few unhappy customers may cause major long-term problems.

Quality Service

Quality is never an accident. It is always the result of high intention, sincere effort, intelligent direction and skillful execution — it represents the wise choice of many alternatives.

'Quality service' is the application of this definition to your stated client relations goals. To achieve these goals you must have in place a system that encourages all of the people involved in your business to provide the same high level of performance.

Unless you are planning to be in business only for the short term, you must be interested in how satisfied your customers are. Dissatisfied customers will tell eight to ten people about their problems. One in five dissatisfied customers will tell twenty other people. It can take up to twelve positive service incidents to make up for one negative incident. In some cases, you may not get enough positive opportunities to make up for the negative one.

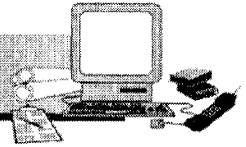
The average business spends six times more to attract new customers than it does to keep old ones. Yet customer loyalty, in most cases, is worth ten times the price of a single purchaser.

Typically you will hear only about 30 percent of your customers' complaints. The other 70 percent go away along with the customer.

Establishing service goals

You should determine and make clear to everyone who works for you, the quality of service and the level of customer satisfaction you expect your business to provide.

As discussed earlier, your business reputation is very important, and a few unhappy customers may cause major long-term problems. For this reason, it is imperative that you set specific goals for the level of service you wish to provide and then measure your customers' satisfaction against these goals.



Customer Complaints

Being alert to customer complaints and satisfying them as soon as possible is one of the most potentially profitable activities that you can engage in.

This conclusion was reached in a 1986 study done by Consumer and Corporate Affairs Canada. According to the study, programs to identify and solve customer complaints can provide a financial return on investment ranging anywhere from 15 to 400 percent.

Making complaints pay

Complaints point out areas that need improvement. They are one way of finding answers to the questions "How are we doing?" and "How can we get better?" While complaints may not be the most positive of messages, smart renovators learn to gather and use complaint information to improve their business. A renovator who doesn't know how or where they need to improve is no better off than one who can't.

Complaints give you another chance to provide service and satisfaction to customers. Complaints are a wonderful opportunity to strengthen customer loyalty.

Right or wrong, most customers don't pay attention to the service they receive when everything goes well. They simply take it for granted. But if there's a problem with the renovation, you are the first person they look to.

In assessing the general level of your customers' satisfaction you should consider these questions:

- How many repeat customers have you had?
- How many additional jobs have you sold because customers encouraged their friends and other family members to work with you? and
- How many sales resulted directly from a customer promoting your business to their friends?

Remember, it only takes one or two referral sales to make the effort you put into service pay off. People will not recommend renovators who have treated them poorly.

Guidelines for handling complaints

Complaining customers can be a gold mine of future business or a blueprint for disaster, depending on how you handle them. Here are some guidelines for handling complaints.

Welcome complaints and service requests — They aren't annoyances but opportunities to build customer loyalty. Be wary of customers who never complain. Nobody is ever totally satisfied for an extended period of time.

Take every complaint seriously and find out what the customer wants — What may seem like a minor request to you may loom very large in the customer's mind. Listening with understanding defuses potential anger and demonstrates your concern.



Complaints are a wonderful opportunity to strengthen customer loyalty.



Show a sincere interest and willingness to resolve the complaint. No matter what caused the problem, don't blame others or make excuses.



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Customers exchange their money for good feelings and expectations of good feelings. When customers are disappointed they may feel cheated.

Show a sincere interest and willingness to resolve the complaint. No matter what caused your problem, don't blame others or make excuses.

Listen and record what the customer says. Restate what was heard to confirm the understanding of what they were saying.

Propose a solution and get the customer's support — When you find out exactly what the customer wants, a solution is usually obvious. State the solution in a positive manner. Ask for agreement. When a solution is agreed to, act quickly! Take responsibility for fixing the problem and do whatever you can to solve it as rapidly as possible.

If the customer doesn't like the proposed solution, ask what they think should be done — Most people have a reasonable sense of what is fair and will most often propose an equitable solution. If you feel the customer's suggestion is reasonable, agree to the solution and act quickly.

Make a follow-up call to ensure satisfaction — Call the customer back at a later date to make sure that they are satisfied. This will verify that the problem has been taken care of and it will leave the customer with a positive impression about your desire to provide good service.

Never let the customer lose face — If you can't meet a customer's expectations, politely tell them without delay. But never tell a customer that they are wrong or be drawn into an argument. It is vital to remain in control by being courteous and considerate of their feelings and to listen. Sometimes, customers know full well that there is nothing that can be done. All

they may really want is someone to hear them out and respect their point of view.

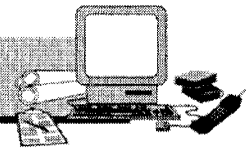
Handling customer disappointment

Customers exchange their money for good feelings and expectations of good feelings. When customers are disappointed they may feel cheated. Here are some suggestions for dealing with customers when something has gone wrong and they are going to be disappointed.

Apologize and take total responsibility for setting things straight — Don't criticize subs or employees or make excuses. The customer doesn't want other people to be put down. The customer doesn't want reasons; they want results. Let the customer know that problems like this are uncommon and that your business is willing to do whatever it takes to set things straight.

Remember, the way people react to bad news depends largely on the way they are told — Instead of telling the customer what **can't** be done, try telling them what **can** be done. For example: If you can't keep an 11:00 a.m. appointment with the customer, don't call and say "I can't come at 11:00." Instead say something like, "Some problems have come up and I would like to come over at 3:00 p.m. this afternoon or at another time that is convenient for you. I apologize for the delay and hope this doesn't inconvenience you too much."

The best way to handle a disappointed customer is to keep them from becoming one in the first place.



The service "department"

Whether you have a dedicated service person or not, you must establish a service procedure. No matter who does the work, it must be organized and completed to ensure the customer's service requests are looked after — no matter what. Your service "department" may only have one person in it — you — but nevertheless, its responsibility to the customer must be fulfilled.

You need to have a business philosophy and business goals that explain your commitment to customer service and to a quality product.

Consider the following examples:

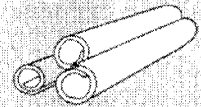
- "We will look at service requests as a means of demonstrating our professionalism, not as an inconvenience to our other activities."
- "We will give service work the highest priority in our business — ensuring that work is completed quickly and properly."
- "We will survey every customer at the end of 12 months, asking the questions 'How are we doing?' and 'What can we do to be better?'"
- "We will always act in a polite and courteous manner no matter how difficult it becomes."
- "We will always try to make the customer glad they chose us to do their renovation work."
- "We will go the extra mile and provide more than what is expected every time we can."
- "We will ask our customers to recommend our company to their family and friends."

Seeking out service opportunities

Customer complaints that go unheard cost you many, many times more than the cost of repairs. Some renovators may not recognize or believe this. It's in your best interests to have the customer contact your business any time they are having a problem. In this way you can solve their problem and reinforce their satisfaction with your company.

If you don't hear from customers, does this mean there are no problems? Not necessarily. A customer might hold back final payment in order to get redress for something that may have happened in the beginning and which is now covered up. Customers will not recommend renovators that have not provided the service they feel entitled to — **whether or not they've asked for it!** You must be seen to be ready, willing and able to find and handle service problems.

Many renovators respond to customer requests for service as they are received. However, customers don't always call, which can lead to future problems.



If you don't hear from customers, does this mean there are no problems? Not necessarily.



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These can be simple forms designed to have the customer detail the type of service work they require.

Reliable Renovators		SERVICE ORDER
Purchaser _____	Job No. _____	
Address _____	Date _____	
Phone # _____		
Service Required		
_____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____		
To be signed on completion of work.		
I hereby certify the above to be complete _____ Customer		

Service orders

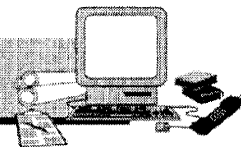
To encourage customers to request service work if it is needed, you can give them a supply of service order forms. These can be simple forms designed to have the customer detail the type of service work they require. The customer keeps a copy of the form, and sends the other copy to your business. Upon receiving the form, you should contact the customer to confirm the details of the service work and provide an estimate of when the work will be done.

After service work is completed, you should confirm with the customer that the work is done to their satisfaction.

For large renovation projects, such as additions or major remodeling, you can provide two special forms to customers. One is the 30-day service order, the other a 1-year service order.

The 30-day service order is designed to allow the customer to record any problems, if they occur, during the first month and then have them all fixed at the same time. In this way, you will not be asked to fix every little item as it appears. If these service orders are not sent in by the customer, you should follow up.

The 1-year service order is designed to have the customer get any repairs cleaned up before the



warranty period expires. This formal process forces the customer to take a serious look at the renovation and determine what service or warranty may be needed. Service work not requested then becomes the responsibility of the customer.

Not conducting a follow-up with a customer after a job, in hope of saving a few dollars, may in the end cost you in terms of money reputation and future work.

Budget requirements for service

Some service can be supplied by the trades and suppliers originally employed to do the work. You can include a clause that commits the trade to supply service and warranty for a period of one year from completion of the job. Many manufacturers supply an extended warranty that may in some cases, be from 2 to 25 years.

For most renovators a budget allocation for service of 0.5 to 2 percent of the contract price is deemed adequate. This amount is obviously only used to cover the hard cost of materials and direct labour needed for repairs. For example, the door supplier may warranty warped doors, but they do not pay to have the replacement door rehung or refinished.



Long-term service contracts are designed to keep the customer happy while ensuring that you are paid for all service work.

Long-term service contracts

Long-term service contracts are designed to keep the customer happy while ensuring that you are paid for all service work.

Long-term service contracts are often expanded to handle any other type of service or maintenance work the customer may need. This added service can become very profitable.

Some businesses require an annual retainer that costs are charged against. If the retainer is not sufficient to cover all the repairs during the year, the balance is invoiced to the customer. If annual service costs do not exceed the value of the retainer you retain the balance.

Exceptional service is in great demand, so that when someone finds a business providing it, they tend to tell the world.



Service and Warranty Limitations

The first priority is to differentiate between warranty and service. You should be providing both, but both you and the customer should understand the distinction between them.



A clear presentation of the warranty limitations should be made to the customer, explaining what type of items are covered and which are not.

Warranty provides for repairing something that is defective or broken. The warranty period usually covers one year and could include items such as a leaky roof, squeaky floor, a leaky window unit, buckling siding, and problem faucets. Some items are obviously more important than others and demand immediate attention, such as mechanical systems. In most cases, the suppliers will warranty their products for at least one year and the trades will generally guarantee their work and materials for an equivalent period. This should all be spelled out in your contract with the trade or supplier.

Service work is work provided by you outside of warranty. Some renovators do a 30-day service call. This service call is simply to determine if there are any problems and to do minor adjustments.

Service calls can be viewed as a promotion, as the customer will feel good about the time you are spending on them.

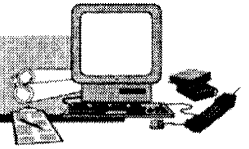
A clear presentation of the warranty limitations should be made to the customer, explaining what type of items are covered and which are not.

Prior to completion, there are two checks you should make. The first is to check with the local building department for any deficiencies that inspectors may have noted for the project. Inspectors may record deficiencies which must be corrected, but not tell anyone until after completion, which can cause headaches and embarrassment for you.

The second check is a thorough examination of the final product. Typical problem areas worth considering during the final inspection are:

- drywall deficiencies,
- finishing woodwork,
- caulking and sealants,
- plumbing operation,
- lights and plugs,
- hot water heater,
- furnace operation,
- door and window operation,
- floor squeaks,
- steps and handrails,
- decorating and finishing, and
- landscaping.

This is only a summary list and could be made as detailed as desired. You should prepare your own checklist.



The After-Sales Program

An after-sales program will help ensure that customers are satisfied with their renovation. Some customers may experience little annoying problems, but they may not take the time or feel they are not significant enough to contact you.

Depending on the nature of the work, the customer must be informed of how the house might behave due to the changes made. For example, new windows will make the house tighter and will increase the relative humidity unless ventilation is increased; a new addition may be quieter and more comfortable than parts of the old house.

If you make regular contact with the purchaser, small items can be dealt with before they become sore spots.

You should look at providing scheduled service as a sales tool: your good reputation is what sells a lot of new jobs. The costs associated with providing this service may be a relatively inexpensive advertising cost.

Providing a warranty package

You should provide the customer with a warranty package for the items associated with the job. This could include things such as the furnace, water heater, dishwasher, fireplace, shingles, and siding. Often, manufacturer's warranty documents are left on the appliances, nailed to floor joists, taped to shipping boxes or thrown into the garbage.

Warranty documents should be saved and put in a package to be turned over to the customer. One mechanism for achieving this may be to have the suppliers submit the warranty documents with their billings.

You should also make the consumer



You should also make the customer aware of any new systems, how they work and what is required to service them.

Service priority

How do you decide between providing service and completing new work? This is a situation that renovators with limited personnel commonly face.

The answer lies with the type of service work required and the customer's personality. In the worst case, a demanding customer who is easily annoyed should be serviced quickly and not left to stew. You must ensure that all service work is scheduled properly. One bad customer can eliminate many new ones.

Other customers may be more accommodating or tolerant, but you should avoid taking these customers for granted and providing poor service, as they too will speak poorly about you.

As competition increases, the need to step-up customer service increases as well.

It is a wise renovator who realizes the road to success must be paved with happy customers.

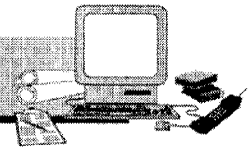


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aware of any new systems, how they work and what is required to service them. The following checklist may be valuable if any of these items have been installed or upgraded:

- furnace
 - how to balance the air flows
 - how the thermostat works
 - how the air cleaner works
 - how the humidifier works
- furnace fan
 - when it should be running
 - how to operate dual speed
 - when to service it
 - how to service it
- water heater
 - what temperature to set it at
 - how to drain it
 - how to light it
- fireplace
 - how the dampers work
 - what the glass doors are for
 - how to light the fire
 - how the fresh air supply works
- ventilation system
 - why it is needed
 - what speed it should run at
 - when it should be running
 - how to service the fans
- teleposts
 - when to adjust
 - how much to adjust
- exterior doors
 - how to adjust threshold
 - how to adjust striker plate

[illegible]



CHAPTER 8

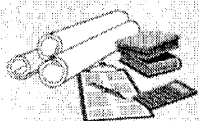
Monitoring and Anticipation

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Monitoring & Anticipation



It is almost assured that you will find parts or all of your business plan to be at least slightly off-target.

Looking Back

The planning process will result in a clearer idea of where you want your business to be, and what steps you need to implement to realize your vision.

It is almost assured that you will find parts or all of your business plan to be at least slightly off-target. The plans you have developed for business finances, sales and marketing, human resources, and operations are all based on assumptions which may not prove accurate at some point over the course of the year.

To account for this you must:

- continually **monitor** the operations of all facets of the business;
- rapidly **identify** when the plan is not on target;
- rapidly **respond** by revising plans and implementing new procedures to reflect new realities and assumptions; and
- **anticipate** changes that will affect your revised plans.

Effective ownership never rests. It is characterized by an ongoing cycle of planning, implementation, monitoring and revising plans.

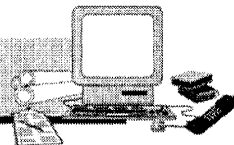
Consistent and comprehensive monitoring provides a firm footing for anticipating what may be likely to happen in the planning cycle.

Monitoring and Evaluating Your Business Plan

One of the more difficult tasks you must confront involves slowing down for long enough to assess how your business is doing. You have to be honest in answering these questions:

- “How is the business really doing?”
- “How am I really doing?”
- “Should the business be doing better?”
- “Should I be doing better?”
- “What needs to change?” and
- “What do I have to change about the way I run my business?”

To answer these questions you must have a measuring stick. The primary measuring stick should be **your business plan**, which describes where your business is going and how it is supposed to get there.



The business plan represents a road map showing your intended route. When you deviate from the planned route, it's likely that the destination will also change.

Similarly, if the business plan aim to achieve the goal of \$350,000 in sales, but the marketplace only allowed \$250,000 in sales, your expectations need to be altered. Performance must be measured against the business plan.

When evaluating the business, you must consider objective issues — “Are the numbers on track? Is the business producing? Is it selling?” — as well as those more subjective issues such as worker satisfaction and your own happiness.

The evaluation must be followed up by action — putting the business back on track toward its goals. Or, based on the evaluation of the past and anticipated results in the future, you may decide to revise the goals of your business.

Evaluating the vision

Time changes all people. If real and honest monitoring and evaluation of the business has not been ongoing, you could be in for a big surprise from a thorough assessment.

If you have realized your business vision, you can think about expanding or modifying it. However, if your business vision has not yet been realized, has the fun gone out of the pursuit?

The vision that guides your business may or may not come to a natural end. Some visions are ongoing.

Many renovators have a vision that includes contributing to society (through the upgrading of housing)

while at the same time making money. Some may see advancing the state of renovating technology or advancing the industry itself as part of their vision. Whatever the vision, many will not have considered the part of the business that makes doing the work fun.

When you evaluate the operation, the financial success, or the goal achievement of your business, it is necessary to balance your achievements against your personal satisfaction. Is working toward your vision still fun?

When your business is first starting out, the challenge and excitement are exhilarating.

But after your business has been in operation for a while — successfully or not — the fun might have gone away. Things may now seem to be in a grind — meeting goals means having to meet more goals. If your business is doing well, the work **may seem** never-ending; if the business is not doing well the work **is** never-ending.

Your quality of life needs to be considered as part of the analysis of your return on investment. If you are truly enjoying your work, if the challenge to meet head on with the competition and the changing marketplace continues to excite you, then keep going.

When the zing is gone, however, when the fun has subsided and the work has become just that — work — perhaps it is time for some significant changes in your business or in your life.

Evaluating your own position is a necessary part of the ongoing monitoring and evaluating of your business.



The vision that guides your business may or may not come to a natural end.



Your quality of life needs to be considered as part of your analysis of your return on investment.



Financial Monitoring

Typically a business goes through a reasonable analysis once a year after the financial year end — especially when the accountant brings back the year end financial statements. While an annual assessment may be often enough for some of the factors that affect the success of a business, it will not be for some of the critical activities that affect overall success of the business.



Most bankers and creditors look closely at liquidity — your ability to pay debt quickly.

It is a good idea to prepare a list of business indicators that are to be checked and include the interval timing.

Determine how results will be measured against the business plan.

For a small renovating business, ratio analysis can be a very powerful tool in assisting you to pinpoint problem areas, thus helping improve the business's performance.

Ratios are commonly grouped into three categories:

- liquidity,
- efficiency, and
- profitability.

Liquidity Ratios — This measures your business's cash flow and your ability to meet short-term obligations.

The formula is:

$$\text{Liquidity Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets and current liabilities are taken directly from the balance sheet.

A figure of greater than 1 for the liquidity ratio means that the business has sufficient cash flow reserves to meet its obligations. A figure of less than 1 means that the business currently can't meet all its short-term debt.

As the owner of a renovation business, you generally loan money to the business on a long-term basis. However, if your business is borrowing money short-term (bank loan, trade payables) you must be concerned about your ability to pay this short-term debt. Most bankers and creditors look closely at liquidity — your ability to pay debt quickly.

The value for the liquidity ratio changes as your current assets and current liabilities change, thus giving a fairly accurate and up-to-date measure of your business's liquidity. You should review the liquidity ratio when considering the purchase of any major asset or when bidding on jobs with extremely low mark-ups.

The difference between current assets and current liabilities is known as **working capital**. The amount of working capital available to your business is a good measure of its ability to meet its current financial obligations.

Efficiency Ratios — This measures your management's performance and effective use of assets.

The formula is:

$$\text{Sales to total assets} = \frac{\text{Current Assets}}{\text{Sales}}$$

Current assets is taken directly from the balance sheet and sales is taken from the Income Statement.



Management is responsible for the efficient and effective use of assets. Your business must be using its assets efficiently so as to generate a reasonable return. If your money was invested in a savings account, would it be more valuable than being invested in the asset? Assets that do not increase in value or do not generate a reasonable return for you should be sold and the proceeds reinvested.

Profitability Ratios — This measures your business's overall performance.

The formula is:

$$\text{Gross margin \%} = \frac{\text{Gross Income}}{\text{Sales}}$$

Gross income and sales are taken directly from the Income Statement.

Many renovators measure success or failure by the volume of sales. Comments such as "sales are good" may be misleading, however, because it may not reflect the profitability of the business.

One of the most important measures of business profitability is the gross margin percentage. This measure shows the percentage of costs to sales. In the short run, your business can survive on low gross margins but not in the long run. A low gross margin percentage indicates weaknesses in selling price or poor purchasing and cost control.

The effect of overhead costs on profits

Every business has overhead: this represents the cost of being in business. As your business increases in size there is a corresponding increase in your overhead expenses. The higher your overhead, the more jobs (or sales volume) you must take on to break even; only when these overhead costs have been recovered do you begin to earn a profit.

Some renovators may have operated under the false understanding that profit was being generated on every job — only to find out at the end of the year that there is no profit, because the overhead expenses were not covered. These businesses generally do not last long.

The table on page 158 shows the effect of overhead costs on your profitability.

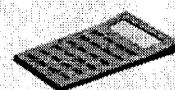
Ways to improve profitability

Each of these ratios provides information on how your business is performing and how healthy it is. If your business is having a tough time, you must improve your profitability ratio. If your business is doing well, you will probably focus more on having a higher return on your investment.

In general terms, you can increase profits by:

- increasing sales;
- decreasing the cost of sales;
- increasing the gross margin percentage;
- decreasing the business overhead; and
- increasing the selling price.

Each of these activities alone will help you increase profits; however it is obvious that these techniques tend to work in unison.



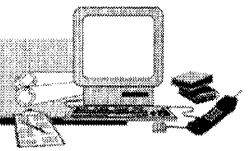
If your money was invested in a savings account, would it be more valuable than being invested in the asset?



RELIABLE RENOVATORS

Income Statement
January 1 - July 31, 1993
(6 months)

	<u>Year to date</u>	<u>Budget</u>
SALES	\$ 220,000	\$ 400,000
COST OF SALES	\$ <u>125,000</u>	\$ <u>215,000</u>
GROSS INCOME	\$ 95,000	\$ 185,000
OVERHEAD EXPENSES		
Rent	\$ 3,000	\$ 6,000
Insurance	6,000	6,000
Telephone	2,500	5,000
Accounting & Legal	0	3,000
Memberships & Conferences	1,200	2,000
Travel & Entertainment	500	2,000
Staff Development	500	500
Advertising	9,000	15,000
Vehicles & Maintenance	4,000	7,000
Tools	1,500	2,000
Office Supplies & Equipment	1,000	3,000
Management Salary	22,500	45,000
Office Staff	20,500	41,000
Warranty & Service	1,000	3,000
Depreciation	0	2,500
Bank Charges	200	1,500
TOTAL EXPENSES	\$ <u>73,400</u>	\$ <u>144,500</u>
 INCOME BEFORE TAXES	 \$ 21,600	 \$ 40,500
INCOME TAXES	\$ <u>5,400</u>	\$ <u>10,500</u>
 NET INCOM	 \$ 16,200	 \$ 30,500



Evaluating Your Marketing Plan

If your marketing plan is not working, your business may be in serious trouble. Because the renovation business is somewhat seasonal in nature, it is sometimes difficult to know if your marketing plan is on track.

Actual vs expected volume of sales

The measure of your marketing plan is sales — without sales there will be no business. Your marketing plan addresses the volume of sales expected during a specific period of time and describes how these will be achieved. If your actual sales are not keeping pace with the marketing plan projections, then something has to be done.

Because the marketing plan and financial plan are closely integrated, the success of your entire business is dependent on these plans working together.

Is the financial return being realized?

Success is often measured by your return on investment. Financial information must be reviewed on a regular basis to determine if your expected return on investment is being realized. You must determine what return on your investment is acceptable. If the money you have invested in your renovation business is not earning a rate of return similar to other investment options, such as saving accounts, GICs, and savings bonds, you may want to consider withdrawing your investment.

Assessing your business's image

You will normally spend a lot of time and money trying to make the public and your peers see you in a certain light. This image is an important part of your business's positioning. If you are not satisfied that this image is helping your business to grow or generate profits, you must determine how you can improve it.

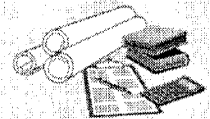
Your image and business position can be assessed in various ways, including:

- surveying prospects;
- surveying recent customers;
- surveying trades and suppliers; and
- assessing the pricing and trade credit being offered by trades and suppliers.

Evaluating marketing expenditures

Marketing expenditures must be evaluated to determine whether you are receiving good value for your investment. Only through ongoing tracking of new leads, past customers and the broader market can you determine whether the money you invested was well spent.

The evaluation process should enable you to pinpoint which of your marketing initiatives were most effective at generating qualified leads. Completing the worksheets provided in the section on Sales and Marketing will allow you to easily determine what the market is responding to.



This image is an important part of your business's positioning. If you are not satisfied that this image is helping your business to grow and generate profits, you must determine how you can improve it.



Monitoring Your Human Resource Plan

In developing the Human Resource Plan, you must perform four basic functions:

- determine what tasks need to be performed for the successful operation of your renovating business;
- assess and select the best team of people possible to carry out the identified tasks;
- determine the salary and benefits package required to ensure high levels of productivity; and
- work with workers to enhance their skills and knowledge — thereby enhancing their ability to carry out their tasks and increasing their value to your business.

As the business cycle unfolds, you must monitor and modify your human resources plan to accommodate differences between what was planned and what has unfolded.

In the same manner that your renovating business is in a constant state of change, so also will be your human resource plan.

Monitoring the plan requires that you closely review the basic components of the plan in order to rate progress and implement required changes.

Evaluating personnel performance

Each worker is hired to carry out specific duties within the team and to assume certain responsibilities. These are described in the worker's job description or contract. Both you and your worker want to know how well the worker is doing in the execution of the required job tasks. Job performance should be evaluated on a regular basis or whenever significant changes are being made to the content of the worker's job description or contract.

The review process is simply an evaluation, by both you and the worker, of each of the items listed in the job description. It is also valuable to evaluate the worker's personality as it relates to the job. Ask yourself these questions about each worker:

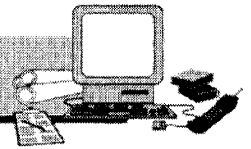
- How well does this worker get along with other workers, supervisors, and customers?
- What are this worker's personal strengths and weaknesses? and
- What kind of team member is this worker?

You and the worker should compare and review the results of the evaluation together. Often, wage adjustments and contract renewal are tied to these performance evaluations.

During the evaluation periods, you can measure the effectiveness of the skill training and educational upgrading of each employee and discuss it with them.



The review process is simply an evaluation, by both you and the worker, of each of the items listed in the job description.



The performance review is just one part of your role in developing workers. To effectively use performance reviews as a worker development tool, you need to commit yourself to:

- getting to know your workers **before** the performance review; and
- following through **afterwards**.

The performance review should be designed with two goals in mind. It should result in:

- a **better understanding** between you and the worker; and
- a **development plan** for the worker that both you and the worker agree on.

As part of the performance review process, you will:

- give the worker clear feedback on their performance;
- compliment the worker on their achievements;
- outline the worker's strengths and devise an action plan to make use of them;
- outline the worker's areas of weakness and discuss ways to improve them;
- discuss and assess any mutually agreed upon goals that were not achieved;
- develop agreement on objectives and activities for the next year; and
- assess the worker's function as a team member.

Each worker's development plan should include:

- specific goals and objectives with deadlines;
- a description of how progress will be measured;
- a description of actions the worker will take to meet the goals; and
- a description of actions that you will take.

Assessing worker capabilities under changing conditions

A common saying states that everyone will rise in life to their own position of incompetence. This means that people will continue to take on positions of greater responsibility until their skill and education level becomes insufficient to carry out the task requirements of the position.

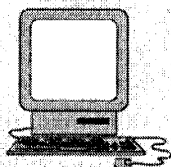
You must make sure that workers receive the necessary training, support and motivation to enable them to successfully complete the tasks you assign them.

People need to satisfy their desire for ever-increasing challenges — within their capabilities. As the business of renovating continues to change, it is essential that workers also change.

If you give your workers the opportunity to try new tasks and to assume different responsibilities you will better be able to assess their skill level and capabilities and, more importantly, allow them to show their ever-increasing value.



Job performance should be evaluated on a regular basis or whenever significant changes are being made to the content of the worker's job description or contract.



People need to satisfy their desire for ever increasing challenges — within their capabilities.

As an employer you would like to have your good workers stay with you forever. This is because you have developed a comfortable, dependable relationship with these people and enjoy having them as part of the team.

Determine means to improve performance

The assessment process is designed to help maximize the productive output of the worker.

Improving worker performance may mean modifying the worker's set of tasks (job description) or changing the worker's team to allow the use of newly acquired skills and knowledge.

It is often easier to educate existing personnel, and then increase their duties and responsibilities, than it is to find new personnel that already have the essential or specific mix of skills deemed necessary to immediately become a valuable member of your renovating team.

Some employers look at their business as a station in the railway of life. People are always going somewhere, with a purpose. When people become part of their business they are moved from one task to another and assume more and more responsibilities as their abilities allow and are encouraged to provide the maximum job effort possible.

Some people stay at the station for a long time, as long as they are satisfying their basic needs and performing well.

Implementing Change

In the renovating world, the market is constantly in motion: building technology and products are changing as is the regulatory environment. Even the bank rate changes once a week.

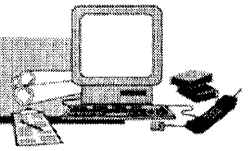
You must keep up to date on what is going on around you and must be prepared to move quickly and efficiently — making necessary changes as you move along.

Your business performance

If the performance of your business is not on track, what must be done? You must decide whether to adjust your expectations or to look for ways to change the performance.

Perhaps a short-term market change has caused sales to drop or costs to rise. Should you alter your short-run expectations? Should you adjust your long-term expectations?

The answer to these questions should be based on the ethical and long-term financial aspects of your vision for the business. Therefore, you must be aware of the tasks that must be carried out and take action as required.



Reassessing your own work

Your approach to the business is reflected in the work that you want to do. After evaluating the results of the monitoring process, you may decide that a change in your human resources is required to keep your business on track or put it back on track.

After the initial start up of your renovating business, you must decide if the workload you take on is appropriate. You must decide whether to spend more time at your business or to adjust your workload by delegating some of the tasks to others. Typically, the tasks you would delegate first include:

- direct site work,
- drafting,
- sales prospecting,
- site supervision, and
- bookkeeping.

If you decide to increase or decrease the number of tasks you are responsible for, you must modify your human resource plan, consider any changes to the budget, and look for other implications. Workers will have to be hired or let go because of the change, and certainly there will be a financial impact.

Some renovators often take on more tasks or let work slip without considering the impact on the rest of their business.

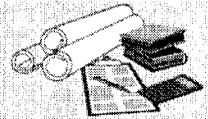
Adjusting your approach to business

Complacency is a major problem with some businesses. When things are moving along smoothly it seems unnecessary to make changes or stir things up. People like to be comfortable, and work to make their jobs and their lives comfortable.

Change can cause stress and discomfort. Therefore people can easily become complacent and fail to spend the necessary time to monitor and evaluate the operation and performance of their business.

However, change is healthy and sometimes absolutely necessary. Long-term complacency will assure the failure of your business.

You are the most influential person in your business. When you implement a change in your role in the business, everyone else is affected.



You must keep up to date on what is going on around you and be prepared to move quickly and efficiently — making necessary changes as you move along.



Anticipation

Looking back and assessing the performance of your business is an essential function for success. And, as mentioned, based on that assessment, several changes in your business procedures may be required.

However, you should not develop plans solely on the basis of what has happened.

The planning cycle must also account for what is likely to happen in the future. To be successful, you must respond quickly to trends in the marketplace that indicate what is likely to occur in the future.

In assessing the future, you must look to the main factors that drive the purchasing decision of existing homeowners who are considering upgrading their existing housing. These are likely to include:

- economic stability;
- job security;
- the cost of borrowing;
- the cost of new housing; and
- the competitive environment.

Economic stability and job security

Uncertainty is the greatest barrier to individuals considering major expenditures. When individuals are not certain that the broader economy is sound, and when, at the back of their mind, they are not certain they'll have a job in the future, it is highly unlikely that they will make a major investment.

Economic uncertainty must be gauged at the macro and micro levels. Even where all trends are pointing to economic boom times, if the major employer in the community has decided to relocate or close down, the macro indicators will prove meaningless. Conversely the country can be caught in a downturn, but the opening of a major mine or manufacturing plant in the community will mean economic activity and job security.

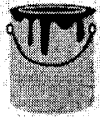
Joining the local Chamber of Commerce will allow you to gain a better understanding of what is likely to occur in your community.

Talking to other business people will provide a 'gut' feeling for the economic activity in the market.

Check out the level of renovation activity by attending HBA meetings, by monitoring building permit activity, by talking with competitors or reading the CMHC market report. All indicators of decreasing or increasing activity should be accounted for in forecasts and plans for the future.

The cost of borrowing money

If the cost of money decreases, more and more people will gain access to the money for use in a variety of means. While it is not a guarantee that people will open their wallets, as indicated by the slow recovery from the recession of the early 1990's, in most cases, decreasing interest rates at some point trigger increasing economic activity.



Some renovators often take on more tasks or let work slip without considering the impact on the rest of their business.



The cost of new housing

Renovators and new home builders are in competition for the housing dollar. Homeowners considering renovations may also look at new housing as an alternative to expensive renovations. Homeowners who are regularly hit with maintenance

and repair bills in an older house may be looking at the potential security of moving into a new unblemished home. As new homes become more affordable, and alternatives to renovation arise, you must consider the potential effects on your business.

The cost of competing

The competitive environment for the renovating dollar in your community may affect your future plans. To assess the future of your competitive environment, ask yourself:

- Has the market niche been eroded or filled by a variety of other renovators?
- Is it likely that margins will be eroded in that niche in the coming months?
- Can my business successfully compete with others in that niche?
- Can my business develop a niche which positions it more distinctly?



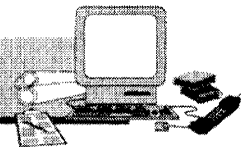
Renovators and new home builders are in competition for the housing dollar.



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Chapter 8



APPENDIX

Business Assessment Checklist

The checklist can be used throughout the year to help evaluate progress, or at the end of the year as to help with annual planning.

Business Finances

- **Compare the projected income statement vs actual income**
 - ~ How close are our projected vs actual figures?
 - ~ How accurate were we?
 - ~ In which areas are the figures particularly off?
 - ~ Do we know why they are out of line?
 - ~ How do we use the experience in preparing the next budget?
 - **Compare actual vs. projected sales**
 - ~ Were actual sales in line with projections?
 - ~ What are the main reasons for the variance?
 - ~ Can we identify sales trends based on the last year?
 - ~ If so, how will they affect future projections?
 - **Compare actual costs vs. projected costs**
 - ~ Do actual direct costs reflect projected costs?
 - ~ Are our gross margins consistent with historic figures?
 - ~ Are we staying up to date with the industry?
 - ~ Are we getting good productivity from our site personnel?
 - ~ Are overheads costs consistent with projections?
 - ~ Is there any room to trim overheads?
 - **Summary job analysis – job revenue less job costs**
 - ~ Are job records comprehensive enough allowing for analysis?
 - ~ Are all types of work providing an acceptable gross margin?
 - ~ What type of jobs are we making or losing money on?
 - ~ Can we get more of the profitable work?
 - ~ Can we turn down the less profitable work?
 - **The balance sheet**
 - ~ How are we using capital in the business?
 - ~ Are we putting enough money back in to support growth?
 - ~ Are there adequate funds readily available for short term needs?
 - ~ Will our balance sheet support our borrowing requirements?
 - ~ Are we making an acceptable return on any cash resting in the business?
 - ~ Are our short term cash flow requirements being met in the least-cost manner?
 - ~ Are there less expensive means of financing our long term debt?
 - ~ Should we consider dividends/stocks/etc. as options this year?
 - **Accounts receivable**
 - ~ Are we collecting our money on time?
 - ~ What is the cost of financing our accounts receivable?
 - **Accounts payable**
 - ~ Are we meeting our commitments to subs and suppliers?
 - ~ Are we taking advantage of favourable terms for early payment?
 - ~ If late on payments, are we being penalized?
-

Business Assessment Checklist

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Sales & Marketing

- **Average size of sales vs. projected**
 - ~ What is the average sale price of the work we produced?
 - ~ Were there large variances?
 - ~ Which sort of work do we most want?
 - ~ Can we target that niche alone?
 - ~ Are the smaller jobs worth the time in selling?
 - ~ Are we in the right market?
 - **Sales calls versus sales (qualification of leads)**
 - ~ What is our calls to sales ratio? Are we happy with it?
 - ~ Do our people need more sales meetings or training?
 - ~ Are we targeting our market correctly? If not, how do we read the market better?
 - ~ What do we need to add to our product?
 - ~ Do we need a different approach to our customers?
 - ~ In what areas are we wasting our time?
 - ~ Is it our sales approach or the choice of market?
 - **Position of business (competition perspective)**
 - ~ Are we tough competition? If not, why not?
 - ~ Are we market leaders? Are our competitors worried about us?
 - ~ Do they know the extent of what we have to offer?
 - **Position of business (customer perspective)**
 - ~ Do our customers like our work? If so, what do they like? If not, why not?
 - ~ What are we going to do about it?
 - ~ How can we keep them happy?
 - ~ How often do we ask for referrals from our customers?
 - ~ Do our customers know the extend of what we have to offer?
 - **Position of business (subs/supplier perspective)**
 - ~ Do our suppliers like us?
 - ~ Do our subtrades like us?
 - ~ Do we pay our bills on time? If not, why not?
 - ~ Do they know the extend of what we have to offer?
 - **Effectiveness of advertising and promotions**
 - ~ How much did we spend this year on advertising and promotions?
 - ~ Are we happy with these figures? Did we get fair value for our spending? If not, why not?
 - ~ How do we increase the value of our spending on promotions?
 - ~ Were the promotional programs supported with any in-house programs?
 - ~ Should they have been?
 - **Effectiveness of sales persons**
 - ~ Is the sales person making enough sales?
 - ~ If not, why not?
 - ~ How do we get more sales?
 - ~ Does the salesperson have enough knowledge/skill?
 - ~ Will training help?
 - ~ Are more salespeople needed?
-

Business Assessment Checklist

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Operations

- **Accounting/record keeping procedures**
 - ~ Is the system working?
 - ~ Are the numbers accurate/current? If not, why not?
 - ~ Is the requisite paperwork arriving at accounting?
 - ~ Where and how can we cut back on paperwork and red tape?
 - **Supply of material performance**
 - ~ Do our suppliers deliver the materials we need?
 - ~ Are their deliveries accurate?
 - ~ How often are their orders wrong?
 - ~ How often are items backordered?
 - ~ Do they get them to us when we need them?
 - ~ Are we happy with their service?
 - ~ Can we get better prices?
 - **Supply of labour performance**
 - ~ Are our workers qualified for the work they are doing?
 - ~ Are we doing the work in the time we have estimated?
 - ~ How often do we resort to overtime?
 - ~ Do we have enough workers?
 - **Change orders**
 - ~ How effective have we been at reducing the number of change orders needed to complete a job?
 - ~ How many change orders have there been?
 - ~ How much money was lost or gained from the original estimate to final price?
 - ~ How often did change orders work to our advantage in upgrades?
 - **Costing & estimating**
 - ~ Are our estimates within 10% of final costs? If not, how can we make them more accurate?
 - ~ Do our estimates reflect cost increases?
 - ~ Is our labour costing accurate?
 - ~ Is our mark-up appropriate for the marketplace?
 - **Job costing**
 - ~ Did we lose money on jobs this year due to costing?
 - ~ Could we afford to do each job we did this year?
 - **Job quality**
 - ~ Do we need to review quality assurance at this time? If not, how do we ensure our work/service is good?
 - ~ Would outside help be appropriate?
 - **Deficiencies**
 - ~ What details are we consistently missing?
 - ~ Are they producing bad relations with the customer?
 - **Callbacks**
 - ~ How often do we get extra work from our callbacks?
 - ~ What needs to be changed to increase the amount of work from callbacks?
 - **Servicing**
 - ~ Are our customers happy with our service? How do we know?
 - ~ What can we add to increase job value to our customers?
 - **Scheduling (on time)**
 - ~ Are our jobs completed when we say they will be? If not, how late are we?
 - ~ Where are the errors being made?
 - ~ How do we rectify the situation?
 - ~ How often are we done ahead of schedule?
 - **Customers Satisfaction**
 - ~ Are our customers happy with our business?
 - ~ How do we know?
-

Business Assessment Checklist

The checklist can be used throughout the year to help evaluate progress,
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Human Resources

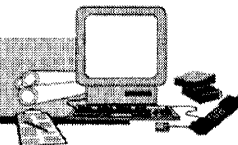
- **Are my workers doing their jobs?**
 - ~ If not, are their job descriptions accurate?
 - ~ Have their functions changed?
 - ~ Do they have too much to do?
 - ~ How do they fill their time?
 - ~ Should I increase or decrease their duties?
 - **Am I doing my job?**
 - ~ If so, how can I do it even better?
 - ~ If not, do I have too much to do?
 - ~ Do I need to delegate more?
 - ~ What and to whom can I delegate?
 - **Are my workers satisfied with their income?**
 - ~ If not, how can I increase their wages and increase productivity at the same time?
 - ~ Can I afford to give them a raise?
 - ~ Who deserves a raise?
 - **Are my workers motivated and helpful?**
 - ~ If not, why are they not?
 - ~ If they are, how can I keep them motivated and helpful?
 - ~ Do I have the right person for the right job?
 - **Are my workers happy?**
 - ~ If not, what have they said or done that makes me think not?
 - ~ Do they feel comfortable expressing themselves to me?
 - ~ If not, how do I open the lines of communication?
 - **Are my workers increasing their knowledge and skills?**
 - ~ If not, do they want to?
 - ~ How can I help them set and achieve new knowledge/skills goals?
 - ~ If so, is there a knowledge/skills area they could develop that would particularly benefit the business?
 - ~ Do they want more knowledge/skill in a particular area?
 - **Are my workers increasing their utility/value to the business?**
 - ~ If not, why not?
 - ~ If so, how can I help them help me?
 - **Specific training needs for any worker(s)**
 - ~ What area(s) is each worker strong in?
 - ~ What area(s) is each worker's weakness?
 - ~ Is there a lack in the business creating this training need?
 - ~ Is there more than one worker with similar training needs?
 - ~ Are there areas where outside training could help?
 - **Career advancement opportunities**
 - ~ Is there more a particular worker would like to do?
 - ~ Does a particular worker deserve career advancement?
 - **Are job descriptions accurate?**
 - ~ Have particular jobs/functions become redundant/obsolete?
 - ~ Will they become redundant/obsolete in the coming year?
 - ~ Should I increase/decrease duties for a particular job?
-

Business Assessment Checklist

The checklist can be used throughout the year to help evaluate progress,
or at the end of the year as to help with annual planning.

Mission, Goals and Objectives

- **Are we doing the work we want to do?**
 - ~ How close are we to doing what we want?
 - ~ What do we need to change to get the work we want?
 - ~ Is our product/service inline with the needs of our customer base?
 - ~ Are we pursuing the right market?
 - ~ Are we getting the work we want?
 - **Are we making the kind of money we need/expect to make?**
 - ~ If not, why not?
 - ~ Are our ideals out of touch with the marketplace?
 - ~ Is our pricing over or under what the market can bear?
 - **Are we making progress in the marketplace?**
 - ~ Are we improving our name/awareness?
 - ~ Does the marketplace know our product?
 - ~ Are we improving our product?
 - ~ Are we pursuing the right market?
-



CHAPTER 9

Evolving Trends

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Evolving Trends



An increasing awareness and concern for the environment...



Those renovators who are responsive to changes . . . are generally those who stay in business for the long haul.

The Wheels of Change

This chapter looks at some of the trends that have driven the marketplace and the renovation industry over the past several years, and at those trends likely to affect the renovation business over the coming years.

Continual market research, discussion with your peers, and analysis of other markets will provide a more solid ground for analysis of things likely to drive the renovation industry in your community.

Factors influencing change

The renovation industry, as with many other industries, is driven to change by:

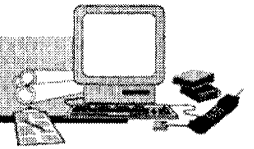
- an increasing awareness and concern for the environment, promoting renovators to change the way they do their business to provide what consumers want and need; and
- an increasingly sophisticated relationship between renovators, manufacturers, regula-

tors and legislators — dictating how business is to be conducted, and to what standards and regulations.

In many cases, the lines between these driving forces are virtually indistinguishable.

An increasing awareness and concern for the environment is reflected in marketplace purchasing decisions, increasing environmental protection at the regulatory and legislative level, and in positioning of other companies in relation to environmental responsibility.

Trends to increasingly sophisticated relationships between renovators and manufacturers can be seen to be driven by both the customer and the industry. These are signs of the need to develop original and innovative approaches to surviving and thriving in a competitive market.



Some major driving trends include:

- the increasing attention being focused on **environmental quality**;
- the increasingly **sophisticated business linkages** between renovation contractors and manufacturers and suppliers, both in advertising and in sales;
- trends toward **package selling** — providing a one-stop shopping concept; and
- the increasing use of **smart house technology** to provide both convenience and security to the customer.

Environmental Quality

As elsewhere throughout the world, the issue of long-term environmental sustainability has been a growing concern for many Canadians in recent years. Environmental awareness can no longer be viewed as a passing fad. Canadians are showing their concerns in their purchasing decisions, in their support for increasingly stringent environmental legislation, and through their day-to-day involvement with programs such as household recycling. This desire for improved environmental quality has had a major influence on the renovation contractor and the way renovation work is performed.

The renovating industry has had to respond to an increased demand for:

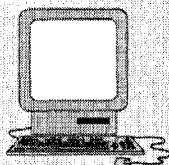
- **energy efficiency** as a component of all renovation work, especially in relation to the **building envelope** and **mechanical systems**;
- **electrical efficiency** relating to lights and appliances in the home;
- improved **indoor air quality** — affecting both material selection and ventilation system design and installation;
- more efficient use of **water** in and around the home; and
- more efficient use of resources on the renovation site — minimizing wastage in the design and requiring improved procedures for managing and disposing of **construction wastes**.

Energy efficiency

Since the mid-1970s, energy conservation has been on government and utility agendas. Program after program has been implemented to promote, coerce and entice Canadian homeowners into making their homes more energy efficient. In some instances, incentives have been directed to the renovation industry to promote the integration of energy-saving features into their renovation projects. But it is only within the last several years that energy conservation has gained greater prominence.



Trends to increasingly sophisticated relationships between renovators and manufacturers can be seen to be driven by both the customer and the industry.



The strong linkage of fuel use to environmental quality has resulted in a much stronger pick-up of energy conservation programs and technologies.

Initial attempts to market energy efficiency were not wholly successful because they concentrated too much on economic payback and dollar savings. Recently, promotion of energy conservation has focused more on improved customer comfort, reducing the impact on the ozone layer, minimizing the potential for global warming and promoting a more sustainable future.

The strong linkage of fuel use to environmental quality has resulted in a much stronger pick-up of energy conservation programs and technologies.

Many utilities throughout the country now have financial incentive programs to speed the adoption of more energy-efficient approaches to housing. Programs are in place to encourage house weatherization and air sealing, replacement of inefficient windows with high performance products, basement insulation and a variety of other initiatives. Existing housing in need of some form of renovation represents a large percentage of the total housing stock that will be required over the next 15 to 20 years.

Building envelope systems

Over the last decade, increased consumer demand for lower operating costs and improved comfort in their homes has led to the adoption of specifications for higher levels of insulation and greater air tightness. Improving the insulation and air tightness levels of the existing housing stock is often very difficult and usually expensive. Major upgrades of the building envelope, however, are more easily justified when piggybacked onto other renovation activities.

Major interior renovation or extensive residing work provides an opportunity to upgrade existing insulation levels and tighten the building against unwanted air leakage.

Interior air sealing can be easily justified as a means of improving comfort levels in the home. Air sealing of the foundation wall and floor assemblies, windows, doors, and trim can be performed without significant additional cost as part of most types of renovation activities.

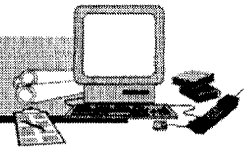
Some of the more recent products, systems and developments that are available to you as a renovator include:

Wet spray cellulose insulation

— Spray cellulose consists of a dry cellulose (recycled paper) material mixed with water as it is applied. The moistened cellulose forms a mat of insulation adhering to any surface. The major advantage of this system is the reduction of air circulation within and through the building cavity. As the material does incorporate some moisture, it should be applied to walls or attic spaces which have the ability to breathe to the exterior. Installers must be trained and licensed to apply the specific product being used.

Blown in place fiberglass blanket insulation (BIBS)

— This system is very similar to the cellulose system. Loose-fill fiberglass insulation, a material similar to that used in attics but with modified fiber characteristics, is used to fill the stud cavity in exterior walls. Specialized equipment must be used and installers must be trained for the work. This system can work well for renova-



tions where the insulation in walls needs to be topped up to entirely fill the cavity.

House wraps — House wrap materials or exterior air barriers have gained an increasing market share in the new housing industry. For renovators, they represent a good application for reducing air leakage as part of re-siding work or within the context of house additions.

High efficiency windows — Comparing the thermal performance of windows has always been a bit of a guessing game. A variety of testing procedures and unsubstantiated claims have clouded what should be a clear decision-making process. With the advent of CSA-A440.2, which specifies a method for evaluating windows, and provides a single standard energy rating number (ER), the guesswork will be eliminated.

Already the industry is working on a labeling procedure that will allow comparison between windows, much like the Energuide program allows comparisons between appliances. It is anticipated that a labeling program will be in place within a year. For consumers, the ER creates a level playing field in the marketplace and the chance to comparison shop with confidence.

Blower doors — Blower doors are being increasingly employed as a diagnostic tool in home weatherization measures and for determining the ventilation requirements of buildings. They create a negative pressure within a building by exhausting air at a very high rate. As the building is depressurized, air will enter the building through

the leaks and cracks in the building envelope. The process can identify where air sealing efforts should be concentrated in order to improve occupant comfort and reduce energy costs.

As older buildings are tightened, the ability to count upon natural ventilation rates to provide acceptable air quality is reduced. Blower doors can be employed to predict when additional ventilation will be required as the result of renovation activities.

Finally, blower door technologies allow for the early identification of potential health and safety concerns, specifically as they relate to backdrafting of fuel-burning appliances.

Mechanical systems

While initial efforts to improve the energy efficiency of the existing housing stock focused on increasing insulation levels and improving air tightness, more recent attention has been focused on improving and upgrading the performance of the house heating and cooling systems.

Heating and cooling equipment

— Older, inefficient equipment which operated at seasonal efficiencies of 50-65 percent is being replaced with mid-efficiency and high efficiency furnaces, providing efficiencies of 75-80 and 90-95 percent respectively. The higher-efficiency equipment replaces the conventional chimney exhaust with direct vent from the basement.

Trends toward greater integration of house mechanical systems are evolving. Equipment that provides heating, cooling, ventilation and hot water is currently at the



It is highly likely that variations of these integrated systems will be commercialized within the next several years.



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As with any developing technologies, understanding the strengths and limitations of equipment is essential to its proper installation and use.

demonstration phase. It is highly likely that variations of these integrated systems will be commercialized within the next several years.

Another trend in electrically heated houses is toward the use of ground-source heat pumps. While this equipment requires a considerable capital outlay, operating costs for both space heating and cooling can be extremely low. Many utilities across the country are aggressively promoting the use of ground-source heat pumps.

Ventilation equipment — Efforts to reduce energy losses associated with ventilation equipment have fostered a large industry over the last several years. Heat recovery ventilation equipment, historically the domain of larger commercial and industrial consumers, is now being installed in all types of housing throughout the country.

The adoption of heat recovery ventilation equipment has been hastened through an increasing concern for indoor air quality (IAQ) throughout the country. Where renovation work has involved a major tightening of the building envelope, or where moisture problems are significant, heat recovery ventilation devices are a good investment for the homeowner.

Renovators will need to develop effective relationships with HVAC contractors in order to respond to this market demand with effective and efficient systems.

Air distribution systems — A great deal of attention has recently been directed at the air distribution

systems in houses. Poorly designed and installed distribution systems can be the source of occupant discomfort, pressure imbalances causing drafts, and high energy costs due to poorly operating circulation fans.

Rebalancing of distribution systems, taping and sealing of ductwork (especially where it is located in unconditioned areas such as attics and crawl spaces) and servicing fans can all provide major benefit — and can represent a marketable service.

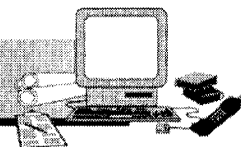
Zone controls, allowing increased control over the quantity and temperature of air delivered to different regions of a house are receiving increasing attention.

Electrical efficiency

With the rapidly increasing cost of electricity, and with projected costs of new generating facilities being extremely high, homeowners across Canada are looking for ways to use electricity more efficiently.

Increasing emphasis is being placed on energy efficiency by both manufacturers and utilities. As with any developing technology, understanding the strengths and limitations of equipment is essential to its proper installation and use.

Lights — Compact fluorescent fixtures are gaining greater market acceptance in replacing standard incandescent fixtures. Compact fluorescents require 75 percent less energy than a standard incandescent bulb, while preventing 1/2 tonne of carbon dioxide from reaching the atmosphere over the lifetime of each bulb.



While the capital costs for compact fluorescents can be in the \$20-25 range per fixture, the energy savings, in conjunction with the extended lifetime (about ten times longer than an incandescent bulb), results in savings to the customer.

Lighting strategies — One of the major problems with compact fluorescents is the lack of understanding of lighting practices and principles. The selection of lighting fixtures must take into account light levels (foot candles), light spectrum (colour and intensity) and appropriate matching of lighting type and level to the task required.

Appliances — Every year, the housing industry purchases more than 250,000 refrigerators, ranges, washers, and dryers. The six major appliances — refrigerator, freezer, dishwasher, range, clothes washer and dryer — account for about 14 percent of the total energy use in an electrically heated home. In a gas-heated house, this figure could be 50 percent or more, depending upon the amount used by lights and other appliances.

Appliance electrical use can be cut in half by installing more energy-efficient appliances. To find out which appliances use energy wisely, write to:

Natural Resources Canada
Publications
580 Booth Street
Ottawa, Ontario
K1A 0E4

Ask for a free copy of the Energuide Directory, which lists all "big six" appliances sold in Canada, along with their Energuide rating.

Indoor air quality

Canadians are becoming increasingly aware of their health and its relationship to their working and living environments. Nowhere has this trend been so evident as in the field of air quality.

The negative effects of second-hand smoke, the potential allergic responses to offgassing of toxic materials from construction materials and furnishings, and an increasing incidence of environmentally linked respiratory ailments are all gaining prominence in the press. A more sophisticated understanding of these issues has resulted in sweeping changes to requirements and standards for workplace air quality throughout the country. This desire for healthier air quality is also manifesting itself in consumer demands for improved air quality in their housing choices.

The increasing concern for the quality of air in their existing homes that Canadians are demonstrating will affect you directly by requiring increased knowledge and skills.

Basic strategies

While each measure designed to correct an air quality concern requires a different level of effort and expense, the basic steps you take to deal with the sources of potential problems are the same — eliminate, separate and ventilate.

Eliminate — Whenever possible, deal with problems at the source. This may mean eliminating the use of products or materials that are a potential concern or which cause an



The increasing concern for the quality of air in their existing homes that Canadians are demonstrating will affect you directly by requiring increased knowledge and skills.



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Ventilation is not a substitute for reducing sources of offending agents, but it is necessary for maintaining good air quality.



Biological contaminants such as moulds, dust mites and bacteria thrive in moist conditions. Controlling them is achieved by eliminating unnecessary sources of excess moisture from the home.

adverse health reaction. It may involve removing problematic furnishings, equipment or building components. As well, you should eliminate conditions which support the accumulation of harmful substances such as mold or dust mites.

Separation — If it isn't feasible to eliminate an offending substance, then the next best strategy is to separate it from the living space. This involves two approaches.

First, seal the material itself to prevent it from releasing gases into the air (offgassing). Second, air-seal the building envelope to prevent outdoor pollutants from entering the house, or create a cleaner oasis, such as a bedroom, that excludes pollutants originating elsewhere in the house.

Ventilation — Ventilation comes last, but it is certainly not least. No matter what else you do, ventilation should always be part of your clean air strategy. Ventilation helps to lower concentrations of indoor air pollutants by supplying fresh air from the outdoors (provided that the air intake is not located near an outdoor contaminant source). Ventilation is not a substitute for reducing sources of offending agents, but it is necessary for maintaining good air quality.

A whole-house (central) ventilation system has a central exhaust to remove stale air from the house. In contrast, local ventilation consists of exhaust fans that remove pollutants at their source, such as kitchens and bathrooms. Only balanced ventilation systems — those which bring in enough air to replace exhausted air — are recommended. To conserve energy,

you may combine heat recovery with central ventilation — complete units are called heat recovery ventilators (HRVs). HRVs can work with forced air heating systems and air conditioners.

Forced air heating and cooling systems can include air purification that uses particulate filters, electronic air filtration or chemical absorbent filters, such as activated charcoal or activated alumina, to remove gaseous contaminants.

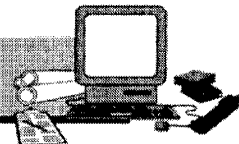
The following notes illustrate how these three strategies work together to effectively deal with chemical or biological contaminants.

Biological contaminants

Biological contaminants such as moulds, dust mites and bacteria thrive in moist conditions. Controlling them is achieved by eliminating unnecessary sources of excess moisture from the home.

Some of the moisture generated inside can be reduced by changes in lifestyle — avoiding prolonged showers, minimizing open boiling of foods, eliminating line drying of clothes indoors, humidifying in the winter only if and when needed — and local ventilation such as exhaust fans in kitchens and bathrooms.

Air conditioners can reduce humidity levels in summer and keep mold growth at bay. It should be noted that air conditioning does not kill moulds. While the flow of outdoor pollutants such as pollens is slowed, the indoor-generated pollutants (moulds, in particular, as well as chemical contaminants) are confined and recirculated.



Moisture problems, caused by water entering the house by diffusion or by leakage from the outside through the walls and floor in basements and crawlspaces, are challenging, and the solutions can be complex. You must identify the areas where water enters the house. In some cases, the solution may be as simple as redirecting exterior down-spouts and eliminating depressions next to the home, or sealing a cracked wall that leaks only when it rains. But some homes may require complete drainage and damp-proofing of the foundation. This could involve excavation around the exterior of the foundation.

Dirt floors in basements and crawlspaces are a continuous source of moisture, microorganisms and soil gases, and must be sealed with an air barrier. Crawlspaces should be isolated and provided with their own supply and exhaust air.

Improperly finished basements (inadequate or no insulation, no air barrier, lacking drainage, etc.) may have moisture trapped in the walls which provides conditions for mold growth. The source of the moisture has to be controlled and the walls and woodwork cleaned (lime washed) and allowed to dry.

Immediate measures include eliminating carpets and furnishings which hold moisture, using an air conditioner in hot weather or a dehumidifier in cooler and cold months, and providing enough heat and air circulation in cold weather to prevent condensation on the walls. (Note: An effective dehumidifier should have a defroster.)

Ventilation may be either local, such as vented exhausts in bath-

rooms, kitchen, attic, or crawlspace, or a whole house ventilation system.

Chemical contaminants

There are numerous sources of chemical contaminants in the home — the heating system, building materials, furnishings, and occupant activities. The contribution of each source may be pronounced or insignificant. Since the total contaminant load is the sum of large and small contributions, you should investigate all the sources.

Combustion gases and unburned fuel (including the additives) from fossil fuel appliances can be a major source of contaminants in the home. Furnaces and water heaters are available with electronic ignition and with a sealed combustion unit which separates the appliance from the house air supply. For health and safety reasons, these appliances should be serviced regularly and checked for spillage.

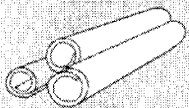
Many building materials and furnishings offgas chemicals. Some materials such as paints and finishes have strong chemical emissions when new, but these decrease with time. Others, such as rubber, emit equally strongly whether new or old.

The emissions from surface treatments on furniture can be reduced by allowing the material to offgas outside the house, preferably in a dry place. Materials with lower emissions — hard flooring rather than wall-to-wall synthetic broadloom, or solid wood instead of veneer-coated particleboard — can be used.

In many instances, it may not be feasible to remove or replace these



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It seems hard to believe that Canada, a country that contains one seventh of the world's fresh water supplies, could actually be in danger of running out — but it's true.

materials or apply a sealant. The practical solution is to install a whole house ventilation system to dilute the level of the contaminants in the air. Better air quality will result from the ventilation if source control is done first.

Efficient use of water

In the seventies the issue was energy. In the eighties, the issue was waste. In the nineties, the issue will be water. Why? Because we're running out of clean, fresh sources of supply. It seems hard to believe that Canada, a country that contains one seventh of the world's fresh water supplies, could actually be in danger of running out — but it's true.

To begin with, about 60 percent of our fresh water sources are found in the north (and run into the Arctic), while 80 percent of the population lives within two hundred miles of the American border. The sources available in the south are becoming polluted to the extent that processing it to make it safe as drinking water is becoming almost cost-prohibitive.

Canada is the world's second largest user of water on a per capita basis. Each Canadian family uses 350 litres of fresh water each day, through inefficient use, poorly designed faucets and toilets, and wasteful appliances. This figure can double during the summer when outdoor use is taken into account.

Fortunately, the technology exists to cut that use in half, without taking away from the comfort and convenience of the homeowner.

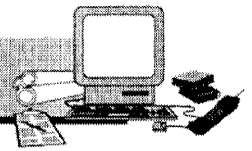
Toilets — The toilet is the biggest water waster in the house. A typical toilet will use twenty litres of water per flush. A water efficient toilet will use five litres per flush and produce the same result. That's fifteen litres that doesn't go down the drain with each flush.

Shower heads — The shower is the second heaviest water user in the home, averaging a flow rate of twenty litres per minute. A low-flow shower head will cut that in half, with no noticeable difference in operation.

Faucets — Low-flow aerators can be attached to faucets, reducing the flow rate by more than 50 percent. They are not recommended in utility rooms, where large volumes of water are needed over a relatively short period of time.

Landscaping — In Canada, a typical suburban lawn will drink about 100,000 litres of water over the summer, an excessive waste of a precious resource. Soaker hoses reduce watering requirements by 50 percent and produce a healthier, greener, landscape.

Availability — All but the most water-efficient toilets are readily available in Canada. Codes and standards are being changed to allow better toilets into Canada. There will be little if any installation cost difference, but the cost of the fixture is generally higher.



Construction waste management

The demolition of buildings to make way for new housing units, and the renovation of our aging housing stock, represents more than five percent of the total volume of wastes currently taken to landfill sites in Canada.

Construction waste is a problem, particularly in more populated areas where municipalities are having difficulties siting new landfills. Tipping and haulage fees are skyrocketing. Bans and restrictions on hazardous and recyclable materials are already in place, and more are being considered all the time.

Putting a sound waste management plan into place has its benefits. Assessing your operations and improving procedures in an effort to cut back on the amount of wastes slated for landfill can:

- reduce the cost of materials purchased for a project;
- reduce haulage and tipping fees associated with the project;
- improve efficiency through altered construction practices; and
- improve your company's public image by demonstrating a responsibility towards the environment.

The 3R's audit

Construction wastes vary across the country according to local practices and materials used. Performing an audit of your current waste management practices and procedures is the foundation of a waste management plan. You need to know what wastes are typically being produced and at what cost.

The audit simply involves tracking what ends up in the waste bins on-site. Over a period of time, you can determine the type and amount of waste the average renovation job produces.

The more thorough the site personnel, the greater your ability will be to develop appropriate solutions.



Construction waste is a problem, particularly in more populated areas where municipalities are having difficulties siting new landfills.



Chapter 9



Reducing waste at the source is the most efficient and effective of the three R's because reduction implies producing less waste from the start.



All too often, materials that could be used on a project are not viewed as a resource and are thrown into the disposal bin.

In setting up tracking charts, you should:

- track the waste contents of each bin over a specified amount of time;
 - use a new audit sheet each time a bin is emptied;
 - use one chart to track several bins but for one collection period only, if materials are already being source separated;
 - as much as possible, keep track of the different renovation phases by starting a new chart as a new phase begins, in order to zero in on the operations that produce the most waste; and
 - realize that checklists will vary according to the type of work each business performs.
- purchasing materials such as fasteners, paint, caulking and drywall mud in bulk containers, provided storage is available, and put these products into inventory;
 - buying materials either entirely or partially made of recycled materials to reduce the amount of virgin material harvested and consequently reduce the amount of virgin material that ends up as landfill; and
 - making suppliers and subtrades responsible for dealing with their own wastes, or at least requiring subtrades to place their wastes in separation bins provided.

Reduce

Reducing waste at the source is the most efficient and effective of the three R's because reduction implies producing less waste from the start. Less waste means less materials purchased, and fewer materials to dispose of, with direct savings to your company.

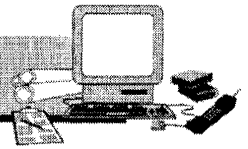
You can reduce waste by using materials more efficiently or through smart purchasing and handling practices, including:

- improving materials storage procedures during construction to reduce material wastage through exposure to the elements;
- reducing the amount of packaging left at the site by suppliers;
- reusing offcuts from framing lumber as bridging or blocking;
- reusing excess insulation from exterior walls as sound barrier material in interior walls, even if not specified; and

Manufacturers are already moving into less wasteful products and products with less packaging. The number of recycled construction materials is growing at a tremendous rate. You can help this process by demanding products that are less wasteful.

Reuse

Reusing what would normally be landfilled is the second most important of the three R's. All too often, materials that could be used on a project are not viewed as a resource and are thrown into the disposal bin. You can save money by:



- reusing drywall pails as tool caddies and recovered plastic as garbage bags or protection for materials.

A number of centres already divert construction wastes in reusable form. Many innovative renovators across the country are generating revenue from what was once considered waste through strip sales and auctions.

Recycle

Recycling materials for which there is no immediate reuse is the last option that you should consider. Any production process that makes new materials out of old ones creates new by-products that in turn become waste. It is, however, superior to throwing them away. Anything left in the dumpster should be ripe for recycling.

Materials already being recycled in various parts of the country include asphalt, wood, drywall, cardboard, masonry, metals, glass, plastics and paints. Plastics, for example, are being recycled into numerous products like drainage tiles, sump liners and wood substitutes.

The list of potential sources and uses of recycled materials grows daily. More specialized equipment for recycling and more specialized recycled materials will begin to appear. Know what materials can be recycled locally, and be aware of new developments as new uses for old materials become more practical and widespread.

Sophisticated Business Linkages

A trend becoming more prevalent over the last few years is the establishment of special relationships between businesses. In the renovation industry, this involves cooperative efforts between you and suppliers.

There are a number of benefits to these linkages, including:

- **co-op advertising** dollars from the suppliers to assist you in promotions;
- the use of **supplier display rooms**;
- **discounts on materials** purchased exclusively from certain suppliers;
- **referrals** from the suppliers; and
- **enhanced training** and possible certification by suppliers.

Co-op advertising

Virtually all manufacturers have some type of co-op advertising program in place. This money is allocated to support wholesalers and retailers to help promote their product. The manufacturer may set up a co-op advertising program either directly with you or through a distributor, depending on how the product is purchased.

Co-op advertising programs are usually based on the volume of product sales. A percentage of the



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This type of program can help you to either reduce the total amount of money allocated for promotions or increase the profile of your business.



You may be able to establish an excellent discount arrangement with a manufacturer or supplier if you use that manufacturer's product exclusively.

volume of product purchased would be allocated to you. You can access these funds when promoting specific products.

Let's say you specialize in mechanical systems. If you purchase 50 furnaces from a specific manufacturer over the year, the total volume of purchases may be \$50,000. The manufacturer may be willing to contribute up to 2% or \$1,000 to assist you in promoting these furnaces. In other words, every time you advertise and promote these furnaces, the manufacturer would pay for a portion of the advertising cost, up to the maximum of \$1,000. In this way, the manufacturer is promoting the product locally and at the same time supporting your ability to increase sales.

This type of program can help you to either reduce the total amount of money allocated for promotions or increase the profile of your business. You should note that a co-op advertising program could be set up with more than one manufacturer. The manufacturers would obviously be supplying different products, such as furnaces, plumbing fixtures and insulation so that there would be no conflicts between manufacturers.

Supplier display rooms

Another benefit of establishing alliances with suppliers or manufacturers is to be able to use some of their marketing tools. Suppliers or manufacturers often have display rooms to demonstrate their product. You can take a potential customer to this display room to demonstrate the product or show various options for that product. This can assist greatly in clinching the deal.

For instance, a local window manufacturer that you are purchasing from may have a large display room. When discussing with a customer the type and style of windows that should be used for the renovation, you could actually demonstrate how each style of window operates and show the benefits of each. Colours and additions can also be viewed.

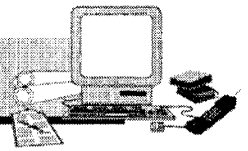
Discount on materials

You may be able to establish an excellent discount arrangement with a manufacturer or supplier if you use that manufacturer's product exclusively. Certain volumes of purchases would also be a part of the arrangement.

For instance, if you agree to buy exclusively from the local window manufacturer, a certain discount would apply on all purchases. This arrangement may be reviewed and altered monthly, yearly or on some other regular basis. Negotiations for the percentage of discount would be based on the volume purchased.

Referrals

Another benefit of establishing business linkages is for referrals. If you are dealing exclusively with a local manufacturer, customers of the manufacturer who are looking for renovation work to be done would logically be referred to you. There may even be a more formal relationship established for this referral, such as handing out business cards and brochures. In addition, you may pay the manufacturer or the salesperson who made the referral a fee for every sale that is put together because of the referral.



Enhanced training

Another benefit of establishing business linkages is for training of personnel and possible certification. If the product being supplied is specialized or requires specialized installation, the installers may need training for that installation. The manufacturer will supply that training to you, probably at no cost. This professional installation can be promoted to the customer.

Package Selling

Package selling involves packaging a number of items and selling them as a unit rather than individually. The computer industry promotes what they call bundles. These bundles often include a processor, a monitor, a keyboard, a printer and some software and are sold for one low price. This means that a sale is made on all the items at once and usually for a lower combined price that if they were sold individually. The same is being done in the renovation industry.

You can combine a number of items or components and sell them as a package. Some of the more common and marketable packages include:

- bathrooms,
- kitchens,
- mechanical systems,
- home offices,
- air quality and ventilation,

- accessibility,
- draft control and air sealing, and
- sunrooms.

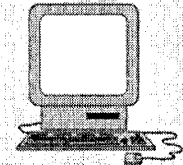
A brief description of each of these packages is found below.

Bathrooms

Bathrooms are usually a high priority for consumers when they are looking to renovate their home. You can take advantage of this by offering a package to completely upgrade an existing bathroom. You should decide on exactly what you want to include and then market that product.

Basic items to consider in the package include new fixtures, new drywall, new tiles around the tub or shower, new hardware, new light fixtures, a new exhaust fan, new wiring, a new vanity and top, new trimwork and new flooring. Additional items may include shower doors, medicine chests, mirrors and heat lamps.

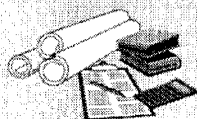
The package is based on a standard sized bathroom and can easily be adjusted for non-standard sizes. The standard package may be promoted for \$4,995 and include a new bathtub, a new toilet, a new marble vanity top, a new 30" vanity, 50 sq. ft. of ceramic tile around the tub and up to 50 sq. ft. of vinyl flooring. Anything above and beyond this standard package would be added to the price.



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Many people are currently working out of their homes or are seriously considering doing so. This opens a whole new area that you can promote by offering a package that would set up an office environment in the home.

Kitchens

Kitchens are also a very popular area for upgrading, and a package would typically include new cabinets including countertops, new flooring, a new range hood, new flooring, additional electrical outlets and new drywall or new paint. Other items may include new lighting, built-in appliances and new trimwork.

It is important to detail the exact amount of work, such as the number of linear feet of cabinets, so that the customer knows what is being promoted and you can properly price the job. There is a good opportunity to sell options that can greatly improve the profitability of the job. A typical package may sell for \$8,500 and include 10 ft. of lower cabinets, 10 ft. of upper cabinets, 10 ft. of countertops, sink, taps, five duplex plugs, an exhausting range hood and up to 250 sq. ft. of vinyl flooring.

Mechanical systems

Many older houses have mechanical systems that are operating very inefficiently and are not keeping the house very comfortable. In some cases, the equipment fails, forcing the customer to quickly invest in new equipment.

There are many options available depending on the types of fuels available and the extent of the work. Changing a boiler and radiator system to a forced air system would obviously be quite involved, while simply upgrading a natural gas hot water heater and furnace for new, high-efficiency models would be relatively simple and much less expensive. Other options could include changing

from oil or electricity to natural gas, changing from baseboard electric to ground source heat pump, and installing in-floor radiant heat.

Since there are so many options available, it may be necessary to select and promote a very basic and inexpensive option and then upgrade or price out other alternatives as necessary. The basic package may only act as the tool to make the contacts; most of the sales may be for upgraded packages or other alternatives.

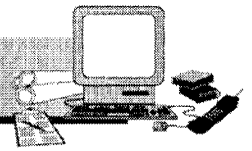
An example of a mechanical package could include a high-efficiency natural gas furnace, a high-efficiency hot water tank and cleaning of the duct work all for the low price of \$3,295.

Home offices

Many people are currently working out of their homes or are seriously considering doing so. This opens a whole new area that you can promote by offering a package that would set up an office environment in the home.

Business today is conducted with computers, fax machines, modems and various other electronic equipment. In most homes, the electrical and telecommunications systems do not adequately support all of this equipment. There is tremendous opportunity to upgrade existing houses by developing office spaces that include telecommunication lines, proper and adequate electrical outlets, good lighting, adequate bookshelves and accessibility from the exterior. This can all be put together in an attractive package.

A sample package may sell for \$1,950 and include developing a



200 sq. ft. office space, installing a telephone, installing a dedicated fax line, installing four duplex plugs and installing 8 ft. of book shelves.

Air quality and ventilation

Air quality is becoming very important to occupants of houses. They are concerned about everything from radon and formaldehyde to carbon dioxide and carbon monoxide.

You can take advantage of this growing concern by offering a package to improve the air quality of the existing homes. This could include sealing the basement to keep out radon, replacing materials that offgas, eliminating backdrafting of appliances to control carbon monoxide and ventilating the house properly to control carbon dioxide and other pollutants.

A sample package could include sealing all penetrations of the basement floor for radon control, providing adequate combustion air to fuel-fired appliances, installing glass doors on a fireplace and installing a balanced ventilation system. This may be priced at \$1,750.

People with allergies are in need of special upgrading of their home to improve their health. This is a new and very specialized field of work. Expert advice is required if you are addressing medical problems.

Accessibility

The desire of our aging population to stay in their homes means that there is a need to make the homes safer and more convenient for them. The same is true for persons

with disabilities. You can fill this need by offering an accessibility package.

Improving accessibility and safety can involve minor alterations or major renovations, depending upon the needs of the customer. Ramps instead of stairs, wider doorways, grab bars in the hallways and bathrooms, lower counter and vanity tops, lower light switches, non-skid surfaces and remote controls are just some of the items to consider.

A basic package could include installing a ramp to the front door, installing handrails in the main hallway, installing grab bars around the bathtub, changing the tap handles for easier operation and altering the pulls on the cabinets for easier use. The price may be \$995.

Draft control and air sealing

Older houses can be uncomfortable because they are drafty and do not have a well-designed heating system. Draft control is relatively easy to do and can substantially improve the comfort levels for the customer.

Draft control typically involves air sealing the electrical outlets, sealing at the floor joist level, sealing around windows and doors and improving the seal of the windows and doors themselves. This work is quite labour intensive. Remember that air sealing should not be done without due consideration for ventilation at the same time.

A package may sell for \$795 and include caulking at the sill plate, caulking around the window and



The desire of our aging population to stay in their homes means that there is a need to make the homes safer and more convenient for them.



door trim, installing new weatherstripping on windows and door and installing a basic ventilation system.

Sunrooms

Sunrooms are popular because they brighten up an existing house and increase the amount of space. This makes the existing house much more livable.

A package offering a certain size of sunroom can often be marketed

effectively, especially during certain times of the year. Many manufacturers have prepackaged sunrooms that you can take advantage of and then add other amenities to the basic structure.

A package may sell for \$12,395 and include a 300 sq. ft. space with triple glazed walls and ceiling, a pile and grade beam foundation, a concrete floor with radiant heat and ceramic tiles as finish flooring, a ceiling fan, six duplex plugs and one exterior door.



A package offering a certain size of sunroom can often be marketed effectively, especially during certain times of the year.

SMART HOUSE TECHNOLOGY

The electronics revolution is upon us and is providing us with amazing technology. Customers are aware of this technology and are asking for it. Being in a position to fill this demand will put you out in front of the competition.

Smart house technology has been around for a number of years, but it is now very affordable and easy to install. This technology provides convenience and security for the customer — two of their basic desires.

This technology uses a centrally located unit to control various pieces of equipment and appliances throughout the house. This includes the mechanical equipment, kitchen appliances, televisions, lights and security systems.

There can be one or more control panels in the house from which programming is done and

options are set. These instructions are carried to various appliances in the house over the existing electrical wires. Special plugs and switches are installed that receive and send signals, thereby controlling various functions in the house.

Since these systems often do not require the installation of new wiring, the disruption to the house is minimal. This makes it ideal for renovations.

There are various modes that can be programmed into the system so that the appropriate settings are put in place at the correct time. For instance, the “night mode” may include setting back the thermostat, engaging the security system, turning off all interior lights, turning on exterior security lights and turning off the television. This can all be done at the touch of a button or at a preset time of day. Various other modes can also be programmed.

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RENOVATOR'S BUSINESS GUIDE

Everything the renovator needs to know to run a profitable business.

The renovation industry is challenged today by many issues that have gripped the attention of Canadians. These issues are already affecting the way renovators work and will strongly influence renovation as it becomes an even more significant part of the housing industry in the years to come.

If you want to succeed in the renovation business, you can't afford to be without the Renovator's Business Guide. This comprehensive guide includes everything the professional needs to know to run a profitable business.

Nine easy-to-follow chapters cover successful business planning aspects of renovation — goals and business structure, financial management, human resources, sales and marketing, costing and estimating, managing the job, customer relations and staying on top of a changing industry.



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