

FINANCIAL FRIDAYS

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STORM CHASING- THE PATH TO SUCCESS....OR THE ROAD TO RUIN?

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Last week, we discussed the dilemma that many restorers have faced over the past month: Should I leave my home base to chase a storm, or simply stay at home? It's one that comes up every year, even for companies nowhere near the affected states. Just like the early settlers heading west, your results most times will be out of your hands. Sure, you may strike it rich and land a big one- the perfect job that is easy to do and easy to collect. More times than not, however, you will end up crashed, tired and starving on the side of the trail, with no prospects, no future and nothing to go home to. Pay no attention to the Facebook braggarts- that is not reality!

I recently wrote an article in R&R magazine entitled "Should I Stay or Should I Go" (July, 2019) which addressed this topic at length. Here is the "Reader's Digest" version. Storm chasing is filled with promise and excitement, but the risks are severe and usually not evident until it is too late. Anyone professing to "have it down" is simply bragging- or lying- about their work. Talk to veterans of our industry that specialize in large loss and they will all tell you of the risks, as many of them have been able to survive them. You know who won't tell you about the risks? Those who did not make it- they are no longer around to talk.

Since it's a financial Friday, let's talk finance. A normal residential water loss takes, on average, 45 to 60 days to collect from date of loss (if you are not getting paid in this window, please contact me!). The average margin on this work falls between 60 and 80 percent, depending on the lead source, the amount of equipment and the abilities of the crew leaders. Financially speaking, you "turn over" your money 6 to 8 times each year. This sounds confusing but is very simple: you will lay out money to execute the water loss; that money will come back to you within two months so you can use it again, waiting another two months to get it back, and so on. For a normal water loss (about \$3,200 nationally), your cost should be about \$1,000. That same \$1,000 turned over six times generates nearly \$20,000 of gross revenue for your company.

Now let's look at a storm project. Your margins on storm chasing are lower, due to higher incurred costs and the use of outside support staff and equipment. If you end up grossing 50%, you are doing well. The real burden comes with collecting. On residential, coverage-funded losses (NOT self pay), your turnaround times are usually double the norm- four months or more. This is basically due to out of town adjusters having to file their paperwork and the sheer volume of claims. On larger losses, it is normal to wait six months or more (many restorers wait YEARS to get paid, if ever!). Now, your same \$1,000 gets used two or three times, generating less than \$4,000 of gross revenue for you.

The math is simple: if you are doing well at home, operating a stable company with steady business and no financial obligations, then you can THINK about heading out to a storm. Your extra money can be used to generate additional income, and profit, for the company. If you need that money, OR that labor, OR that equipment, then STAY HOME! Don't take that chance with your business!