

## Year-End Planning, Part 2

By Michael Stone

### STEP 3 - PULLING IT TOGETHER

[Our last article](https://www.markupandprofit.com/articles/year-end-planning-part-1) (<https://www.markupandprofit.com/articles/year-end-planning-part-1>) talked about reviewing the current year and projecting for next year. Once you have completed your evaluation and you know both the good and the bad about your year's performance this year, it is time to plan the changes needed.

#### Advertising

By now, you should have a real good idea of what your business did this year. What you did right, and maybe what you could do better this next year. Remember, you didn't make mistakes; you just gave yourself the opportunity to make improvements next year. It helps to have something to look forward to, right?

Now we're going to make things happen. In a recent newsletter, we used an example of setting an annual projected volume of \$855,000. You need to set your own volume – it might be 10 times that or half as much. Use figures that are correct for your business and remember we are just using numbers to give an example.

How will you get \$855,000 in the door next year? Look back this year to find your average sale price. Let's say that this year our revenue will be about \$792,000. By the end of the year we expect to sell, build and collect on 40 jobs with an average sales price of \$19,800. (Be careful when calculating your average. If you sell primarily large jobs with a few small ones, throw out the small ones when calculating your average sales price. You want the average to be as close to average as you can get.) To reach our projection of \$855,000 next year, we'll either have to sell more jobs, or sell larger jobs. What do you think you can do? It's your call. For our example, we'll try for more jobs. Next year, to reach \$855,000 in volume with an average sales price of \$19,800, we'll need to sell 43 jobs.

You also know, looking at this year, your sale to leads ratio. Here's the math:

# Leads Taken divided by # Sales Made = 1 in \_\_\_\_ (two digits to the right of the decimal)

As an aside, here is a guideline on your sales to leads ratio for remodeling. If you are selling:

- 1 in 1.1 to 1 in 3.0 – You're probably selling too cheap – check your markup
- 1 in 3.5 to 1 in 4.5 – That's a good ratio, try to stay in the 1 in 3.5 -4.0 range
- 1 in 4.5 to 1 in 6.0 – You need to work on selling skills, immediately
- 1 in 6.0+ – Either improve or find a new salesperson. You're wasting leads.

If you know that this year you sold about 1 in 4 leads, that means you'll need 172 leads next year. For safety's sake, add about 25 percent to cover the possibility of more "tire kickers", "I want a square foot price", or "I am just looking for the cheapest price" calls. When the economy is down you can expect more calls of this nature. 172 plus 25 percent means you need 215 leads.

In your review of this year, you found that your average lead cost you \$58. So next year to generate 235 leads, you can reasonably expect to spend  $215 \times \$58$ , or \$12,470 to get the leads in the door.

### *Where To Spend Your Advertising Dollars?*

Part of your review of this year was to:

- List all of your various lead sources.
- List the leads and sales in each category.
- Then calculate the cost of each lead in each category.

That tells you where the best place is to spend the initial investment of \$12,470. But since \$12,455 is far short of a normal budgeted 3-5% for advertising, let's enhance the number of leads that come in from each source. If you know that your web page generated half your leads last year, it would be smart to enhance your website so you get the maximum advertising value from that page. We have found that over the last year, more and more companies have focused energy on improving their websites. You need a positive presence there, and that means a quality website.

If you do kitchens and baths, why not have a website for each? Can you add testimonials or pictures? Have you thought about having an Ugly Kitchen or Ugly Bathroom contest on your site? How about the Dirtiest Gutter contest? Worst plumbing nightmare? Those dumb contests work, and sometimes they work surprisingly well. Whatever you do, make sure you are including videos on your web site.

For some, email marketing and social media are difficult to understand and work, but the results can be great. If you need to, hire an expert to help you through it.

Focus your money on what has worked before, but always be open to new technology. Check your results monthly to see the results and adjust your advertising as needed.

Let me add - if you are not getting the type of leads you want, or if you are getting leads from clients whose only focus is price, you are advertising in the wrong place. This also happens when you work by referral only - you end up with many leads that are a waste of your time. This is a new year and we need to start thinking creatively.

## **Markup**

Recalculate your markup using your new budget and projections so you can charge the right price for your jobs. If you don't charge enough for the work you are doing or the service you provide, you won't be around long. (Make life easier, use the [Markup Calculator Software](https://www.markupandprofit.com/more/markup-calculator-software/), <https://www.markupandprofit.com/more/markup-calculator-software/>) You don't get a second chance when it comes to pricing your jobs. No one will volunteer to pay the bills that accumulate if you don't charge a fair price for your work. So do it right.

The markup for most remodeling companies is between 1.50 and 1.70. The markup for specialty contractors is usually between 1.35 to 1.50. The markup for new home construction is usually 1.26 to 1.40 and up. But it's critical that you calculate your markup based on your numbers. If you are outside the range, that's okay, as long as your numbers were calculated correctly.

## **Contracts & CWO's**

Now is the best time to review any problems with your contract or your change work order forms. Incomplete or unclear contract language, and incomplete or non-existent change work orders are two of the top three reasons that contractors go out of business. Did all your jobs this year have signed and completed Change Work Orders? Were you paid for all changes when the CWO's were signed? Do your employees know the proper procedure to handle a change work order, and is your procedure outlined in your contracts so your clients know what will happen if a change is requested? And, while we are on that subject, does your employee manual clearly spell out for your employees the company policy on change work orders and what the employee responsibilities are regarding any changes on jobs they are working on?

Our [Fast Track Proposal Writing software](https://www.markupandprofit.com/more/fast-track-proposal-writer/) (<https://www.markupandprofit.com/more/fast-track-proposal-writer/>) has been designed and built to help you write good solid contracts that will keep you out of trouble, get you paid on time and help you make a good profit on each job you do. Only the uneducated or the foolhardy try to conduct business working with one- or two-page contracts (unless you are doing handyman work). Most important, be sure your attorney okays the contract language you use before you start using it with your clients.

## **O.C.R.A.**

You need a forced savings account to CYA (Cover Your Assets) on those unexpected expenses that march through your doors on occasion. Set aside between 1 percent and 4 percent of every dollar in the door for your Operating Capital Reserve Account – put it in your budget. Let's not make any more excuses about why you haven't established and put the OCRA in place. It can be and has been the saving grace for many companies over the past few years. If you don't have one, today is a very good day to get one started. You can read more about an OCRA in Chapter 5 of [Markup & Profit Revisited](https://www.markupandprofit.com/more/markup-profit-revisited/). (<https://www.markupandprofit.com/more/markup-profit-revisited/>)

## **Employees**

We talked about evaluating your employees, this needs to include an annual review of each employee and the officers of your company. Remember you need to document everything you talk about and fill out any forms that apply to each interview.

When you consider employees, look at the effort you need to expend to get them to do their job correctly. Can you give them a task or project, explain what you want done, and turn them loose knowing that the end result will be what you wanted? Or do you have to deal with a lack of initiative, progress and a result that is far from what you wanted. It doesn't take much to classify most folks, just a couple of thoughts about the last two or three projects you gave them and you probably have them pegged fairly well.

As you analyze the company performance over the last year and set your goals for next, how does each of your people fit into your plans? If one or more of your employees is high maintenance, maybe it is time to give them a transfer to your competition. There are plenty of good people out there on the unemployed roster who would love to have a good job. If you have good people on board, be thankful and treat them well.

If you have an employee manual (and if you have employees you need an employee manual), review it, make changes as necessary and provide each employee with a new copy. Make sure they sign the revised employment agreement that applies to the manual.

This would also be a good time to have the key people in your organization evaluate your performance. You must guarantee them that they're bullet proof when they do this, or you won't get an honest appraisal. If you do have your employees appraise your performance, say thank you and incorporate needed changes without any comments or complaints. No excuses, no rationalizing, just listen and make the changes.

## **OTHER THINGS TO CONSIDER**

### **Regular Financial Check-ups**

Just as you would schedule your vehicles and equipment for regular maintenance, scheduling a regular financial check-up for your company is a sound idea.

Please keep in mind that almost all financial problems of any construction company show warning signs well in advance. Ignore them at your own peril.

If you are new in business or have been in business less than two years, check your financial position every other month at least. After that you should have the experience to check things quarterly and make adjustments as needed.

The key issue here is to put the financial checkup in writing, with check lists and a definite schedule, then make darned sure you do it. If you assign parts of this task to employees, make sure they do their part as well. No excuses, no stories, no procrastination.

## **Associations**

Are you involved with an association? If you are, it is time to ask some tough questions. It is all too easy to get caught up in association work and involvement at the expense of both your business and your family.

If you are on the Board of Directors, is it taking time away from your business that is costing you money? In most cases it will. You need to look long and hard at your level of involvement and weigh the value of your time and money invested compared to the return you are getting. Some folks will tell you that you need to give something back to the industry. That's true, but not at the expense of your own family or business. All too often business owners work through the chairs of their association while their business goes from bad to worse to bankrupt. Let someone else take that trip.

Associations are generally good for our business. There is little question on that issue. They provide political clout to keep bureaucrats and elected people focused on what is important to us. They provide marketing that, done correctly, can be a boost for your business. And the networking available, the ability to spend time with others who fight the same battles you fight, is invaluable. But make darned sure that your involvement stays balanced with the discretionary time you have available from your business and family. Family first, then business, and then maybe your association.

## **Business Plan**

You need a business plan. The exercise we are walking through is a one-year plan, but you also need a statement of why you are in business and how you operate, with long-term goals and how you plan to reach them. We talk about [how to write a business plan here](https://www.markupandprofit.com/articles/writing-a-business-plan-for-a-construction-business/). (<https://www.markupandprofit.com/articles/writing-a-business-plan-for-a-construction-business/>)

Your business plan could be handed to anyone who wants to know how you run your business. More importantly, when the going gets tough, it will remind you why you are in business and how you want to conduct your business. A well-written business plan helps to keep you focused.