

# When Disaster Strikes

Disaster/Insurance Restoration Work Offers Opportunities to Those Who Have What It Takes

By Kenneth W. Betz

**F**ire, floods, storms and other misfortunes are inevitable regardless of the economy or current fashion, so at first glance the disaster/insurance restoration niche of the remodeling industry looks like a sure thing. But by now, those who have been in the remodeling and construction industry for any length of time know from experience there is no such thing as a sure thing.

Disaster/insurance work, nevertheless, has been called a stable business. “It’s recession-resistant but not recession-proof,” says Chris Silliman, owner of First Restoration Services of Asheville, headquartered in Fletcher, N.C. “Our business is growing because we’re good at what we do in our market.” In addition, he says: “We hired a consulting firm that knows the [disaster/insurance restoration] business inside and out, and they’ve directed us in a lot of good directions. That’s one of the reasons we’ve grown substantially in the past year.” It’s a story that might apply as easily to a successful kitchen-and-bath remodeler or a roofing contractor: Be good at what you do and seek professional advice to capitalize on your local market.

Although disasters and accidents regularly occur, one challenge is they don’t always occur with the same frequency or consistently in the same place. “I think the eternal issue with the restoration industry is how driven it is by uncontrollable factors,” says Nikki Domanus, marketing communications specialist for JC Restoration Inc., Rolling Meadows, Ill.

She relates that the summer of 2010 in the Chicago area did not have a lot of severe storms or flooding, noting that through alliances with other companies JC Restoration was called in to assist companies outside of its customary area of operation.

## Who Is the Restoration Contractor?

Like any specialty in remodeling, disaster/insurance restoration is more complex than it first appears. For example, a vari-

ety of business models and organizational structures, ranging from international corporations to sole proprietorships, compete in the field.

BELFOR is a well-known example of a global company with offices in Asia, Europe and the United Kingdom, in addition to the BELFOR USA Group Inc., headquartered in Birmingham, Mich. The company, listed as No. 1 in *Qualified Remodeler’s* 2010 Top 500 list, has a mix of clients—about





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*Nikki Domanus, marketing communications specialist for JC Restoration Inc., Rolling Meadows, Ill.*

75 percent residential and 25 percent commercial—though the revenue split is about even, owing to the fact that commercial jobs are generally more costly because of their size and complexity, according to Kirk Lively, BELFOR’s director of technical services.

The sole proprietorship is more familiar to the remodeling contractor. Jose Cruz, founder of JC Restoration, began his business as part of a husband-and-wife team doing cleaning and board-up work. Cruz built strong relationships with insurance

adjusters and others in the industry; today his son Warner owns the company, which does more than \$10 million in business in the Chicago area and was listed No. 71 on *Qualified Remodeler’s* 2010 Top 500 list.

“Our business is a little like the grocery store or drugstore business was 50 years ago; it’s mostly small mom-and-pops, privately held businesses,” says Dale Sailer, president and chief executive officer, of Disaster Kleenup International (DKI), Wood Dale, Ill. “There is a reasonable amount of private

equity out there that is figuring out a way to do rollups, buy up 20 of these guys and turn them into one large company.”

There are also the “folks in the middle,” as Sailer calls them, who are neither a national company nor a mom-and-pop but part of a traditional franchise company in which the franchisor takes a relatively high percentage of top-line revenue from every job.

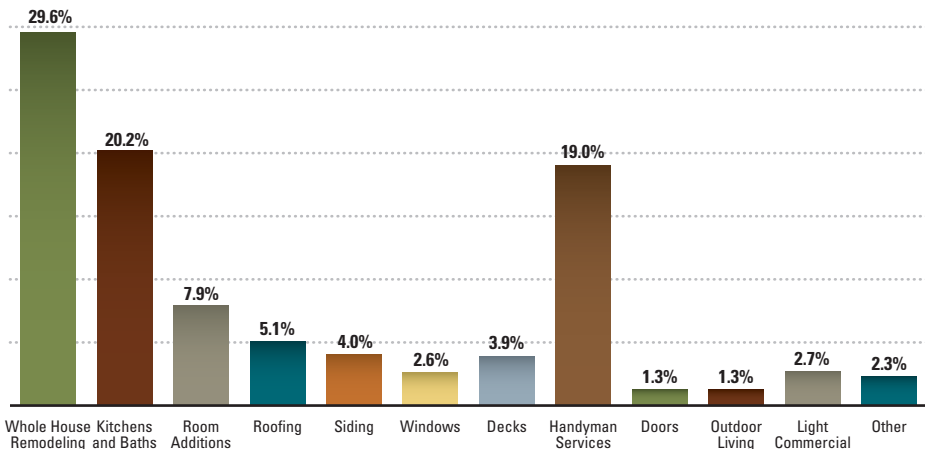
Conversely, DKI’s 168 franchises, Sailer points out, pay a flat fee to the franchisor based on market size and have access to all the company’s resources.

### Choosing Work

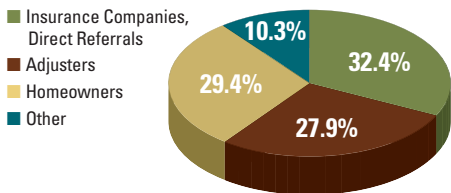
Like the rest of the remodeling industry, disaster/insurance restoration contractors are faced with a number of issues, some of them regulatory—such as dealing with hazardous materials, like asbestos, PCBs from older transformers and, more recently, lead paint.

BELFOR’s Lively takes those requirements in stride. “You have to know what

**IF INSURANCE/DISASTER RESTORATION IS NOT YOUR EXCLUSIVE BUSINESS (100%),  
WHAT OTHER TYPES OF REMODELING DO YOU DO?**



**WHERE DO YOU GET INSURANCE WORK/LEADS?**



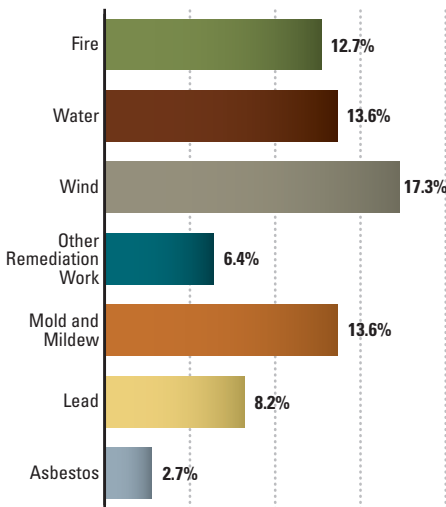
you're dealing with, and you either have to have the right licenses or the right subcontractors," he says. "It's not a huge issue for us; it's just something in which we have to have some training and have some people on staff who know how to deal with those things."

If the business structure and organization of disaster/insurance restoration companies is varied, so is the type of work they choose to do. Like remodelers, many firms specialize. The industry may be divided into two general segments—mitigation and restoration—and subdivided further within those categories.

"Do you want to get into cleaning sewage out of basements or do you want to get into rebuilding houses after someone else has cleaned out the sewage?" asks Domanus, who adds JC Restoration is a full-service disaster/insurance restoration company that provides both mitigation and restoration services.

It's noteworthy that 51 percent of respondents to QR's reader survey about disaster/insurance restoration work said it comprised more than 90 percent of their work. Others, however, did a mix of conventional remodeling, including whole-house remodeling and kitchens and baths, as well as exterior projects, such as roofing, siding and windows.

**WHAT TYPES OF INSURANCE WORK DO YOU DO?**



**Two Clients**

Another unique characteristic of disaster/insurance restoration work is to whom the contractor answers. Lively explains: "One of the unique things about our industry is we basically have two clients. We have the property owner, with whom we would normally contract whenever they have a damage situation they need to get repaired, but just as important in the process is the insurance company and their representatives because eventually they are going to be reimbursing the property owner for the work we do. We have to be very mindful that work we do for the property owner is going to be reviewed by the insurance industry, and they have to

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see what we're doing is appropriate in terms of their policy coverage.”

Dealing with two clients, too, grows more complicated when a client decides to do more work or upgrade a restoration project beyond what is authorized by his or her policy, an option not entirely uncommon to property owners who may see a disaster not just as a chance to restore but to upgrade their home or business. “We have to segregate what we do, so we know which portion of the work is reimbursed by insurance and which is additional work the client has chosen to do,” Lively says.

“You have to be a diplomat because you are working with at least two different sets of bosses.”

*Ed Nardella, owner, Paul Davis Restoration of Fairfield [Conn.] and Westchester [N.Y.] Counties, Pound Ridge, N.Y.*

“You have to be a diplomat because you are working with at least two different sets of bosses,” says Ed Nardella, owner of Pound Ridge, N.Y.-based Paul Davis Restoration of Fairfield [Conn.] and Westchester [N.Y.] Counties and president of Paul Davis Restoration’s national executive committee. “You have a customer whose home has been disrupted. This isn’t a remodeling project they’re happy to do. You also have to deal with the insurance company to make sure it is on the same page in terms of the scope and price of the work. The insurance company needs to feel the contractor is doing the job for a fair price.”

A few years ago, doing additional work not covered by insurance was in some cases attractive to owners, but the move today is toward doing less uninsured work, Lively recounts. Homeowners are choosing to not do work or have the minimum work done by the cheapest contractor, and commercial owners may choose to pocket some or all of the insurance money. “They [commercial property owners] may choose not to rebuild

in a damage situation. That’s definitely more common today than it was five years ago,” Lively says, reinforcing that while insurance work may be moderately stable it is not recession-proof.

**Where Is the Work?**

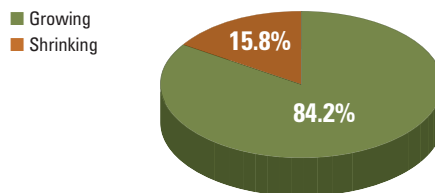
Although it may be tempting to think business comes in almost automatically once one’s company is on a list of approved contractors with an insurance company, this isn’t always true, industry insiders say.

QR’s reader survey shows that 35 percent of insurance work comes from direct referral from insurance companies. Twenty-eight percent comes from adjusters while another 29 percent comes from homeowners, respondents report.

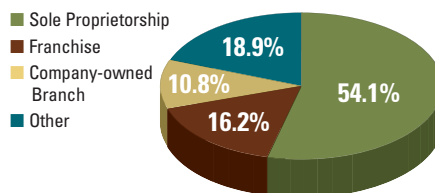
For BELFOR, those percentages have changed during the years. “I would say today we get more business from the property owners we’ve dealt with in the past and less from insurance companies,” Lively says. “Five or 10 years ago we probably got 70 percent of our business as a referral from the insurance company to their insureds. We’ve seen that trend shift to property owners contracting with us today.” Lively notes this is particularly the case with larger property-management firms, companies and institutional clients who may have multimillion-dollar self-retention funds to cover losses.

“It’s not enough to be on a preferred list and sit back and wait for the phone to ring. You have to be a bit more proactive these days,” Lively says.

**IS YOUR INSURANCE/DISASTER RESTORATION BUSINESS GROWING OR SHRINKING?**



**HOW WOULD YOU DESCRIBE YOUR BUSINESS STRUCTURE?**



On the residential side, it’s a little different; there are programs administered by insurance companies or third-party administrators on behalf of the insurance companies. “The insurance companies are trying to reduce the cost of claims and staff needed to administer thousands of residential property claims,” Lively says.

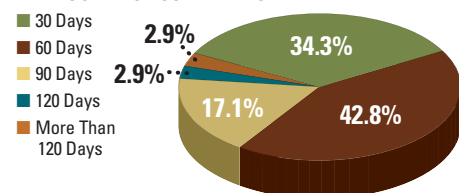
Firms like Atlanta-based Crawford Co., whose Web site describes the company as an “independent provider of claims-management solutions” has expanded to include services, such as the Crawford Contractor Connection, which offers services directly to property owners. The “managed repair network” provides screening of contractors.

Another third-party administrator is Eau Claire, Wis.-based CodeBlue, which says it reduces claim response time and minimizes adjuster time. CodeBlue also utilizes a pre-screened contractor network.

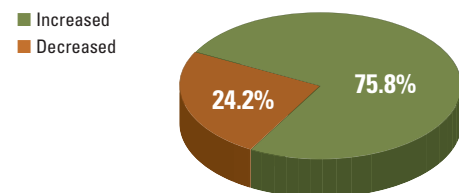
Third-party administrators are just one example of how disaster/insurance restoration business is evolving. “The industry changes every several years,” Silliman says. “The [insurance] adjuster in 2010 is not the same adjuster as when I started in 1987. The adjuster in 1987 had pretty much full control. Now they have third-party administrators and consultants looking over your shoulder to make sure you’re writing estimates correctly.”

Despite changes experienced by some participants in the industry, JC Restoration still gets the bulk of its leads from more traditional direct referrals from insurance companies, whether from an adjuster or a claims manager.

**HOW LONG IS IT TAKING YOU TO GET PAID BY INSURANCE COMPANIES?**



**HAS THE TIME IT TAKES FOR YOU TO GET PAID INCREASED OR DECREASED IN THE PAST YEAR?**



“It’s not enough to be on a preferred list and sit back and wait for the phone to ring.”

*Kirk Lively, director of technical services for BELFOR, Birmingham, Mich.*

Other changes in the disaster/insurance restoration are, in part, influenced by changes in the building industry, and they are an added challenge for the restoration contractor. For example, along with building green comes restoring green, comments Nardella, who explains that insurers typically restore a home to its preloss condition using like kind and quality materials. Is the insurer going to allow greener products that perhaps were not available when the home was built or is he going to insist on a strict definition of like kind? “Somewhere along the line that becomes subjective,” Nardella says.

### Getting Paid

A major concern for the disaster/insurance restoration firms is getting paid. Seventy-five percent of those responding to QR’s survey said in the past year it has taken longer to get paid. Roughly the same number report payment in 30 to 60 days (35 and 41 percent, respectively.)

“I think you will find five years ago people were paying within 30 to 45 days,” Sailer says. “Today, they’re paying more like 90 to 120. If you’re running a \$10 million business, you’re carrying another \$1.5 million in receivables that have to be financed, and that is not cheap.”

The disaster/insurance restoration business, as might be expected, has been impacted by the economy in other ways, as well. It’s a challenge that remodelers—not just restoration contractors—know well: Unqualified, fly-by-night, undercapitalized firms try to capitalize on the market after failing elsewhere and often underbid jobs and tarnish the reputations of established players with shoddy work and questionable ethics.

Storm chasers are a problem whenever a widespread event happens, and there is more work than local companies can get to as quickly as homeowners would like. “There may be some quality work, but I think it’s a situation where people can get taken advantage of,” Lively says.

However, Nardella notes the requirements insurance companies have for contractors are becoming more stringent every year. “The guy with a pickup truck and a new tool chest isn’t going to make it. It’s much more sophisticated. You need electronic capabilities. You need to be proficient with each of the insurance companies’ proprietary software programs they require you to use to communicate with them.”

Disaster/insurance restoration work, in the end, adds another level of complexity to a typical remodeling job. Circumstances rather than choice often figure heavily into a job and at least two clients must be satisfied. For those willing and able to add those extra dimensions to their businesses, disaster/insurance restoration work can be a rewarding choice. | QR



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