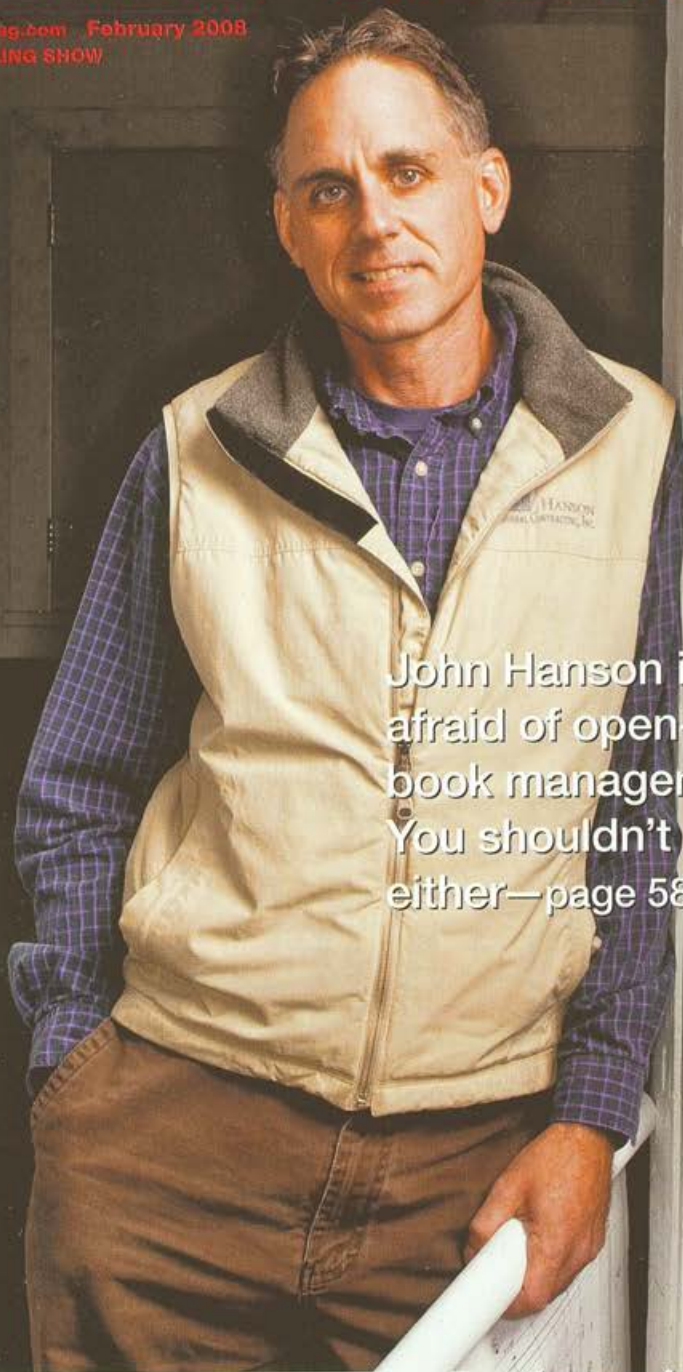


# Remodeling

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John Hanson isn't afraid of open-book management. You shouldn't be, either—page 58

## Business Interrupted

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Remodelers wishing to increase their profitability should consider open-book management.

# Open Up

HAYDEN ALFANO ASSOCIATE EDITOR

**A**s varied as remodeling company owners are, they share several personality traits. Most are independent-minded and strong-willed, and they tend to keep their cards very close to their vests. When it comes to management styles, "my way or the highway" is the prevailing theory.

So it comes as no surprise to learn that few management styles meet with the kind of gut-wrenching negative reaction reserved for open-book management. "I don't want anyone to know how much I make" is among the tamer of the typical responses from company owners who believe that what employees don't know won't hurt them.

Such fears are unfounded. Practicing open-book management doesn't obligate you to tell your employees how much money you make. Of the 10 open-book-company owners interviewed for this article, just 2 said they share information about their salaries with all of their employees.

Nor should you be afraid that you'll be revealing the salaries of your employees. "The point isn't to get down to what individual people make," says Charlie Gindele, president of Santa Ana, Calif., replacement contractor Dial One/Renewal by Andersen. "It's to get everyone to understand the costs

of running the business, and to get them to identify areas where expenses can be cut." As a management strategy, open book not only helps a company function more efficiently and reduce overhead, it encourages all employees to think more like owners, a boon to any company's bottom line.

But enough about what open-book management is not; what, exactly, does it entail? At the most basic level, being an open-book manager means sharing your company's income statement — or profit and loss statement (P&L) — with your employees on a regular basis. This typically occurs in companywide meetings held at regular intervals, generally no less frequently than monthly or quarterly.

While some companies reveal more than others, open-book remodelers often show only a condensed version of the P&L. "We show them a very abbreviated income statement," Gindele says, "with seven or eight total line items." Gindele's direct costs are lumped into one line, while overhead is broken into three; one each for field, sales and marketing, and general administrative expenses.

Many open-book remodelers who choose to share just a summarized P&L with their entire staff supplement companywide meetings with follow-up sessions for managers and other key employees. In those smaller meetings, the income statement is typically expanded so it can be dissected line by line.

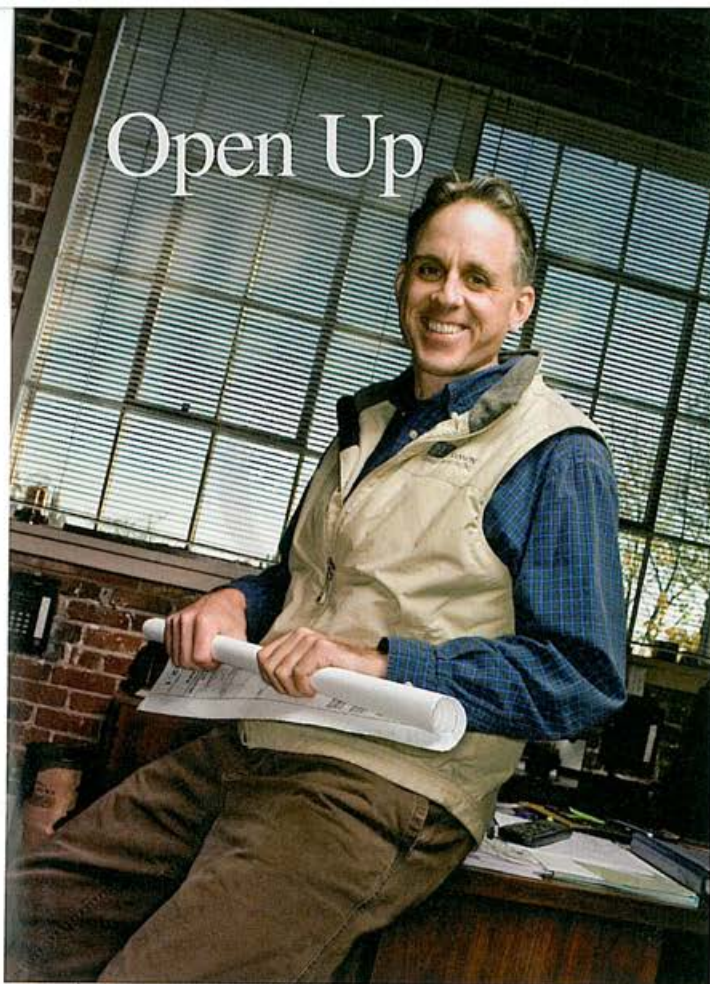
Project managers at Olson & Jones Con-

struction, in Portland, Ore., for example, know the exact revenue and gross profit margins on their individual jobs, according to company president Greg Olson. He adds that his PMs see one another's revenues and margins in aggregate on each monthly report.

Other owners choose to share a more detailed statement with the entire team. "All players in our company have access to anything they want, except what others are paid," says Jim Strite, president of Strite Design + Remodel, in Boise, Idaho. At Strite's company, as at several others that take this approach, individual jobs are compared with the budget. "That way, we can brainstorm as to how we can make corrections before it's too late," Strite says.

By and large, remodelers who have made the decision to become open-book companies are extremely pleased with the results. That doesn't mean, however, that they don't have concerns. "Every time we have one of these meetings, we print out the profit and loss statement and make copies of it," says John Hanson, "and then our guys walk off with it." Hanson, co-owner, with brother Chris, of Hanson General Contracting in Philadelphia, says that while he can't think of anything particularly harmful that would happen if one of his guys accidentally left the P&L lying around a jobsite and the homeowner got hold of it, he still makes sure to put "confidential" on it.

# Open Up



*People are more tuned in to the company's performance. The word "slippage" has entered the lexicon of our employees.*

—John Hanson, Hanson General Contracting

Gindele, a facilitator for industry consultant Certified Contractors Network (CCN), puts it bluntly: "Most of the [company owners] I work with don't know how to read their financial statements."

If you're one of the majority who fall into that category, you will need to get yourself up to speed with your company's financials before opening your books to employees. Strite

look into your financials until they're correct and logically arranged.

But correct, up-to-date numbers don't always paint a pretty picture. Can a company that's losing money still be open book?

Gindele argues that it's at least as important for a struggling company to open its books as it is for a more prosperous outfit to do so. "Employees can't be expected to fix that which they don't know is a problem," he says. "People operate under the assumption that if there was a problem, someone would tell them about it."

This point — that employees need to know when things are going badly — really gets to the heart of why proponents of open-book management advocate it. "Ideally, I would like a whole company of individuals who think like business owners," Olson says.

## **SLOW AND STEADY**

As mentioned earlier, becoming an open-book company is a gradual process. When Strite instituted his open-book policy, he first made sure that he could explain his company's numbers. His next task was to get his managers to a similar level of comfort. That accomplished, it was then time to roll it out to the rest of the team.

But not all at once. "You have to give it to them in bite-size pieces," he says. Strite recommends starting with job costs, a category of expenses with which field employees are somewhat familiar. Once they understand the direct costs of everything that goes into a project, you can delve into concepts such as overhead, net profit, and gross profit margin. It takes several months to introduce everything, and the educational process never really stops. "If there isn't repetition, it'll get pushed to the side," Strite says.

Tim Frost, president of Peregrine Design Build, in South Burlington, Vt., structured his introduction of open-book management

Hanson also worries a little bit about what would happen if he had a falling out with an employee, who then went to a competitor. Chris Ettel, partner at VB Homes, in Virginia Beach, Va., shares these concerns, and has hit upon a solution. "We don't give out too many handouts," he says. "We do most of it through a PowerPoint presentation." Hanson says he's considering switching his method to use a projection screen in the meeting room.

## **KNOW YOUR NUMBERS**

Open-book management begins, however, long before any sharing of the company P&L. You can't simply show a group of employees an income statement and expect them to understand it without any education. You have to teach them, and that, according to Strite, is another big reason why more remodelers don't become open-book managers.

"Most [owners] are technicians who have become managers and entrepreneurs," Strite says, and he doesn't intend that comment to be derogatory. "They're doing the best they can with the knowledge they have," he says.

services of an accountant, and not just any old bookkeeper, either, but a professional who knows the ins and outs of the remodeling business. "Owners should find someone who has quite a few clients in construction, preferably in remodeling," he says. "I'm amazed at the number of accountants who aren't that knowledgeable about job costing and over- and under-billing."

Having a firm grasp on your numbers — what they are, how they relate to each other, etc. — will eliminate another hurdle that typically arises when company owners are considering open-book management: embarrassment. "If you don't have a strong understanding of your numbers, that'll be pretty well-displayed when you open up your books," Strite says. He adds that this has the domino effect of demoralizing employees, who suddenly get the feeling that they're entrusting their livelihoods to someone who appears to be shooting from the hip.

Think of it as though you were hosting a dinner party. Most people wouldn't let their friends into their house without straightening up a bit first. Similarly, don't let employees