

Big-picture Thinking for Your 2016 Plan

Leading contractor-business coach Victoria Suiter offers a framework for viewing and planning the year ahead.

By Patrick O'Toole

You often hear it: To be successful in business, to achieve solid profits, remodelers must work on their businesses, not in them. The distinction is subtle but clear. Remodelers need to consistently see the business as a whole and manage its parts with the big picture in view. They must resist the trap of getting caught up in a maze of tasks. Victoria Suiter, a Bay Area contractor business coach for more than 30 years, agrees. Now, she says, is the perfect time to step back, gain perspective and make good decisions about the year ahead.

A GOOD year-end process should begin by meeting with your certified public accountant. CPAs help keep you up to date with upcoming tax deadlines and, more importantly, help you anticipate ways to minimize taxes in the current year. To do this, they will ask a series of questions designed to uncover new tax-saving opportunities. But it's important to bear in mind that CPAs also can be myopic. Their entire focus, says Suiter, is tax savings and they may offer advice that could be detrimental to the overall business. "I once had a client whose CPA advised them to buy some equipment to write it off this year," notes Suiter. "And the client did not have the money to buy the equipment and did not need the equipment."

After a CPA meeting it's time to look at bonuses for employees, the owner's draw and how much money to leave in the business as reserves. According to Suiter, a company should always have enough cash on hand to cover overhead for three to six months. Importantly, that overhead should include all regular wages for employees, including the owner's normal salary. Many of Suiter's

clients successfully navigated the financial crisis of 2008, 2009 and 2010 by utilizing cash reserves on hand.

How much to pay your employees in bonuses is another question entirely. Suiter points out there are several ways to calculate bonuses such that those employees driving revenue and profitability get rewarded for their contributions to the business. During the year, employees managing remodeling projects that come in on time, on budget with very little slippage in profitability should be entitled to strong bonuses. Those employees involved in projects that tend to slide in schedule and budget should see smaller bonuses.

"A lot of times we will advise our clients to calculate bonuses weighted based on how much somebody makes," says Suiter. "Or it can be from a pool. And sometimes it is based on specific project results. Remodelers should be thinking about bonuses and come up with a plan for it. I like paying bonuses based on results. I think that it can be an empowering tool for people."

AN OWNER'S draw should also come into focus at this time of year, but this should be done with company reserves firmly in mind. An owner's draw should not jeopardize targeted levels of those all-important reserves.

After a remodeler has buttoned-up their current year decisions, it is important to devote the proper amount to creating budgets for the coming year, 2016. Like any big-picture management task, the more thorough the budgeting process, the easier to stay on track toward meeting or exceeding profit goals. Suiter says a good way to start the budgeting process is to begin with the end in mind.

"What I recommend to people is that they set a goal for revenue, set a goal for gross profit margin, and then set a goal for net profit margin," Suiter explains. "For net profit margin, a good goal would be between 8 and 10 percent. Net profit between 10 and 12 percent is even better."

ONCE THOSE goals are set, then budget becomes a process of evaluating each line item and deciding proper levels based on particular business strategies. Some may decide to spend more money on Internet marketing or on publishing projects on Houzz.com. Remodelers should be asking where they want to be investing their money. Conversely, the wrong way to do a budget is to simply add 10 percent to the existing year, says Suiter.

"We look at a budget as not just numbers on a piece of paper, but as a process of planning out what you are going to do for the year. You want to go through every one of those line items asking where you want to invest those dollars. And in the end, you can go back and ask: Did I reach my goal of 10 percent net profit?" says Suiter. "If you didn't, then there are only two ways to impact the bottom line: Increase revenue or decrease costs. And then you work at it and you massage it to get to your goal. You set a goal first; then you work on the details." | **QR**



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