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Pay Daze

Owner compensation should not be accidental. Pay yourself what you're worth.

By: Les Cunningham

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How much money can a company owner expect to earn from a remodeling business? And how many hours should an owner have to work to earn that amount of money?

A surprising number of remodelers rarely ask these questions. They don't take a steady paycheck and instead draw money out of the business as the need arises. They don't know how much they're earning until tax time rolls around, but as long as there's money in the checking account, they're happy (even though most of it is owed to suppliers and subs). These are the same owners who wear all the hats in their company, and those who finally sit down and calculate their hourly wage are often surprised to find that they're working for peanuts.

It doesn't have to be that way. I believe it's possible for a successful remodeling company to support total owner compensation of 10% of gross sales. There are, however, some conditions that need to be understood, so let's break it down further.

First, a total of 10% applies no matter how many owners there are. That means partners (or spouses) split the 10%. Also, the percentage begins to drop as a company grows larger.

In small companies, owners can earn more than 10% if they work productively in the field as carpenters. If you, as the business owner, work 30 hours a week as carpenter, then you should get paid as a carpenter for those hours. The key is to pay yourself at a rate that corresponds to your productivity, not to your status as company owner. In my experience, most owners evaluate their productivity nostalgically, not realistically. They overestimate their value. Pay yourself as a journeyman carpenter, not as a lead.

Where does the rest of the 10% come in? More than half of REMODELING readers say they work between 50 and 60 hours per week; roughly a 10- to 12-hour day; but few get paid for all of those hours.

Here's how it ought to work: If you pay yourself for 30 hours of field work as a carpenter, as in the previous example, you should also pay yourself for all of the other jobs you perform. These include selling, estimating, writing the contract and specs, organizing the subs, helping clients select products, passing the baton to production, keeping the books, and other job descriptions for which many companies pay full- or part-time employees. You should be paid for all of these hours at a rate comparable to what it would take to buy that service in the labor market. Otherwise, you are not only short-changing your personal finances, you're failing to account for the true cost of doing business.

For the same reasons, company owners whose spouses work in the business should pay their spouses the going rate. Whether a spouse is doing the books, designing, selling, or simply helping out with administrative tasks, his or her labor is a cost of doing business. And it's another avenue to achieving 10% total compensation.

Your income shouldn't be an accident. It should be something you plan for based on your goals for yourself and your family. Of course, paying yourself more also means charging more for the work your company does. If you think taking 10% for salary and 10% for profit will price your company out of the market, start with lower figures and work your way up. Almost any compensation level you plan for is better than simply settling for what's left. —Les Cunningham is founder of Business Networks, a peer review and mentoring program based in Eugene, Ore.

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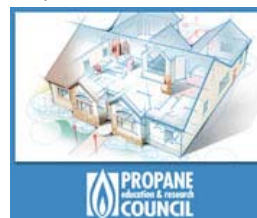
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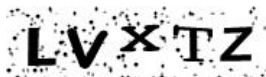
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