Home Improvement Corner

Analyzing the Risk of Home Improvement

One good thing about an economic recession is how consumers decide which businesses succeed, which ones struggle, and which ones fail. Although our human response to failing companies is a deep felt sympathy, we also recognize survival of the fittest as one of the laws of nature. When it comes to home improvement, there are a variety of factors that determine which ones are destined to succeed and which are likely to fail.

Risk is typically measured in terms of potential for financial reward. When assessing your risk of remodeling, however, an expanded range of metrics should be considered. This article addresses some of the internal metrics renovation experts live and die by. They include Lead Sources, Solvency, Profitability, and Customer Satisfaction Rating.

Lead Sources include all the ways prospective customers make contact. This metric is indicative of how "visible" a company is. Happy customers love to refer their contractor to their friends. If a significant percentage of leads come from advertising alone, the contractor may not be providing adequate customer service. Conversely, if relying completely on customer referrals, the circle of influence could dry up. Similar to an investment portfolio, a contractor's lead sources should be quite diverse.

Solvency is the company's ability to sustain itself through careful planning, scheduling and job cost analysis. Debt liability and backlog are indicators to how "healthy" a company is. Needing a down payment today to pay suppliers for a prior job is a very risky business practice. Instead, ensure your payment schedule is tied to the forecasted expenses for your project. To reduce your risk, ensure your contractor is licensed and bonded, and allow your attorney to review the contract language.

Profitability is a function of sales price, minus cost of goods sold, minus operating overhead. It differs from solvency in that each customer's job should be accounted for independently from any others. It's good to know that your contractor will be profitable on your job to ensure they are able to warrant and service the product. Furthermore, that they are consistently profitable on all of their projects. This indicates good execution of their process, and supports solvency.

Note that in a competitive market, contractors will attempt to "under bid" the scope of work just to get the job. In this case, the only way to become profitable is to up-charge the customer through the course of design or construction. To reduce your risk of "budget creep", query your contractor about the accuracy of their budgeting relative to the past several projects, and ask to speak with those customers about their experience.

Customer Satisfaction Rating is difficult to assess, unless performed by a 3rd party. "Happy" customers are generally pleased to write a recommendation, whereas unhappy customers feel compelled to write a warning to others. If you are skeptical about the written recommendations provided by the contractor, I suggest searching online resources for posted reviews.

Looking for the best deal is not as opportunistic as it was going into 2009. Prospective remodeling customers are becoming less likely to shop contractors based on price. It's almost as if word has gotten around that the best deal expects the worst experience.

Risk assessment is all about knowing what you're getting into before it happens to you. In most cases, remodeling customers find there is one constant. That is: you get what you pay for.

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