

# contractor truths

BY SAM BRUSCO

## Why Some Remodelers Charge So Much (And Why Some Contractors Are So Cheap)

Why do some contractors and tradespersons charge so much, while others seem so cheap? In a word, it's overhead. Yes, that ugly word that no one likes and only a few people understand. In fact, I would say that only accountants, bookkeepers, and some business owners really get what overhead is. Here I will try to explain it and why contractors and tradespersons don't make as much money as you might think, despite the prices they must charge to stay in business.

Overhead is all those things that any business must pay for or do that are not directly associated with the end product or service. For example, in a kitchen renovation, you have the cabinets, the countertops, the flooring, the pipes, the wires, the sink, the lighting, and so on. These are the "direct materials." The people who install those tangible things are the "direct labor." Together, they constitute the "direct costs" and all clients expect to pay for them. Overhead is everything else.

Insurance policies — notice the plural — cover general liability, workers compensation, health, automotive, and disability. All professionally run businesses should have these to protect the company, the client, the workers, and the general public, but I would say that less than 30 percent of all remodeling businesses have all of them. Most avoid paying them, with the excuse that they can't afford it. Some don't get insurance coverage because they are willing to take the risk. The truth is that they are actually transferring the risks to clients without telling them. If something happens during the project, the contractor will probably disappear or claim poverty, leaving the homeowner or the state to deal with the mess. The client may even be sued for tens or hundreds of thousands of dollars by an injured party. It's not right, but it happens every day.

"Tools" include company hardware like hammers and screwguns, but the truck is also a tool. Cell phones and computers have become necessary to run a business effectively. Rent, fuel, and other

office equipment could also be lumped into this category.

Social security tax. Self-employed persons pay double, because they are both the employer and the employee. That's an extra 7.5 percent right there. I purposely called it a "tax" because I doubt it will be there in 20 years when I should retire, so I must also add self-funded retirement plans to this list of costs. Contractors pay unemployment tax for their direct employees, and nice ones provide 401K plans for staff too. Ironically, typical business owners cannot collect unemployment during hard times.

Then there's the back office. Accounting, billing, marketing, hiring, legal, taxes, and accounts payable (writing checks for the employees, subcontractors, and suppliers every week or two) all require a team of skilled professionals to do the tasks properly. Mistakes can bankrupt the company, but generally the contractor or his wife does this work to save money.

Education. This industry is changing faster than you might think. Technology is giving us better building materials and tools. The state and federal governments are giving contractors stricter and stricter requirements without telling us how to meet them. For most contractors, training is strictly on-the-job. Let me tell you, trial and error are expensive teachers, especially when the client ends up paying the price years later when something breaks prematurely. Better contractors are always seeking out opportunities to learn how to do things better, but others simply do things the way they've always done them. Worse yet, many use outdated methods and materials their fathers used 40 years ago.

Management. As soon as more than one person is involved in a project, supervision and coordination are necessary. For a kitchen or bathroom remodel, believe it or not, there are over 25 persons or businesses involved, including the carpenter, plumber, electrician, plasterers, painters, eight different suppliers, the flooring installer,

and the building department, to name a few. Anyone who does a kitchen or bathroom by himself is probably doing so illegally, as plumbing and electrical require special licenses.

Cleanup. Most contractors do this at the end of a project, and most homeowners find their efforts to be less than satisfactory. Great contractors clean up constantly to keep the work area safe and make the project as pleasant as possible for the client.

Finally, there's the warranty. Everyone expects a contractor to stand behind his work for years, and great ones do. By law, it's required for 12 months. But if a less than ethical contractor feels that he didn't get enough money for the work he did, good luck getting him to come back. And the reality is that he probably won't still be in business once a defect is found. Nine out of 10 contractors fail in the first five years, mostly because they didn't account for overhead, and they didn't charge for it.

So, when you get those three bids that your dad always told you to get, picture John F. Kennedy and say to yourself, "Ask not why this one contractor's price is so high... Ask why these other bids are so low." Cheap contractors say they have lower overhead, but the truth is that they are putting you at great risk, and they may be out of business before your project is even completed.

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