

Home Improvement Corner

Proceed with caution when selecting a contractor

Improving your home is a sound investment if done wisely. These days, it's difficult to differentiate the Service to Value Ratio (SVR) of remodeling contractors. So we must be cautious. SVR is measured by the following formula:

$$\frac{\text{cost of goods and services}}{\text{risk of relationship}} = \text{improvement value}$$

The cost of goods and services is reliant on a thorough and accurate estimate. Consumers should check with a contractor's references to verify the historical accuracy of initial budgeting or estimating. If you receive a consistent message, factor accordingly for your financial planning.

Risk of relationship is a function of the contractor's financial solvency and their commitment to customer advocacy. For a contractor to be financially solvent, they should be debt-free and operating at a profit on every job. Unprofitable businesses typically do not survive long enough to be able to service their customers. Some may go out of business in the middle of a job. Because only happy customers become advocates, find out what your prospective contractors are doing to retain customers and make them advocates of their services. Consider the amount of risk you are willing to take with an unknown resource and work out the worst-case scenario for the purposes of this formula.

Value of improvements is the cost of goods and services, divided by the risk of relationship. If the cost is low and the risk is high, chances are your value will be very low. If the cost is high and the risk is low, then chances are your value will be high. Because of these variables, value is a relative term. High value is often perceived as lifestyle enjoyment and improved resale value.

Deals and discounts on consumer products are conditioning our buying habits for professional services. The problem is not so much that there are fewer home improvement projects to be had, but that undereducated consumers get caught by surprise when they find out their contractor is not performing with their best interest in mind.

Protect your investment and proceed with caution.

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