



WHITE PAPER:

6 SECRETS TO RESTORATION BUSINESS SUCCESS

6 SECRETS TO RESTORATION BUSINESS SUCCESS:

Secret #1: Run Your Business from a Marketing Perspective

Businesses are typically run from a variety of perspectives. Some are run from a financial perspective (by the numbers), some from a technical perspective (anyone see themselves?), some from an administrative perspective (systems and procedures) and others from a marketing perspective.

While all of these disciplines are critically important for any growing business there must be one primary lens through which owners see the world and their company's role in it. We strongly recommend that business owners operate their business and relate to their market and the world in general from a marketing perspective.



Why?

Because if you can consistently and predictably get the kind of business you want, at the profits you need, you can deal with all the other issues.

In no way do I want to make it sound like getting your numbers in order, making sure you are meeting the highest technical standards or building the necessary processes and procedures is easy—it isn't! But it is a matter of priorities and importance. Every business has to operate well in terms of these aspects of management. And that's just the thing! All of these disciplines, no matter how well executed, are pretty much the same from restorer to restorer.

It's the marketing discipline that can uncover and create the kind of difference that deeply matters to the people you are trying to get to refer, hire and work with you. When you operate your company from a marketing perspective you are deeply involved in your customer's world, their pains, challenges, objectives, issues—anything that would motivate them to change the way they do things now. And the major change you are seeking to affect is using your company instead of their current suppliers (or doing whatever it is they are doing now)!

When you focus on marketing, you focus on how to create difference, how to build a value proposition that includes value added and value in advance, how to improve your sales process, how to discover metrics to evaluate your marketing efforts, how to better understand just what the heck marketing is.

With a relentless focus on the marketing aspect of your business your goal is to find a way to predictably drive the growth of your company instead of relying on weather, program work or luck. You realize that hope is not a business strategy and instead seek to not only think outside the box but throw the box out the window!

Secret #2: Understand What Makes Your Company Different and Better

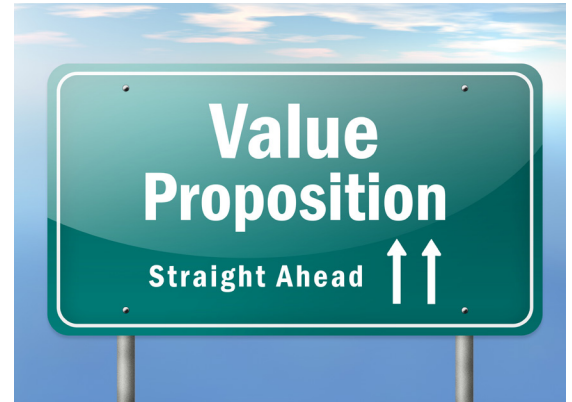
We teach a variety of programs around the country and it is often interesting how little restorers think about what differentiates their company from the competition. Differentiation is the heart of a company's strategy and is such a crucial aspect of a business that it is no wonder that the companies that really grasp this concept operate at a whole different level than their competitors.

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Differentiation is not all that complex. It is really the answer to the questions, “What is different and better about my company?” and “Why should someone use my company instead of my competition (or doing whatever it is they are currently doing)?” Fundamentally, differentiation has to speak to the motivation of your prospect to change!

To understand why this is so important we have to take a quick look at how human beings process information. We are currently bombarded with information. Just in terms of advertising messages we are being hit with between 300 and 3,000 ad messages per day (depending on which research you read).



The only way the brain can cope with this onslaught of information is to create filters and then files or categories where it can store information based on a logical grouping for later retrieval.

The obvious first filters are of the yes/no variety. Being happily married, if I see an ad for a bridal shop I can apply the yes/no filter and stop paying attention to the ad. And even though it’s probably stored somewhere in my brain I don’t give it any priority because I don’t expect to need to retrieve that information later.

However, when I see information that is relevant to me or my business I need to decide what to do with that information—especially if there is no necessary action right now, in the moment. What happens in these cases is that I categorize the information.

To explain how this works, let’s take an easy example—colas. The instant you read that word your brain started to search for how you categorize colas. For me, there is an initial primary filter; diet or regular. As a lifelong dieter, I never drink regular cola. So, for me, the overall cola category divides into two separate categories, diet and regular and I can disregard regular since I have no interest in it.

In the diet cola category there are three products in my head in the following order of priority:

1. Diet Coke®
2. Diet Pepsi®
3. Diet RC®

This means that, given the choice, I will select Diet Coke® as my cola beverage of choice in a restaurant or convenience store. Diet Pepsi® is an alternative that is acceptable to me as well. But when I go to the grocery store to buy diet cola I buy Diet RC®. Watch carefully and you’ll see how this concept of category works!

For me, I have concerns that Nutrasweet® is not all that healthy a sweetener. It doesn’t matter why I believe that just that I do.

Diet RC® uses Splenda® as a sweetener instead of Nutrasweet®. I think that Splenda® is probably a safer artificial sweetener than Nutrasweet. So watch what happens in my brain.

The diet cola category divides again into two; Diet Cola sweetened with Nutrasweet® and Diet Cola sweetened with Splenda®. Here’s what that looks like:

Diet Cola/Nutrasweet®

Diet Coke®
Diet Pepsi®

Diet Cola/Splenda®

Diet RC®

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Now, here's the important thing to notice. In the Diet Cola/Splenda® category there is only one product! This means that there is only one choice and that is Diet RC®. This is the place that all marketers want their product—first in a category. {Being the only product in the category

is even better but is a pretty rare phenomenon and usually only lasts a short while (iPod®, iPhone®, etc.)}

This is amazingly difficult to do when it comes to an existing category. After all, Pepsi® has spent billions trying to be number one in the cola category but Coke® is still the world's number three brand (behind Apple® and Google®) while Pepsi® comes in at number 24.

Barring extreme marketing stupidity on the part of the number one in a category, (remember New Coke, though sanity rapidly prevailed?), it is almost impossible to dislodge an established first in an existing category.

It is much easier (though not easy) to create a new category and be first in that—exactly what RC decided to do when they chose Splenda instead of Nutrasweet® as the sweetener for Diet RC®.

Note that what differentiates Diet RC® is the sweetener. That's pretty much it. For me, in all other ways, it is just another diet cola. But I also have an emotional response to the fact that RC gives me a way to make what I perceive as a safer choice.

Got it? Now what does this mean for your business?

There are categories of restoration contractors just like there are for colas and every other group of products. If you haven't differentiated your company then what category do you think your targets see you in? Are you just one of the hundred competitors that calls on them every month?

To illustrate this concept let's think about just a few of the categories of restorers that exist in a typical adjuster's mind:

- Faster
- Transparent
- Small Loss Guys
- Water Mitigation Specialists
- Sewage Specialists
- Mold Specialists
- Trauma Scene Specialists
- Full Service
- Commercial/Large Loss Capable
- Biggest (Large Capacity)
- Easy to Work With
- Difficult to Work With
- Lying Dirtbag/Never Do Business With
- Creates Problems with Policyholders
- Undercuts My Authority
- Always Fights Over Price
- Professional
- Easy to Slash Invoices
- Etc.

You can see that there are categories that work for you and against you. If you don't decide which category to be in, if you don't communicate what is different and better about you (and live up to that) then the market decides for you!

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Therefore, it is extremely important to take a long hard look at your company (with your management team!) and try to identify those factors that make you different and better. And, if they allow you to create a new category and be first in it then you really have a powerful component of your branding and your marketing established.

Secret #3: Commit to Driving the Growth of Your Company Through Your Own Marketing and Sales Efforts

At this point, everyone realizes that the restoration industry has changed. As the industry enters a mature cycle the marketing activities that restorers have traditionally undertaken in order to grow their businesses are no longer working.

And that's understandable because the game has changed in many fundamental ways:

- The Great Recession of 2007-2008 dramatically impacted insurer's profits on their investments which set off a frenzy of cost cutting. Even though the economy is in recovery this focus on reducing costs has not abated. If anything, it is getting worse.
- Lots of new competition entered the industry in the past 7 years from the remodeling and carpet cleaning industries.
- This means that there is excess capacity in the market (except during area-wide storms/events) which drives down prices through unsophisticated newcomers or offering discounted TPA rates.
- Preferred vendor and especially third party administrator (TPA) programs are gaining market share, restricting the flow of work to a smaller number of "qualified" contractors and demanding price discounts and costly levels of service, thereby reducing profits.
- There hasn't been a major hurricane in ten years. This means that waiting for the next major weather event is an even more precarious proposition than ever before.



Restorers know they need to be marketing. But few owners in our industry have a sales and marketing background and are simply not well informed in terms of how to market their businesses effectively.

This is why the marketing activities for many restorers consist of running around visiting agents, plumbers, commercial properties, etc. dropping donuts, asking for work and rushing off to the next route stop.

As a general rule, this is a complete waste of time and money. So if this describes your marketing plan, knock it off! Or at least take a look at the return on this investment.

If you find that you have no real way to measure the results of this kind of activity, if you find yourself saying, "Well, I know our rep is busy so that means that things are going okay", if you're not exactly sure what your marketing people are doing (or where they are right now) and what objectives they have every time they call on someone, then we would suggest that this area of your business needs serious attention!

What we find is that restorers that want to predictably and reliably drive the growth of their own business need to have:

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- A solid understanding of marketing
- A sales/marketing organization with the right people on the bus in the right seats
- A solid prospect/customer database and understanding of their local target markets
- A selling model
- A sales process
- Sales program(s)
- The ability to develop true relationships as a resource to their referral network
- A sales management system
- An Integrated Sales Process throughout their organization to close more of the leads they are receiving from any source.
- The kind of leadership that directs the transformation of the company from a restorer doing some marketing to a marketing company whose product happens to be restoration.

No big deal, right?

There is no question that overhauling a restorer's marketing operation is a major initiative that owners should not under- take lightly and without full commitment to the process.

But, it can be easier than one might think. Our experience indicates that the process can be well under way with demonstrable and significant results within the first year with amazing return on ROI in subsequent years. Of course, results vary by company due to uncontrollable external factors but the pattern of significant, predictable and profitable growth is clear.

The alternative to taking control of the growth of your company is not a good one. "Doing good work" is important but it is not a primary marketing strategy. It will not cause the world to "beat a path to your door".

Hoping that by just pushing ahead things will turn out for the best, business will grow, profits will increase, the business will become more fun is not a sound strategy. In fact, we have talked to many restorers who followed this path beyond the point of no return. Their business has shrunk, cash flow is terrible and there is no ability to invest the time, money and energy necessary to return the business to a growth trajectory. They waited until it was too late.

They are now committed to waiting for luck, a long slow decline or cleaning carpet to get by. The alternatives are clear. Restoration contractors need to look at the market objectively and make the decision to act proactively, now!

Secret #4: Commit to the Commercial Market

Targeting the commercial market needs to be a crucial part of every restorer's marketing plan because of the almost untapped opportunity (for now), the potential volume and size of the jobs, the economies of scale and the resources available to handle such work successfully.

There are also a host of changes in the market that make commercial marketing an important part of a restorer's marketing plan including:

- A major squeeze on restoration costs by insurers,
- The rise of Third Party Administrators (Contractor Connection, Code Blue, etc.),



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- The growth of Preferred Vendor Programs,
- Contractor consolidations and affiliations.

And, even if you are enjoying outstanding success on the residential side it makes perfect sense to hedge your bets on the commercial side, which is far less vulnerable to the whims of adjusters, carriers and the like. There are also some re-ally powerful synergies between the residential and commercial business that smart restoration contractors take advantage of.

So, what does it take to get involved in the commercial market?

Well, you need all the elements described in Secret #1 plus you need a solid understanding of what the commercial market is. It isn't a monolithic market but actually a collection of smaller, individual markets. We break the commercial market down to the following segments:

- Commercial Office
- Multi-Family Housing (Condo and Apartment Management)
- Retail
- Nursing Home/Assisted Living
- Hospital
- Non-Hospital Medical
- Hospitality n Municipal n Libraries
- n Schools, Colleges, Universities
- Stadiums, Sports Facilities, Halls, Venues
- Churches, Temples and Religious
- Factories/Manufacturing Facilities



Like any smart marketer, you need to know what the pains, challenges, obstacles, “owies” of each market segment are and how your company solves these problems. Most restorers focusing on the commercial market are using some sort of Emergency Services Program (known by a variety of names) to provide value in advance as well as value during an emergency or area wide weather event.

The commercial market requires an investment in sales capability and time. This is a market that requires the ability to sometimes sell in a corporate environment as well as at the loading dock. And, it often takes a lot of action to gain traction. It is not unusual for many months to go by with a salesperson working diligently to get a commercial program off the ground.

And, you never know when the losses will start flowing. The markets that have the most frequent losses (multi-family housing, for example) are often the most filled with competitors, most price sensitive and most difficult to work in.

Of course, not having losses is only part of the challenge. Getting a lot of losses or a really huge one is often challenging for restorers entering the commercial market. It is critical that companies are prepared well in advance for such eventualities.

Still, if a restorer has the right person, the right program and all of the other necessary attributes, the commercial market will produce big results and create a balanced marketing attack that is dramatically less reliant on residential work.

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Secret #5: Start Meaningful Tracking of Your Customer Service Delivery

Most restorers conduct some sort of customer service survey at the end of every job. And we've seen lots of them over the years. Some are pretty basic and others are quite complex. But they all have one thing in common: They are all equally ineffective in terms of providing a meaningful, actionable and trackable method of measuring and improving customer service.

This isn't to say that such surveys cannot identify a particularly egregious problem. They do serve this purpose pretty well. But, what about all the other, more nuanced service issues?

What generally happens with restorer customer service surveys is that someone in the office scans them, looks for a significant problem and, not finding anything, files them away somewhere.

Some restorers go a step further and compile the responses to come up with a number value for the various service aspects surveyed (we have an 8.5 on showing up on time, etc.). In some cases they even use these numbers in their marketing efforts.



Meaningful Customer Service Tracking

But the problem with all of these approaches is that they don't really quantify customer service in a way that allows companies to quickly and easily see how well or poorly they are doing and then take actions which can also be measured to determine how successful those actions were or were not at improving customer service.

Some companies even reward customer service (so they say!) But when the quality of customer service is hard to really understand it is quite difficult for managers to focus on such intangibles. What they generally do is fall back on good, old reliable profit instead of customer service. And, as we will soon see, there is such a thing as "bad profit".

The problem with profit, according to Frederick Reichheld, author of "The Ultimate Question" is that there is good profit and bad profit. Simply put, bad profit is any profit that comes at the expense of your relationship with your customers. Airline bag fees are a perfect example of bad profit. They demonstrate clearly, beyond any doubt, that those companies don't care about the value of the relationship they have with you over the long haul. Instead, it's just about short term profits.

The funny thing about this way of doing business is how poorly it really works! Southwest Airlines understands the difference between good profit and bad profit, which is why they don't charge bag fees. Southwest has been profitable for 38 consecutive years, a tremendous feat unmatched in the airline industry. People develop a real and powerful relationship with Southwest that turns into customer loyalty and loyalty pays big dividends. In fact, there are years when Southwest's profit is more than all the other major airlines combined!

The reason that it is so difficult to really measure customer service in a meaningful way is that, until recently, there has been no hard science indicating how to best track it and then take action and measure the results.

That's why we highly recommend the book "The Ultimate Question" for everyone in a restoration company that has any contact with or impact on customer relationships—which means just about everyone!

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And, we strongly recommend that you take the book's instructions for how to properly survey your customers and put those practices into action immediately. This will allow you access to truly meaningful and highly important data about the truth of your customer service delivery and give you the immediate means to do something about it.

The reason why really understanding how your customer service rates is so important is best illustrated by the maxim, "Bad product kills great marketing." In other words, if you can't deliver on your promises (and know that you are really delivering) then it doesn't matter how great your marketing programs are. You will be in the classic trap of overpromising and under delivering.

Secret #6: Prepare Your Organization for Rapid Growth with Maximum Profitability and Efficiency

Many restorers would say that preparing for rapid growth is putting the cart before the horse! The problem, they would say, is how do I get the business not how do I prepare to handle it?

And while that's understandable, once we developed a field proven method to turn on the "sales engine" for restorers a number of secondary problems arose. In fact, handling the growth of the business was every bit as big a challenge (and maybe bigger) than transforming the company's marketing orientation to be able to predictably grow the company.



Growth increases complexity in all businesses. And because restoration businesses are complex to begin with, rapid growth can quickly overwhelm a contractor who is not prepared for it.

Here are just a few of the problems that growing restoration companies encounter:

- Finding out that margins have slipped way below the acceptable 60 days after completion of the work—and margins across the board are slipping.
- Scheduling nightmares and inefficient utilization of labor resources.
- It seems like there is a major problem on every job, from complaining customers, to aggressive adjusters, to subcontractor issues and the owner is going completely crazy running around trying to solve them.
- Job issues that force the company to "throw money" at the problems in order to resolve them and, in so doing, sacrificing margins.
- Equipment being lost and unaccounted for.
- Poor quality performance by subcontractors that goes unaddressed for months or years.
- Payments not being received because of a misunderstanding of how to deal with various mortgage companies and their interests.
- Losing out on lien rights because no one was paying attention and the deadline slipped by.
- An employee leaves and a key adjuster gets all ticked off and stops referring work because he was billed for one of his "pet peeve" items.
- And so on!

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Typically, there are three key areas of concern for restorers. The first is the ability of the owner to stop bottlenecking the company! The owner must have an organizational structure in place that allows him or her to delegate to trained, proven performers on the management team.

Second, systems and processes must be in place for virtually every activity and the company should never undertake anything that it is not going to document and make a part of its operations manual. Systems and processes should reflect the most efficient ways of accomplishing the specific tasks they are related to. They should seek to reduce redundancy, eliminate double entry and duplicate steps and should ideally focus on developing a lean, streamlined organization.

Third, there is also a tremendous need for data in rapidly growing companies in as close to real time as possible. Owners and managers need information in order to take action during a job rather than after the fact. They also need data in order to predict possible futures and outcomes in order to act prudently.

If it seems like an awful lot of work and personal growth on the part of owners and managers to prepare a company for growth that's because it is! But the alternative of unplanned growth will cost everyone big in terms of energy, stress and especially profits and opportunity.

A great book on the topic is "Scaling Up" by Verne Harnish, which provides "start where you can", step-by-step instructions for preparing your business for growth.

BONUS SECRET #7 FOR OWNERS ONLY!

Benchmark Your Margins for Maximum Profitability.



Business owners may have many reasons for being in business but making the maximum amount of profit honestly and ethically should be at the top of the list. After all, if there's no profit, you as the owner will not accomplish your personal goals nor will you be able to provide the kind of opportunity that attracts and retains top talent.

One of the major challenges for business owners in every industry is knowing what kinds of profits are possible! After all, everyone runs their business a little differently and with different levels of skill and owners don't typically share that kind of information easily.

We can tell you that, working with scores of restorers, what one contractor sees as impossible margins others are getting every day!

Now, when comparing margins between one company and another there are certain factors that have to be addressed and understood. Perhaps the most important is to clearly understand what is being compared. Are we comparing labor in terms of hourly rate or burdened? Is equipment being amortized in the cost of goods? There may be many such questions in order to refine these comparisons but we wanted to provide some rules of thumb for this special report.

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Here are some guidelines and benchmarks for profitability for various types of activities that restorers typically engage in:

Water Mitigation Only: Many restorers overestimate their margin on water mitigation and we routinely hear restorers talk about 70-80% margin on these services. This is true only if the restorer is not considering equipment depreciation or cost of equipment in the job cost. If equipment is included in the job cost then a 60%-70% gross profit margin on these

Reconstruction: Companies that are primarily focused on reconstruction services (these companies typically do a lot of fire work) should be able to generate gross profits between 42% and 52%. It is possible under certain circumstances to generate higher profits but it is not worth doing for much less than these margins because if you figure your real overhead then jobs at less than 42% margin are not worth the liability.

We have several times worked with different companies in the same market where one company swears they can't make sufficient margin on a particular service while the other company makes that margin on the same service every day. It all comes down to what they expect to make because they then act accordingly.

Blended Services (Mitigation and Reconstruction): Needless to say, profit margin for companies that provide full service will depend on the ratio of mitigation to reconstruction but a good rule of thumb is that gross profit margins should fall between 42% and 60%.

For full service companies it is extremely important that they do not blend their mitigation and reconstruction margins as this will give a false impression of overall profit margin and make it difficult to address profit problems. Much thought needs to be given to how to set up various divisions or profit centers within a full service company.

If you don't measure the correct things you won't be able to do anything about your results!

Contents: Contents are a little trickier to address because storage costs can be a significant component of contents work and are hard to job cost. After all, rent is rent and is always considered part of overhead. And, even if you store contents for a long time this doesn't affect the cost to own or operate the building and so you don't consider the cost of the building in terms of storage the same way you would depreciate a piece of equipment.

It is possible to generate gross profit of 50% to 60% (these numbers have dropped quite a bit over that past 3-4 years!) on contents if you really understand how to charge for it. It is important to charge both by the box and by the hour and really understand how Xactimate works in terms of contents.

If you open up the Xactimate details to understand what the "per box" charges include you will see that it covers the cost to evaluate and inventory the items and pack the box. It also includes the box, tape and paper. But it does not include any pre-cleaning, or additional protective materials like bubble wrap.

Moving the box around, both from the house to the truck and from the truck to the warehouse are not included. Once the items are cleaned, the restorer should pack them in a new box. Note that when using the cleaning by the box charge in Xactimate it does not include the cost of the new box nor the cost to re-pack the items into the box.

Therefore, the key to making the margins you truly deserve when it comes to contents is by charging by the box and by the hour. You should charge appropriately and transparently as with all of your services and depending upon whether or not you are job costing a cleaning line (Fireline, Omegasonics, etc.) it is quite possible to achieve margins of 50% to 60%.

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Now, just in case non-restorers are reading this and saying to themselves, man, there is huge profit in restoration, it is true that margins looked at in isolation are quite excellent. But, there is also substantial liability that restorers take on to be in their profession, great fluctuations in the flow of business, intense competitive pressure and many other challenges and obstacles that they deal with every day.

And, no adjuster or carrier ever comes to a restorer during a drought or slow spell and says, “I know you guys are really suffering, here’s \$10K to help you make payroll this month”!

It is up to every restorer to take a hard and sober look at their own numbers and see how closely they are achieving these possible margins and then examining why they are not and what they are going to do about it.

But now you know what is possible!

Timothy Miller is the President and founder of Business Development Associates, Inc. BDA is a consulting firm that helps clients built world-class sales organizations and specializes in working with restoration contractors, building service contractors, distributors and manufacturers in the cleaning and restoration industry. To evaluate your sales process try our Free Sales Process Grader here: <https://info.objectivemanagement.com/SalesProcessGrader.aspx?DistNum=291>