

Ask Jon Eakes

# The Business of Renovation Part 1 - The Industry.

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This was the first part of a special three part series designed to give you some insights to the business side of renovation because hiring a contractor and getting the job done right is a business deal. In this segment we tried to give you an idea of the advantages and disadvantages of each different size of renovation company that you might consider hiring.

If you would like to read the other two parts of this series, Part #2 - The Contract and Part #3 - The Contractor. You can also click here to visit the very informative Hiring A Contractor "GIW" web site.

## THE INDIVIDUAL RENOVATOR

This is usually one or two people who do all the work. They often have no business set-up which means little overhead and probably no taxes since they may not even be registered with the government. But that also means that they have no insurance and little financial backing if they run into problems. They often use your deposit to finish the last job and the next guys money to start yours. You are exposing yourself to liability claims if they damage your house, your neighbours house or even hurt themselves. Some of them will go bankrupt, others will grow into legitimate renovators. They usually try to avoid written contracts. About the only real advantage of working with the small individual contractor is that they will undertake the small jobs that most other contractors don't want to bother with.

## THE SMALL COMPANY

The small company is usually the mom and pop operation where he does the work and she keeps the office running. If it is a legal company with workman's compensation and liability insurance, this can be an excellent choice for those smaller to medium jobs. In this category you can find young people in the growth mode, or older people scaling down a larger operation and wanting to get back to hands-on work. The owner usually is the primary worker. Although they may have any number of employees they tend to control their overhead by hiring specialty sub-contractors for parts of the job. The biggest potential problem here is if they sign up too much work they have difficulty finishing jobs or coming back to fix details. The company that signs the contract usually does the majority of the work.

## MEDIUM SIZED COMPANIES

Most renovators fall into the medium sized company category. They have grown out of the Mom and Pop operation, have several employees and perhaps even have some of the specialty workers on staff. The biggest problem with the medium sized company is that it tends to grow and somewhere between medium and large is a very difficult place for a renovation business. When they get many jobs on the go they need more office staff to control it all, but they don't quite have the volume to justify the overhead that they need. In addition it becomes very difficult to find good labourers and be able to supervise the less experienced ones, especially if they are not big enough to give them regular work. There is a no-mans land where they either have to grow much bigger or drop back to a more moderate sized company where they are again able to control overhead to employee ratios and cash flow problems. Try to find out how long a company has been the size it is now. Stability in size or slow growth is a good sign and will probably result in more competent workmen on your site. Generally the company that signs the contract is the same company that does the work, but the principal of the company is probably not working in the field any more. Ask if the people that will be working on your site are the same who did the jobs that you have been given as references.

## LARGE COMPANIES

The large company has the advantages of having gotten control over the overhead problem and probably has many specialists on staff including designers, architects and engineers. On the other hand they definitely have a number of work crews so although the general company reputation and supervision may be judged by the references, you will not likely have the same workmen at your house as those who did the referenced job. Ask about that. Generally you can rely on consistency with a large company. If they specialize in cheap construction, they will be consistently cheap. If they specialize in quality construction, they will probably be consistently of good quality. Even here you want to know how long they have been the size that they are and have they got the ship running smoothly. Here there is a complete separation of sales staff signing the contract, the company that runs the operation and the workmen doing the work. Although they may all work for the same company there is complete separation of function and you have to be careful to understand the line of command and who to talk to during the renovation. Generally it is not a good idea to complain to or request changes from the men doing the work. The principal of this company is definitely not working on the site. Don't ask a large company to do a small job. They are very poorly suited to do that and it will cost far too much because of their overhead.

## RETAIL RENOVATORS

I must also mention the "retail" renovators or what is sometimes called "installed sales". This is where a large retail store signs a contract with you either for an installation, a major renovation or in some cases even a new home. These operations will very rarely actually have employees that do the work but rather they take a commission on the job and hire independent contractors to do the work. For the contractors, it is worth the commission to not have to deal with either sales or the business end of the contract. The biggest problem with this arrangement is that references of past work has absolutely no meaning in this case. You have no idea who the contractor is that will do your job. In addition, most really successful contractors don't have a problem finding work, so they wouldn't sign up to pay a commission to a retail outlet. For the consumer of course, the big advantage of the "retail" contractor is that you have the financial and warranty backing of a large retail outfit in case anything goes wrong and you don't feel you have to do any of the hard homework of choosing a contractor. Unfortunately the quality of work varies as greatly with retail installed sales as it does in the industry in general -- the big company behind it is not in fact a guarantee of good work. I have seen media gag contracts where the retailer's guarantee will be respected only if you sign a paper saying you will not talk to the media about bad work.

My recommendation is to insist with the retailer's salesman before signing the installed sales contract that they give you references of work done by the same workman that will be sent out to your house and that you check out those references and verify when the work begins that the workmen on your job are those who's references you checked. The stores don't like to tie up their scheduling like that, but if you make it a condition of making the sale, they will usually accept.

For a whole bunch of more information you might want to get the free booklet "From Start to Finish" -- a renovation workbook put out by the Canadian Home Builder's Association and the Royal Bank. If you would like to read the other two parts of this series, Part #2 - The Contract and Part #3 - The Contractor. You can also click here to visit the very informative Hiring A Contractor "GIW" web site.

### **Keywords:**

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