

FINANCIAL FRIDAYS

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COMMERCIAL WORK- IS IT WORTH THE RISK?

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Greetings from the Pacific Northwest! I am out in this beautiful part of our great country for two reasons. First, my wife and I are attending the wedding of our niece. Second, I have the honor of presenting to a large group of restorers in and around the Seattle area. I have many friends and clients in the industry out here, and the opportunity came about to share some of my knowledge and training with them in the area of commercial restoration. As a co-founder of The CREST Network (Commercial Restoration Education, Support and Training) along with fellow SCRT Board member Dick Wagner, I am committed to education and support in this area, and I have thoroughly enjoyed helping these independent restorers expand their businesses.

The first question I am always asked about commercial restoration is: *How can I get in?* Before I can venture a response, I always take time to get a clear picture of the financial health of the company. Commercial restoration is a lucrative subset of our overall market, and this line of work can be a real game-changer for a company. In the hands of a company without financial stability, it can also be a road to disaster.

The single biggest difference between residential and commercial restoration involves the flow of funds. As I have previously stated weeks ago when talking about CAT response, the time frame for collection of funds on commercial projects is more than double the time frame for residential work. In addition, the outflows of cash for labor, subs and supplies is almost always greater than any residential project. More money out, less money in is not a recipe for success. The company MUST have the financial means to absorb this phenomenon WITHOUT it affecting the rest of the business. What good would it do to get a six figure commercial loss, only to have it derail your everyday work? You will be left without a steady stream of business.

I want to know about three things before answering the question. First, I want to know how well the company is collecting its current residential invoices. If they are very good at submitting invoices and collecting (less than 40 days from date of loss), then they can think about commercial work. Second, if they have a healthy cash reserve (3 months of operating capital) or an untapped line of credit, they can think a little harder about commercial work. Finally, if they have steady, consistent residential water work, I will answer their question.

Of course, my answer to them is in the form of a question- “How much are you willing to commit to commercial work?” There are only three answers available-

- 1- “I just want to do the ones I’m already getting and not lose money”
- 2- “I’m interested in getting a little more work and doing it right”
- 3- “I want to make commercial restoration a part of my company”

For each answer, the roadmap for success is then laid out and paved for them. Once I know their risk tolerance and financial capacity, the rest is easy. If you are even thinking about commercial work, you should perform this exercise before you make any commitment. The side of the road is filled with eager but ill-informed restorers who saw big buildings and thought big thoughts. In this case, bigger is NOT always better for your company!