



PROFITING FROM DESIGN

JODY SHILAN

Shilan is editor of FromDesign2Build.com. Contact him at 201/783-2844 or jshilan@gmail.com.

Bigger project, smaller deposit

Q How much money should companies require as an initial deposit? I've heard various theories on this and wonder what your experience is with deposits.

—Benjamin Parsons, Living Landscapes, Andover, Mass.

A That's a terrific question, Benjamin. First, let me begin by making a distinction between a deposit toward a design fee and a deposit toward a design/build installation.

Design fees, for most of us, are pretty straightforward. I recommend a 50 percent deposit and then a 50 percent final payment once the plan is completed. It's simple and straightforward and, to be quite honest, we usually aren't talking about large sums of money for our design work. If you've read some of my previous columns you know my design process also is simple and straightforward. I charge a flat fee that's based solely on the size of the property. There's a copy of my design fee contract on my website that's free to anybody, access it at tinyurl.com/c9r96yf.

That takes care of the design side of the equation, so now let's talk about the build.

Benjamin, as you pointed out, there are several theories and philosophies on this topic, and quite frankly, the real answer is: whatever works best for you. With that said, I do have some very specific opinions based on both my successes and failures. As the title of this month's column suggests, one of my theories is that the larger the price of the job, the smaller the deposit should be. I'm not saying you need to structure your deposits on a sliding scale, but keep reading to see why this concept makes a lot of sense for both you and your client.

Let's look at a few examples. Projects that are in the \$3,000 to \$5,000 range are usually one- or two-day jobs. Like the design fee example above, the most logical thing is to get a 50 percent deposit and get the second half when the job is completed. You'll need to buy materials and will have some labor costs, so 50 percent upfront is reasonable.

If you're a smaller company, you may not have

established credit, so you really do need the money to start the work. Because the project is small there really is no need to complicate the process and break the payments up into thirds, which is a common fee structure for many of us. If you work this way, all that's going to happen is you're going to get a one-third deposit and two-thirds on the completion instead of 50 percent and 50 percent.

Now let's take a big jump and look at six-figure projects. Just as it doesn't make sense to require three payments on a two-day job, it also is not a good practice to ask for a 50 percent deposit on an installation that may take you three months to build and isn't going to start for eight weeks. Clients don't like writing big checks for work that's not going to begin soon, and there are too many horror stories about contractors running off with homeowners' deposits. In all honesty, you don't need a \$75,000 deposit to schedule a \$150,000 project. In fact, given the current business environment, even asking for a deposit of one-third, or \$50,000, is excessive.

I recommend taking a 10 percent deposit at the signing of the contract. It's an easy check for most clients of this caliber to write and an even easier number to calculate when you're figuring out the actual dollar amount. It's enough money to show a commitment to the project, yet it doesn't scare your client into wanting to think it over, which we all know is never good.

Here's how I manage the rest of the payment process. Although I only ask for a 10 percent deposit at the signing of the contract, I do require another 30 percent approximately one week before the work begins. This gives me 40 percent before we start. The clients are happy to cut the check because they know that the work is going to begin soon and they realize you need the remainder of the deposit to make material purchases. Once the project starts, I require a 30 percent payment due when the project is halfway completed; the remaining 30 percent is due upon completion.

To submit a question for Profiting From Design, please contact Shilan at jshilan@gmail.com.