Restoration Industry Association

COST OF DOING BUSINESS REPORT

2024

KEY BENCHMARKS FOR THE PROPERTY RESTORATION INDUSTRY

POWERED BY knowhow.

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FOREWORDS

The Restoration Industry Association (RIA) is pleased to release the inaugural 2024 Cost of Doing Business Report. Our goal in achieving this significant milestone is to provide comprehensive data to help restoration contractors understand profitability, cost accounting, benchmarking, and more. As your industry trade association, we understand the importance of delivering tools and information to help you succeed and navigate the challenges that come with running a restoration business.

The RIA recognizes the cost of doing business in restoration is growing increasingly complex. Traditional models no longer reflect the realities faced by modern restoration companies. Our industry has long faced challenges with the insurance industry's time-honored tradition of "10 & 10." Restorers continue to receive pushback on the need to deviate from third-party standardized price lists when market conditions, the unique circumstances of the loss, the nature of the property, the nature of the damage, and many other factors warrant such deviation.

This one-size-fits-all approach can harm the survival and growth of restoration businesses, and the RIA's advocacy work aims to address these issues. This report, the first of its kind in the restoration industry, is an important tool to further these efforts by offering information that does not exist elsewhere. It will help to inform our advocacy efforts as we work to ensure a more sustainable future for restoration professionals.

We thank all of the restoration companies that participated in our inaugural survey as this effort would not have been possible without you. It is our belief that your investment will continue to provide dividends for years to come.

Kristy Cohen
CEO, Restoration Industry Association

In this foreword, I invite you to look forward.

Forward at the opportunities to streamline operations and enhance profitability. Forward toward a future where aggregated, historical industry data is integral to your company's success. It's in this spirit that we are launching the inaugural Cost of Doing Business Report.

With the pace and complexity of business increasing, the power of data-driven strategies has never been more important. Similarly, as the workforce evolves, tomorrow's sustainability starts with today's financial viability. In property damage restoration especially, the unpredictable nature of business can lead to operating with self-imposed blinders, resulting in a limited understanding of how the rest of the industry is performing in comparison. Where are others finding success, and where are they struggling?

It is time we break down those barriers in service of the clarity we all need. By understanding how we're collectively performing financially, we can evaluate our individual performance and identify shared priorities to advocate for necessary changes. Effective advocacy requires a strong, data-driven foundation, and this report aims to meet that requirement.

At KnowHow, we seek to be a trusted partner in building a compelling future for the restoration industry. Confident leaders are better positioned to build confident workforces, which is central to our mission of helping leaders deliver on what they promise through confident workforces. The Cost of Doing Business Report is a key part of advancing our mission and delivering on our promises to those we serve as a provider of pioneering AI-software solutions.

All of these considerations work together to improve the future viability of the property damage restoration business model—a model that needs to evolve to remain sustainable. The next generation of leaders needs to see that, in addition to offering fulfilling work, the business model of restoring property to pre-loss conditions offers an attractive level of bottom-line profit.

And it can. Together, we are paving the way for a stronger, more resilient industry. Thank you for being part of this journey and for your commitment to driving the future of restoration forward.

Leighton Healey
CEO, KnowHow

METHODOLOGY

Our Approach

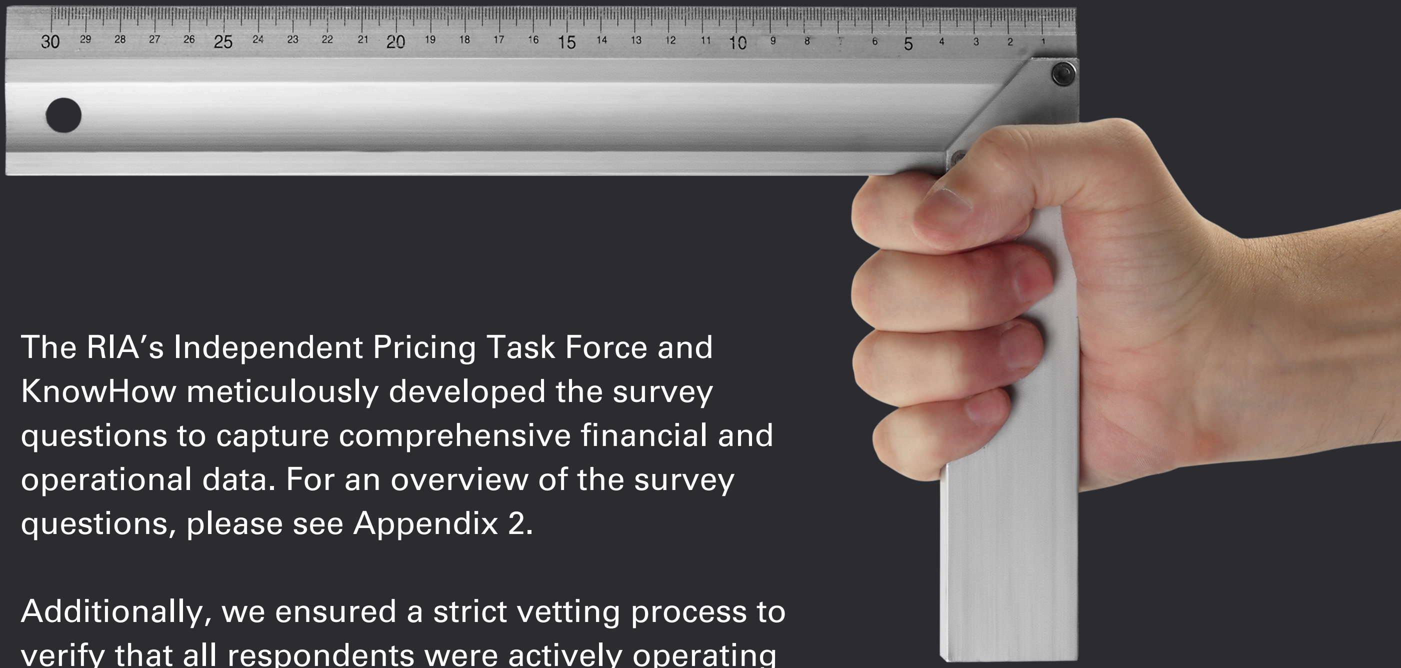
The inaugural 2024 RIA Cost of Doing Business Report, Powered by KnowHow is an initiative designed to provide much-needed financial benchmarks and insights for the data-starved restoration industry. We called on business owners, managers, CFOs, COOs, and other individuals with a strong understanding of their company's financial details and operational costs to complete the survey—but the results are designed to be valuable for everyone in the industry, not just financial leaders.

Our goal is to make this report as accessible and reader-friendly as possible for the entire industry, no matter your position within it. You do not need to be a financial expert or industry veteran to understand, benefit from, or use the information provided in the report. In addition to being data-starved, we know the industry is time-starved—and we're not about to compound the problem with dense, overly technical financial jargon and figures.

As such, you'll find myth-busting call-outs throughout the report, where we identify and assess common industry beliefs—determining whether they are true, busted, or inconclusive, and explaining the reasons why. When statistically relevant, we'll also delve into what the top and bottom 25% of companies are doing differently to offer insights from both ends of the performance spectrum. Finally, each section ends with discussion questions to help you activate the report within your own business and drive meaningful conversations.

Data Collection and Validation

- All financial data is reported in and/or converted to USD
- Data reflects figures from the end of the fiscal year in 2023
- Data was validated and anonymized, with individual responses aggregated for privacy



The RIA's Independent Pricing Task Force and KnowHow meticulously developed the survey questions to capture comprehensive financial and operational data. For an overview of the survey questions, please see Appendix 2.

Additionally, we ensured a strict vetting process to verify that all respondents were actively operating restoration companies, maintaining the integrity and accuracy of the data. All financial data is reported in or converted to USD for consistency with the goal of standardizing comparisons and benchmarks so that they are accurate and meaningful across the diverse range of participating companies. All data collected reflects figures from the end of the fiscal year in 2023.

To maintain the highest level of accuracy, we reviewed and validated the data from survey responses. Outliers and inconsistencies were addressed to enhance data reliability. Individual responses were then aggregated to create meaningful benchmarks and averages. Data was also segmented to allow for more precise comparisons within specific categories.

Confidentiality was paramount throughout the data collection process. Survey responses are anonymized and used solely to compile aggregate insights and trends. In addition, everyone involved in the analysis of the data signed non-disclosure agreements to ensure privacy was protected. Visit the following link to read the full 2024 RIA Cost of Doing Business Privacy Statement.

TABLE OF CONTENTS

INTRODUCTION

WHAT IS THE TRUE COST OF DOING BUSINESS IN RESTORATION?

On the surface, understanding the cost of doing business hinges on how your financials stack up against the industry—measuring gross profit, net profit, overhead, variable costs, and other metrics.

But in reality, it extends far beyond balance sheets and profit margins.

Restoration is built on human stories: Businesses racing against time to rebuild, families waiting to return to their homes, communities striving to recover, and workers making sacrifices to serve others on the worst day. That means that in our industry, the true cost of doing business includes sleepless nights, missed family gatherings, a stomach for the unpredictable and chaotic, and a relentless amount of pressure to remain competitive in the market.

But if we operate from a place of shared knowledge, where systems and processes not only enhance business efficiency but also reclaim precious time for what truly matters, we can begin to address the full scope of the costs of doing business. These costs include both the tangible and intangible, the financial and the personal.

At the end of the day, this report is more than a collection of data. It's a blueprint for a future where business success in restoration honors both current economic realities and the unmatched perseverance that characterizes the people of this industry.

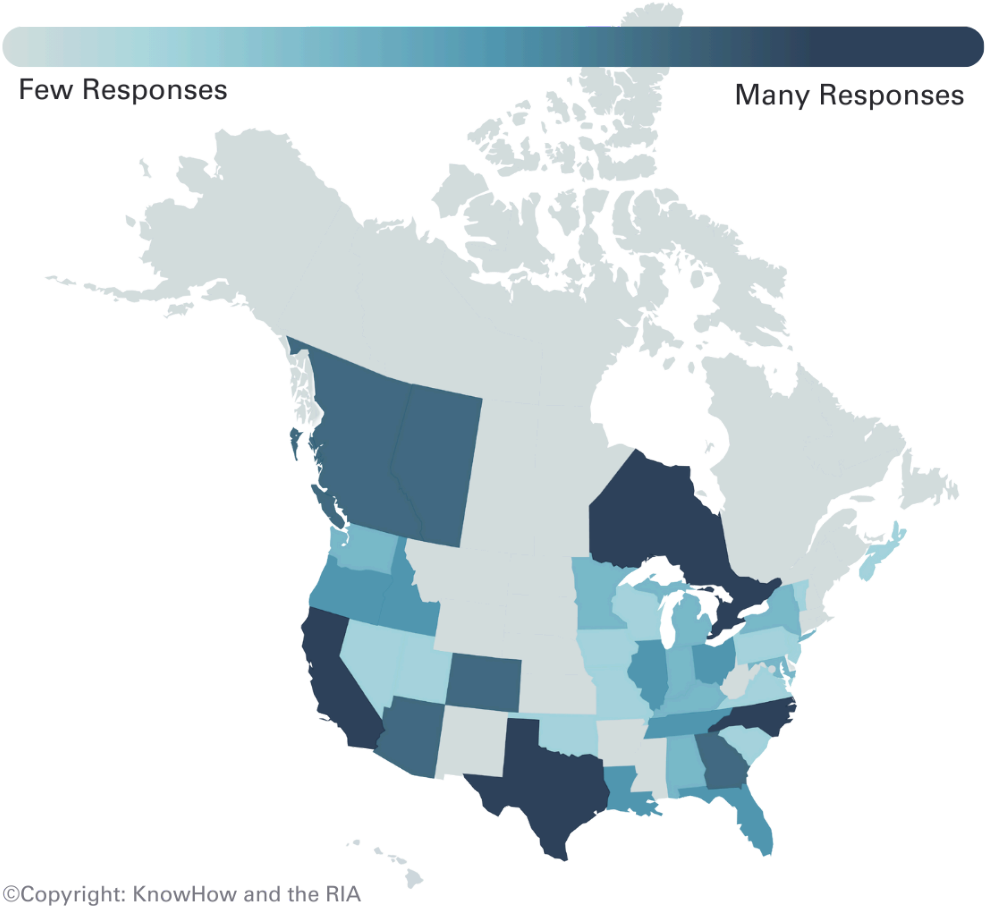
DEMOGRAPHICS

Speaking of being people-powered, let's look at a breakdown of survey respondents. The survey includes businesses with a wide range of experience, from those relatively new to the industry to those with longstanding legacies and decades of experience.

Overwhelmingly, however, 84% of participating restoration companies are based in the United States, with headquarters covering 32 of the 50 states. Where these companies are based does not necessarily reflect where they have offices or conduct work, as many operate across multiple states.

Businesses that are a part of the industry's leading

WHERE IS YOUR COMPANY LOCATED?



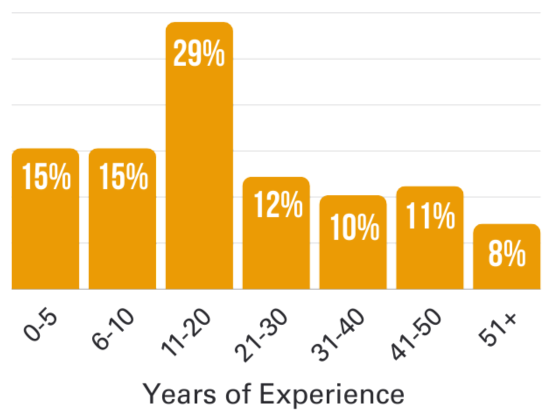
ARE CANADIAN RESTORATION COMPANIES LESS PROFITABLE THAN THEIR U.S. COUNTERPARTS?

find the answer on page 60

member association showed up strong, with 69% of respondents identifying as RIA members. This high level of participation underscores the strong industry engagement and commitment to advocacy support among RIA members.

Nearly three-quarters of respondents operate two locations or less, indicating a predominance of small to medium-sized businesses (SMBs) represented in the

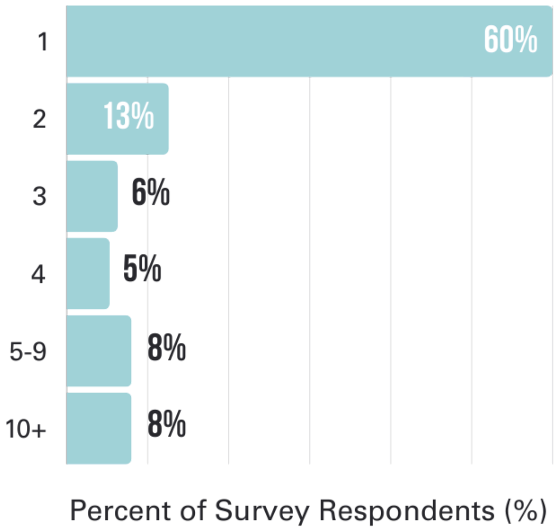
RESTORATION INDUSTRY EXPERIENCE



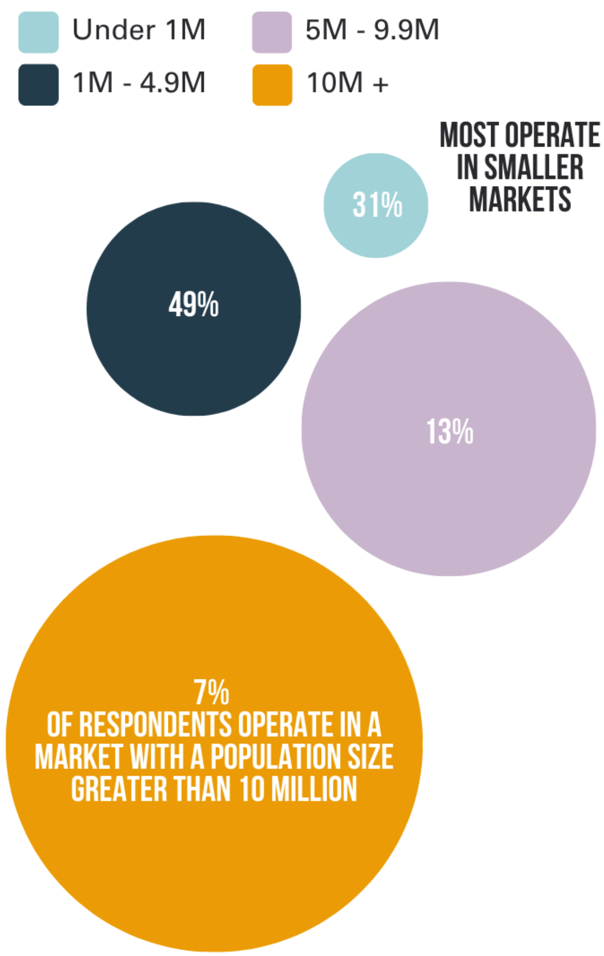
92% OF RESTORATION COMPANIES REPORTING OVER $10M IN TOTAL ANNUAL GROSS REVENUE ARE RIA MEMBERS

The benefits of being an RIA member, such as advanced certifications, mentorship programs, exclusive discounts, and more, seem to empower restoration companies to achieve higher revenue.

NUMBER OF LOCATIONS



POPULATION SIZE OF PRIMARY MARKET



data. Though industry headlines often spotlight the activities of large independent firms or familiar franchise brands, the property restoration industry relies on a large foundation of SMB companies.

In fact, roughly 60% of respondents are single-location businesses—arguably making this report more approachable and useful to the average restorer. With many smaller businesses represented, this data can also help in local advocacy efforts and interactions with insurance representatives, providing a clearer picture of the industry beyond just the biggest players.

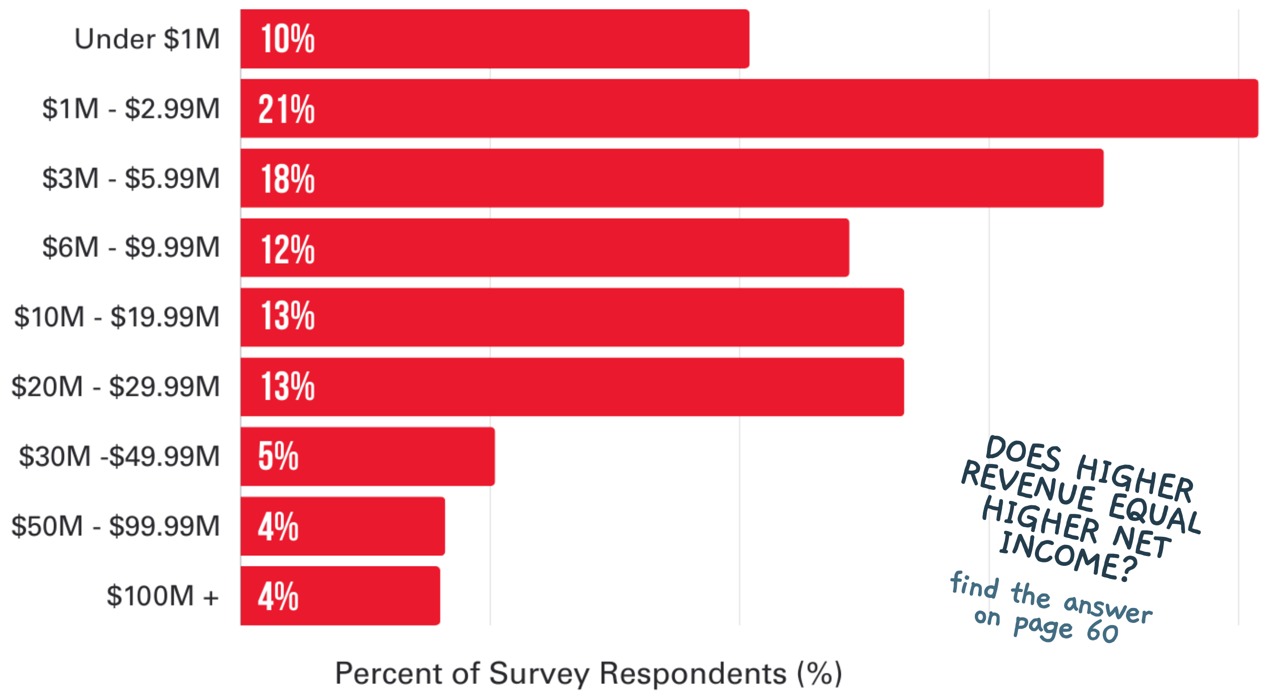
ANNUAL GROSS REVENUE

The data on annual gross revenue shows a somewhat balanced landscape, with a healthy distribution across brackets.

Interestingly, businesses generating under $1M in revenue and those generating between $30-100M each represent about 10% of the market, representing an equal distribution at both the highest and lowest ends of the revenue spectrum.

Besides these bookends, the mid-range ($1M - $5.99M) makes up a predominant piece of the pie. This points to considerable growth potential for small and medium-sized businesses looking to scale up, enhance their market share, and expand—which seems to correlate with significantly higher average revenues.

TOTAL ANNUAL GROSS REVENUE FOR FISCAL YEAR 2023



AVERAGE GROSS ANNUAL REVENUE

- Businesses with 1-2 locations: $7M
- Businesses with 3-8 locations: $25M
- Businesses with more than 9 locations: $257M

Only 23% of businesses with 1-2 locations generate upwards of $10M (and none represented in our data surpass the $30M-$50M), further emphasizing the importance of location expansion to break through certain revenue brackets.

But is bigger always better?

We'll have a clearer picture with year-over-year data and more survey responses from larger enterprise companies in future surveys to know for sure. For now, keep in mind that profitability is influenced by a variety of factors beyond just revenue—operational efficiency, cost management, and market conditions to name a few.

DISCUSSION QUESTIONS FOR TEAMS

1. What impact would an additional physical location have on our organization? How would we scale all aspects of our operation if we were to consider this?

2. Would it be useful for our company to calculate a “Revenue Per Regional Headcount” (divide annual revenue by population to determine our average revenue per headcount) to assess our current market share?

3. Would it be beneficial for our company to create a list of property restoration firms in our area, noting which are multi-location and which are single-location, to help us understand the competitive landscape in our region?

4. **If not already an RIA Member:** What would we need to learn about the Restoration Industry Association to determine if our company should join this leading industry association?

SECTION SUMMARY

Industry Composition and Engagement

- Survey respondents range from newcomers to the industry to companies with decades of experience, showcasing a broad spectrum of operational maturity.
- **84%** of respondents are based in the United States, covering **32 states**.
- **69%** of respondents are RIA members, highlighting strong industry engagement.
  - **92%** of companies with over $10M in revenue are RIA members, suggesting RIA membership supports achieving higher revenues through certifications and mentorships.

Small to Medium-Sized Businesses (SMBs)

- Nearly three-quarters of respondents operate **two locations or less**, indicating a predominance of SMBs in the restoration industry.
- Roughly **60%** are single-location businesses, reflecting the importance of local advocacy and interactions with insurers for smaller firms.

Annual Gross Revenue Distribution

- Businesses with revenue under $1M and those between $30M-$100M each represent about **10%** of the market, showing a balanced landscape.
- The mid-range ($1M-$5.99M) dominates, pointing to growth potential for SMBs to scale and increase market share.

Revenue and Location Correlation

- Average revenues increase significantly with more locations:
  - 1-2 locations: **$7M**
  - 3-8 locations: **$25M**
  - 9+ locations: **$257M**
- Only **23%** of 1-2 location businesses generate over $10M, none surpassing $30M-$50M, highlighting the role of expansion in revenue growth.

Conclusion

- A clearer picture will emerge with more data and responses from larger enterprises. For now, growth potential exists for SMBs, and revenue alone doesn't dictate profitability.

SECTION 1

INDUSTRY BENCHMARKS AND PERFORMANCE ANALYSIS

In this section, we will seek to understand the financial performance metrics of restoration companies with the goal of uncovering baselines, identifying trends, and bringing a new level of awareness to an industry that traditionally gets stuck operating in silos. We're interested in how companies manage their overall financial health, with the aim of helping restoration leaders use their own financial data for more strategic planning and performance analysis.

REVENUE DISTRIBUTION

BREAKDOWN BY CATEGORY

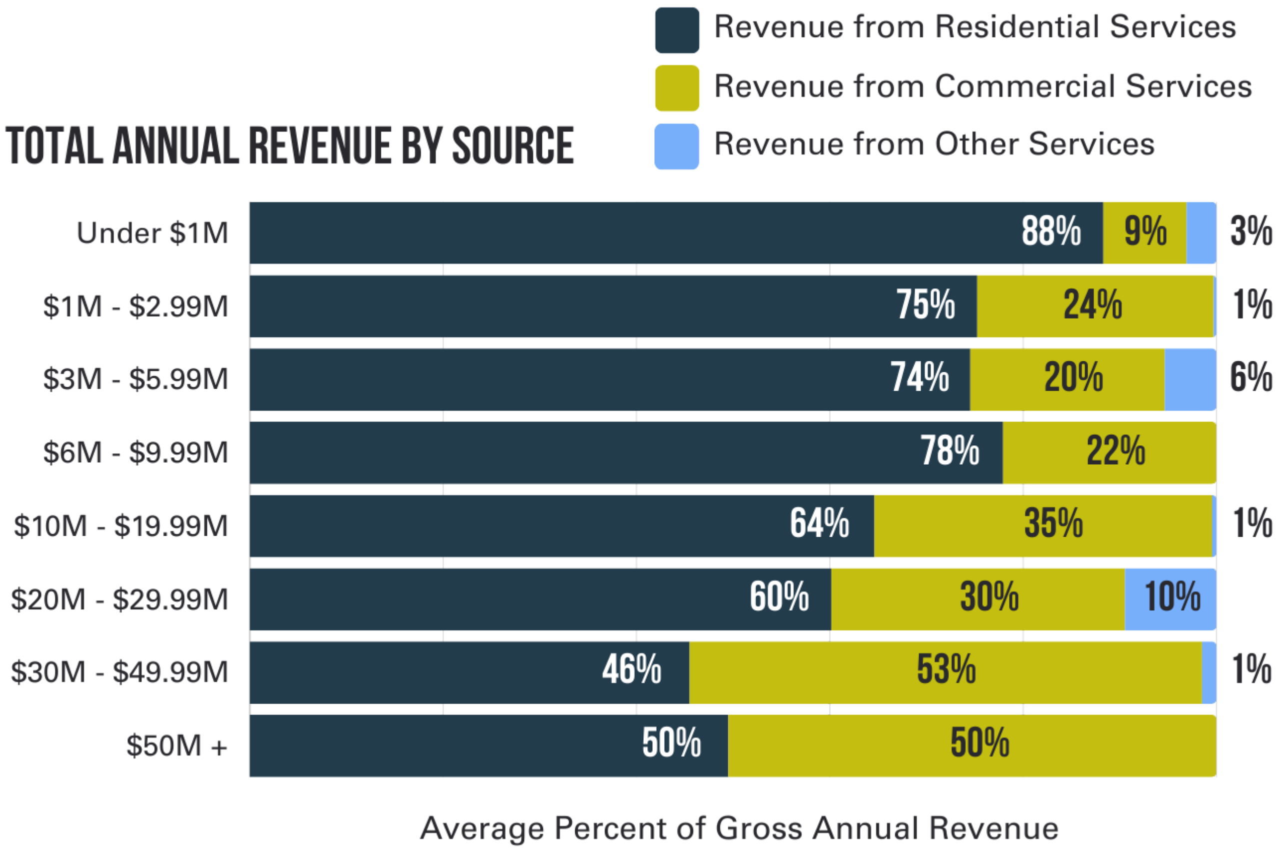
Commercial

Three-quarters of all respondents indicated that commercial services account for **less than 30%** of their total revenue.

Residential
Alternatively, residential services dominate. Accounting for over 70% of revenue for nearly half of our respondents, the industry maintains a continued focus and reliance on residential work.

Other
The 'other' category contributes minimally to the overall business revenue for the majority of restoration businesses we assessed.

Revenue Mix Analysis: The Path to Growth through Commercial Work
Among respondents, companies that achieve higher revenue levels are those that successfully balance their revenue mix between residential and commercial work. A strong reliance on residential revenue tends to position companies closer to the lowest 25% in total annual gross revenue.



The data suggests that to move into higher revenue brackets, companies need to diversify their revenue streams and increase their share of commercial work. Smaller companies should carefully evaluate the implications of actively pursuing commercial work, as a larger scale of operation is often necessary to support this expanded revenue focus.

But the need to diversify revenue streams might not be news to restoration leaders.

In fact, according to the 2023 C&R State of the Industry, Powered by KnowHow, nearly half of respondents expressed a desire to achieve a 50/50 split between residential and commercial work but fell short of achieving this balance.

There is a growing awareness and desire among restoration companies for a more balanced revenue mix, yet significant barriers remain to entering and expanding within the commercial market. These challenges include:

- **Strong cash position to manage longer payment cycles:** While day-to-day commercial payments might align with residential timelines, larger commercial projects typically require a stronger cash position to navigate delayed payments.
- **Operational infrastructure to handle larger-scale projects:** Commercial projects demand a different skill set and training for staff, as well as investments in more specialized equipment and subcontractors. Companies must have the operational capacity to scale their workforce quickly, as needed.
- **Human resources capacity:** The ability to increase headcount rapidly and efficiently is crucial for meeting the demands of larger commercial projects.
- **Established relationships with larger-scale subcontractors:** Building a reliable network of subcontractors who can handle the scale and complexity of commercial work is vital for success in this market.
- **Time and effort to build long-term relationships:** Developing trust and long-standing partnerships with commercial clients can take significant time and effort but is essential for securing repeat business.
- **Defined and scalable operational playbook:** A scalable and adaptable operational framework is crucial for managing complex commercial projects. Many firms leverage tools like KnowHow to create and maintain this operational playbook.

Despite these challenges, the potential rewards make it a worthy goal for restoration companies looking to achieve higher revenue and sustainable growth. In addition to location expansion, growth-minded teams can evaluate their desired commercial revenue mix one year, two years, and three years out and take time to outline a plan for each barrier to entry listed above.

BREAKDOWN BY SERVICES

Reconstruction

Though there's a somewhat wider range of revenue contributions among respondents, a significant slice still relies heavily on reconstruction services as their main revenue driver. Almost half of companies (46%) rely on recon for

LOOKING TO EXPAND RECONSTRUCTION SERVICES AND BUILD A STRONGER WORKFORCE?

Companies looking to expand their reconstruction services and grow their teams may find valuable insights in KnowHow's previous industry study, Why Workers Quit, the largest workforce study conducted on the restoration industry. The study revealed that when hiring for reconstruction team members in the broader restoration industry:

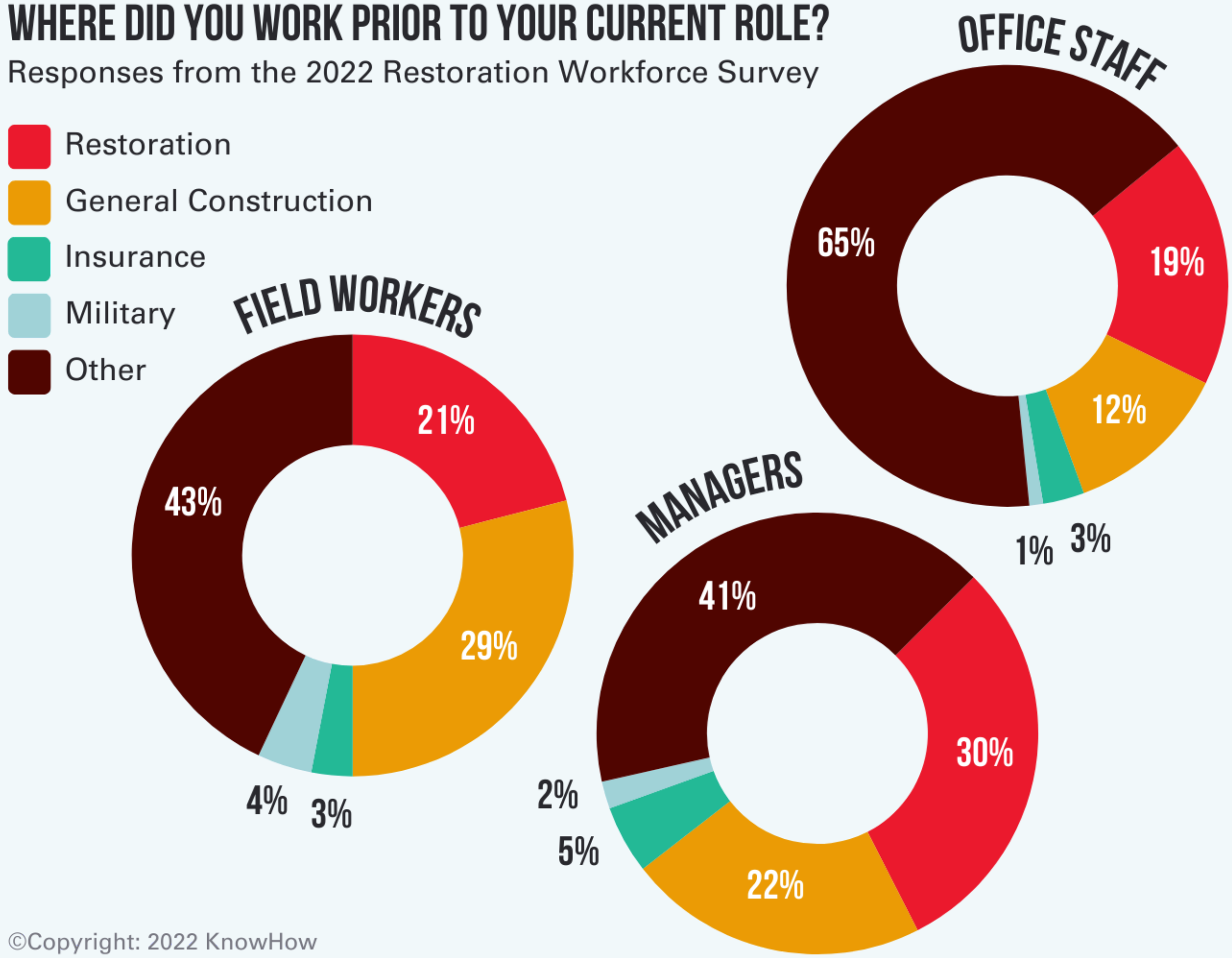
- 65% of successful candidates for office positions had no prior experience in the general construction industry.
- 43% of field positions were filled by candidates without previous general construction experience.
- 40% of management positions were filled by candidates with no general construction industry experience.

SCAN TO DOWNLOAD THE FREE EBOOK

This data highlights a significant challenge for restorers: Not only do they need to solve for cash flow and staffing capacity, but they must also address the skill and training gap among new hires. Today, KnowHow is the leading solution for onboarding, training, and supporting on-the-job industry guidance in a private mobile app branded to your company, helping to bridge the skills gap for new employees effectively.

WHERE DID YOU WORK PRIOR TO YOUR CURRENT ROLE?

Responses from the 2022 Restoration Workforce Survey



over 50% of their total revenue.

What's intriguing is that 21% of companies derive very little revenue from reconstruction, whereas 18% lean heavily on it for 70% or more—a stark division in how companies approach their mix with this core service.

Mitigation

Mitigation services represent another core area for restoration companies and play an important role in nearly all revenue mixes. Interestingly, there is a balanced split in how much companies rely on mitigation services for their revenue.

About 23% of companies generate 60% or more of their revenue from mitigation, and nearly the same percentage of companies fall into each of the other ranges (10%-24%, 25%-39%, 40%-59%). This even distribution suggests that mitigation is a versatile service line, with companies able to adapt it to different business models and market demands.

Contents

The majority of companies generate less than 10% of their revenue from contents services, save for a handful of more niche operations.

Environmental Services

Similarly, many respondents do not generate any revenue from environmental services at all. For those that do, the contributions are generally small, with only a handful of companies reporting 20% or more of their revenue from this category.

Other

The revenue contribution in the 'other' category is generally low, a sign that these services are supplementary for most restorers.

Service Revenue Dynamics: Diversifying your Crops

Companies with annual gross revenue under $3M tend to rely more heavily on core services like reconstruction and mitigation. By contrast, similar to the

TOTAL ANNUAL GROSS REVENUE FOR FY2023

	Under $3M	$50M+
Average % Reconstruction Revenue	51%	36%
Average % Mitigation Revenue	60%	34%
Average % Contents Revenue	13%	5%
Average % Environmental Revenue	11%	6%
Average % Other Revenue	1%	3%

balanced mix seen with residential and commercial revenue, companies on the highest ends of the revenue spectrum demonstrate a more diversified revenue stream.

Diversification likely contributes to the financial stability and growth potential of higher-earning restoration companies, as it reduces the dependency on any single service category and spreads out risk more evenly. It's like planting multiple crops instead of relying on a single harvest. If it's a bad year for wheat, you've always got corn!

KEY PROFITABILITY METRICS

THIRD-PARTY ADMINISTRATORS

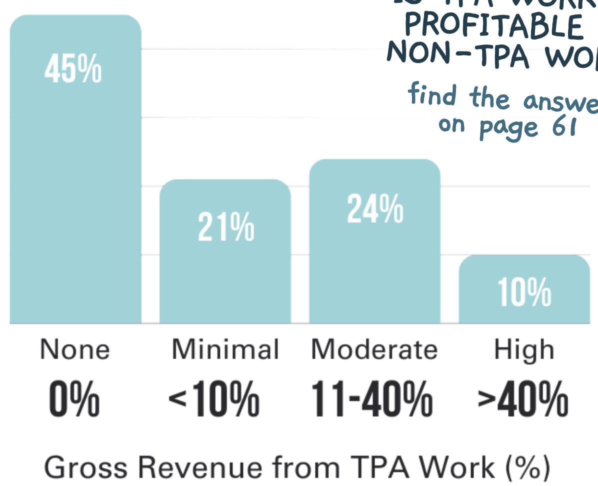
Third-Party Administrators (TPAs) continue to play a significant role in the restoration industry, handling essential tasks like claims processing and oversight for large insurance carriers. For many restoration companies, TPAs are like food delivery apps for restaurants: They provide a consistent and stable source of leads that they might not have accessed on their own. On the other hand, just as restaurants have to deal with the fees and logistics associated with delivery apps, restoration companies must manage a higher administrative burden and share a portion of their revenue with TPAs.

Overall, the majority of respondents are not heavily reliant on TPAs for their revenue.

- **45%** of companies have no TPA involvement (0% of revenue from TPAs).
- **21%** of companies have minimal TPA involvement (0.5%-10% of revenue from TPAs).
- **23.5%** of companies have moderate TPA involvement (11%-40% of revenue from TPAs).
- **10%** of companies have high TPA involvement (41%-100% of revenue from TPAs).

Still, attitudes toward TPAs are divided. Some restorers appreciate the steady flow of work TPAs provide, seeing it as a dependable way to keep their businesses running smoothly. Others are reluctant to give up part of their profits and prefer to generate leads independently. But with more control

THIRD-PARTY ADMINISTRATOR USAGE BY PERCENT OF GROSS REVENUE



IS TPA WORK AS PROFITABLE AS NON-TPA WORK?

find the answer on page 61

over business comes the need to hire more sales and marketing staff to bring in business.

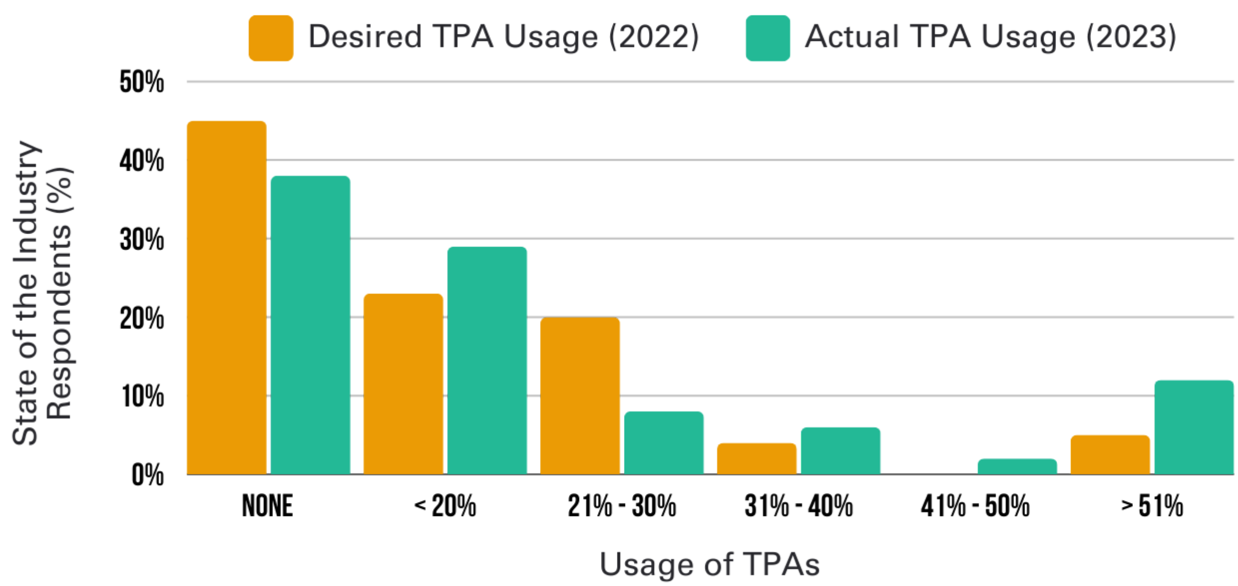
The additional administrative toil might explain why respondents with higher TPA work involvement have higher mean labor overhead costs (28%) compared to those with lower TPA work involvement (23%).

TPA Work and its Complex Relationship to Revenue and Profitability

Digging deeper, we find mixed results when trying to iron out the relationship

DESIRED USAGE (2022) COMPARED TO ACTUAL USAGE (2023) OF TPAS

Responses from the 2023 C&R State of the Restoration Industry Report



RIA RESOURCE: TPA SCORE CARD

The Third Party Administrator (TPA) Scorecard from the RIA Advocacy and Government Affairs (AGA) Committee provides insights into contractors' experiences working with TPAs. By driving transparency and collaboration, the Scorecard aims to improve outcomes within the TPA environment.

between TPA work and profitability.

But there's good news for companies who want to reduce their reliance on TPAs or maintain full autonomy: 42% of companies deriving 0% of their revenue from TPAs saw their net income increase or remain the same from 2021 to 2023. Similarly, 41.5% of these companies saw their gross revenue increase or remain the same over the same period.

Nothing in life is guaranteed—restorers know this better than most. While TPA involvement can provide significant revenue and steady work, it does not automatically translate to higher profitability. Companies should consider their unique circumstances, operational efficiencies, and strategic goals when deciding on their level of TPA involvement.

GROSS PROFIT MARGIN

In our survey, we defined gross profit margin as the ratio of gross profit (total revenue minus cost of goods sold) to total revenue, expressed as a percentage.

Nearly one-third of respondents report gross profit margins in the 40%-69.9% range.

AVERAGE GROSS PROFIT MARGIN BY GROSS ANNUAL REVENUE (FY2023)

Gross Revenue	Gross Profit Margin
Under $1M	57%
$1M - $2.99M	44%
$30M - $49.99M	43%
$50M +	42%

NET INCOME

Net income, often referred to as the bottom line, is a crucial indicator of a company's profitability and financial health. It represents the total earnings of a company after all expenses, including taxes and interest, have been deducted from total revenue. Our survey reveals a wide range of net income percentages across different revenue tiers.

The breakdown below highlights that while a significant portion of companies (44%) have net incomes below 10%, a notable group (22%) achieve net incomes of 20% or higher.

Negative Net Income (8% of companies)

- **Below -15%:** 3%
- **-15% to -1%:** 5%

Positive Net Income (92% of companies)

- **0-4.9%**: 28%
- **5-9.9%:** 16%
- **10-14.9%:** 17%
- **15-19.9%:** 10%
- **20-24.9%:** 7%
- **25-29.9%:** 4%
- **30-39.9%:** 7%
- **40% and above:** 4%

AVERAGE NET INCOME AS A PERCENT OF GROSS ANNUAL REVENUE (FY2023)

Gross Revenue	Net Income (%)
Under $1M	19%
$1M - $2.99M	8%
$30M - $49.99M	15%
$50M +	8%

Key Observations:

- **Companies reporting net incomes under 10%**: Approximately 52% of companies report net incomes under 10%. This includes both companies with negative net income and those with positive net income up to 10%.
- **Revenue Tiers and Net Income**: Companies in both the $1M-$2.99M and $50M+ revenue tiers have an average net income of approximately 8%.

Going deeper, it's important to consider the concept of net income normalization, particularly for smaller businesses with gross revenues under $5M. Normalization involves adjusting financial results to remove anomalies or irregularities, offering a clearer view of ongoing profitability. For smaller companies, factors like owner compensation practices or one-time expenses can significantly impact reported net income. By normalizing these figures, we can better compare across companies and identify true performance trends.

REVENUE TRENDS (2021-2023)

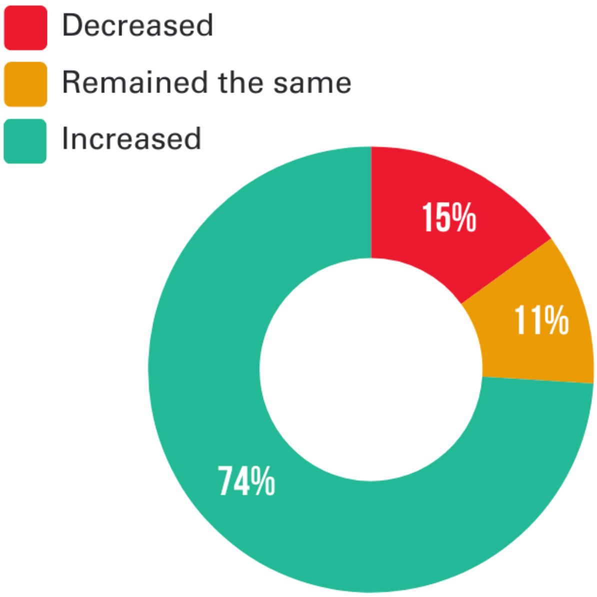
Restorers know how to weather a storm—literally and figuratively. The increase in revenue for most companies suggests a successful adaptation to changing conditions and economic headwinds.

But how about the more mixed net income results?

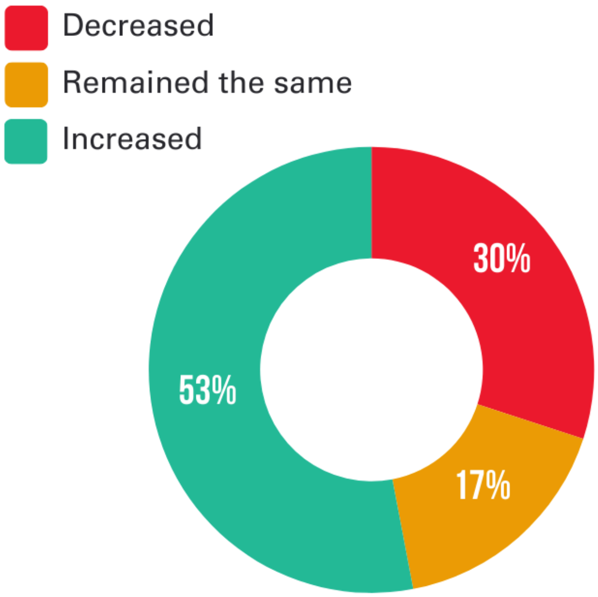
These show that turning revenue growth into profitability is still a challenging form of alchemy for many.

For companies looking to improve their financial health, focusing on operational efficiencies and cost management will

CHANGE IN GROSS ANNUAL REVENUE BETWEEN 2021 AND 2023



CHANGE IN NET INCOME BETWEEN 2021 AND 2023



be key. Those who have maintained or increased their net income likely have strong financial controls in place.

FINANCIAL HEALTH

For restoration leaders, grasping the ins and outs of assets and liabilities is essential for the financial health of the business, allowing for more informed decisions that drive growth.

Assets are the backbone of your operation and include everything from cash and accounts receivable to your fleet of vehicles and specialized equipment. Managed correctly, they'll open doors to bigger jobs and pave the way for scaling your business.

Please note that the numbers are based on 2023 year-end financials—significant timing, as many companies tend to have increased expenditures at the end of the year. Keeping this in mind will help you better understand the context of the data and make more accurate comparisons.

Methodology Note: This analysis uses median values to represent typical asset and liability structures in the property restoration industry. Medians were chosen over averages to minimize the impact of outliers and potential data entry errors, providing a more representative view of both sides of the balance sheet. This approach is especially useful given the diverse range of company sizes and occasional inconsistencies in reported financial data.

ASSETS

Accounts & Notes Receivables

- This is the largest asset category across all company sizes, representing a median of 22% of annual revenue. This high percentage may reflect the credit-based nature of many transactions in the property restoration industry.

Other Current Assets

- This category represents 7% of annual revenue, with larger companies showing a higher percentage (9.50%) compared to smaller companies (6.67%).

Total Assets

- According to our survey

AVERAGE ASSET PERCENTAGES (MEDIAN % OF ANNUAL GROSS REVENUE)

Asset Category	All Companies	Under $3M	$50M+
Cash	7%	10%	5%
Accounts & Notes Receivables	22%	21%	24%
Other Current Assets	7%	7%	10%
Total Assets	45%	43%	55%

These percentages represent typical values for each category across the industry according to survey data, not portions of a whole that should sum to 100%.

respondents, the median company in the property restoration industry maintains total assets equivalent to 45% of its annual revenue.

- Larger companies (over $50M revenue) tend to have higher asset-to-revenue ratios (55%) compared to smaller companies under $2.99M (43%).

Companies generating over $50M a year have a higher average asset base than those generating under $3M. These larger companies have more financial stability and resources, allowing them to invest in new projects and stay competitive.

So how can smaller restoration companies boost their asset base? Here are a few things to consider.

- **Exercise owner restraint and reinvest profits back into the business:** Ensure that profits are being used to grow the company rather than being taken out for personal use.
- **Focus on collections processes to reduce turn on accounts receivable**: Improve cash flow by collecting outstanding invoices more quickly.
- **Improve cash flow management**: Monitor and manage cash flow to ensure liquidity and financial stability.
- **Enhance operational efficiency:** Streamline operations to reduce costs and increase productivity.

- **Diversify service offerings**: Expand the range of services to attract a broader customer base and reduce reliance on any single revenue stream.
- **Use financing options like loans or leases to acquire high-value assets**: Leverage external financing to invest in necessary equipment and infrastructure without depleting cash reserves.
- **Invest in technology and automation**: Implement technological solutions to increase efficiency and reduce manual labor costs.
- **Expand geographically**: Grow the business by entering new markets and reaching more customers.
- **Form strategic partnerships to access necessary resources**: Collaborate with other businesses to share resources and expertise.
- **Participate in government grant programs**: Take advantage of available grants and subsidies to fund business growth and development.

LIABILITIES

Liabilities are the debts and obligations your business must manage, ranging from short-term debts like payroll and supplier invoices (current liabilities) to long-term debts such as mortgages and

AVERAGE LIABILITY AND OWNER'S EQUITY PERCENTAGES (MEDIAN % OF ANNUAL GROSS REVENUE)

Category	All Companies	Under $3M	$50M+
Current Liabilities	15%	13%	22%
Long-term Liabilities	3%	0%	0%
Owner's Equity	22%	21%	7%
Total Liabilities and Owner's Equity	45%	43%	55%

These percentages represent typical values for each category across the industry according to survey data, not portions of a whole that should sum to 100%.

equipment loans (long-term liabilities). Balancing these liabilities with your assets is key to keeping your business running smoothly and padding out your financial flexibility.

Overall, data suggests that companies in this industry rely more on short-term financing (current liabilities) than long-term debt. Larger companies tend to operate with higher liabilities relative to their revenue, while smaller companies maintain higher proportional owner's equity.

Current Liabilities

- The median company represented in our survey holds current liabilities equivalent to 15% of its annual revenue.
- Larger companies tend to have higher current liabilities (22%) compared to smaller companies (12.5%).

Long-term Liabilities

- The median long-term liabilities across all companies is 3% of annual revenue.
- For both smaller (<$2.99M) and larger ($50M+) companies, the median is 0%, indicating that more than half of the companies in these categories report no or very low long-term liabilities.

However, this doesn't tell the whole story. The mean (average) long-term liabilities are:

- 6% for companies <$2.99M
- 3% for companies $50M+

While it's common for companies represented in the data to operate with minimal long-term debt, a significant minority do utilize long-term financing as part of their capital structure. This variation might reflect differences in business strategies, access to financing, or the nature of specific company operations within the industry.

Owner's Equity

- The median owner's equity is 22% of annual revenue. Smaller companies show higher owner's equity (21%) compared to larger companies (7%), which might indicate different capitalization strategies or reinvestment practices.

Total Liabilities and Owner's Equity

- The median total liabilities and owner's equity is 45% of annual revenue.
- Larger companies show a higher percentage (55%) compared to smaller companies (43%).

DISCUSSION QUESTIONS FOR TEAMS

1. What educational resources or workshops can we offer to clients to help them understand the restoration process and the value we provide?
2. How can we diversify our revenue streams to include more commercial work without overextending our current resources, and which new higher-margin services (such as environmental remediation) could we introduce that align with market demand?
3. What market research do we need to conduct to gauge demand for services and develop a diversification strategy to overcome obstacles for growth?
4. Are we creating value-add services that solve problems for our target market?
5. What steps can we take to improve debt management and reduce liabilities while maintaining necessary investments for growth? Are we reviewing our current liabilities, and would it be beneficial to refinance or consider strategies to pay down high-interest debt?
6. Given the industry financial benchmarks in this report, what should our target and aspirational goals be for next year's profitability, and how do we compare to similar organizations?
7. How can we enhance our financial planning processes to anticipate market changes and make proactive decisions effectively?
8. How can we improve our internal financial planning rhythms, including regularly updating our financial forecasts and budgets and discussing the results with our management team?

9. How can we improve our internal financial planning to make more informed decisions about investments, expansions, and cost management, while setting goals based on industry benchmarks?

10. Are we making investments to equip our team with the processes, workflows, systems, and structure needed to expand operations while maintaining rigor and consistency?

11. What are the potential benefits and challenges of forming strategic partnerships with other industry stakeholders, and how can these align with our company culture and direction?

SECTION SUMMARY

Revenue Distribution by Category:

- **Commercial Services:**
  - 75% of companies report commercial services account for less than 30% of their revenue.
  - Indicates a strong focus on residential work within the industry.

- **Residential Services:**
  - Nearly 50% of respondents report residential services make up over 70% of their revenue.
  - Highlights the industry's heavy reliance on residential projects.

- **Other Revenue Sources:**
  - Minimal contribution to overall business revenue.

Revenue Mix Analysis:

- Companies with higher revenues balance residential and commercial work.
- Smaller companies often rely more heavily on residential work, which is

- linked to lower total annual gross revenues.
- Barriers to commercial expansion include cash flow management, infrastructure needs, and building client relationships.

Breakdown by Services:

- **Reconstruction:**
    - 46% of companies rely on reconstruction for over 50% of their revenue.
    - Strong reliance on reconstruction services suggests a focus on these projects for growth.

- **Mitigation:**
    - Balanced reliance across companies, indicating versatility.
    - Nearly equal distribution across revenue dependency ranges.

- **Contents and Environmental Services:**
    - Most companies report less than 10% of revenue from these services.
    - Reflects a niche market within the industry.

Service Revenue Dynamics:

- Diversification is key for financial stability and growth.
- Higher-revenue companies often demonstrate a balanced revenue mix across service categories.

Key Profitability Metrics:

- **Third-Party Administrators (TPAs):**
    - Mixed attitudes toward TPA involvement.
    - Companies using TPAs have higher administrative overhead costs.

- **Gross Profit Margin:**
    - Higher GPM is typically linked to strategic business choices and service offerings.

- **Net Income:**
    - Approximately 52% of companies report net income under 10%, including both negative and low positive net incomes.
    - Normalizing net income can help reveal true performance by removing anomalies.

- **Revenue and Net Income Trends (2021-2023):**
  - 73.5% reported increased revenue.
  - 53% reported increased net income, suggesting operational improvements.

Financial Health and Liabilities:

- **Assets:**
  - Median total assets are 45% of annual revenue across all companies.
  - Larger companies ($50M+) have higher asset-to-revenue ratios (55%) compared to smaller companies under $2.99M (43%).
  - Accounts & Notes Receivables is the largest asset category, at 22% of annual revenue.
  - Smaller companies maintain higher cash reserves (10% of revenue) compared to larger companies (5%).

- **Liabilities:**
  - Current liabilities (15% of revenue) are more common than long-term liabilities (3% of revenue).
  - Larger companies have higher current liabilities (22%) compared to smaller companies (12.5%).
  - Many companies operate with minimal long-term debt, but practices vary.

- **Owner's Equity:**
  - Median owner's equity is 22% of annual revenue.
  - Smaller companies show higher proportional owner's equity (21%) compared to larger companies (7%).

SECTION 2

PROFITABILITY DRIVERS

Profitability in the restoration industry isn't just a numbers game. It's about understanding the nuances that drive success, kind of like knowing the right tools and techniques to use for different types of damage. From the fast-paced, personal demands of residential jobs—where homeowners are anxious to return to normal—to the meticulous planning and compliance requirements of commercial projects, each revenue stream has its own impact on your financial health.

Within the scope and sample size of our inaugural report, our goal is to cultivate an awareness of profitability drivers that spark further considerations, and strategic thinking within your team. As we continue this journey year after year, we'll build trend data, see more and more participation coverage, and strengthen our trends analysis.

We'll explore the impact of different revenue streams, the traditional "10 and 10" model, and the importance of advocacy in pushing for fair pricing ability. Remember, the cost of doing business isn't just a numbers game, and there's no magic formula for profitability. It also comes down to the human elements of advocacy, and the boots-on-the-ground efforts that make a real difference.

OVERHEAD AND PROFIT: RETHINKING THE "10 AND 10" MODEL

Many restorers might say they appreciate traditional values—integrity, strong work ethic, a commitment to an honest day's work, and helping others during their toughest times.

But not all traditions should be carried on.

The insurance industry's time-honored "10 and 10" model, which suggests allocating 10% of revenue to overhead and 10% to profit, is one such tradition that needs rethinking.

UNDERSTANDING MARKUP VS. MARGIN

A common misconception is that a 10% markup results in a 10% profit margin. In reality, a 10% markup results in a margin lower than expected due to the difference in calculation methods.

Specifically, the traditional "10 and 10" model—adding a 10% markup for overhead and a 10% markup for profit—yields only a combined 17% margin on the total cost, not the 20% many assume.

This discrepancy highlights the challenges restoration contractors face in covering true operating expenses and achieving desired profitability, particularly as rising costs and administrative burdens demand a more modern approach.

INCLUSION OF LINE ITEM MARGINS

In the restoration industry, some profit margins are embedded within line items on project estimates and invoices, meaning that a company's total profit margin is not solely determined by "10 and 10." Instead, actual margins can be influenced by additional factors, such as labor overhead included in the retail labor rate.

Example: Labor Overhead in the Retail Labor Rate

Here's a scenario where a restoration company charges $100 per hour for labor. The rate includes not just the wages paid to workers but also the labor overhead—costs associated with project management, training, and administrative support directly tied to labor.

- **$38/hour**: Base Labor Wage
- **$15/hour**: Labor Burden (i.e., Payroll, Taxes, Worker's Comp, Fringe Benefits)
- **$47/hour**: Labor Overhead (i.e., Additional margin needed on labor and material outside any final markup to the estimate)

The practice of including labor overhead in the retail labor rate contributes to profitability beyond the basic 10% overhead added at the project level.

CURRENT OVERHEAD REALITIES

On average, our survey data shows that the gross profit margin across companies is approximately **50%.** With an average net profit margin of about **14%**, the difference gives us an **average overhead percentage of around 36%.** This overhead figure includes all indirect costs, such as administrative expenses, sales and marketing, and other overhead expenses that are not directly tied to project costs.

Notably, the way companies report project management labor significantly impacts their perceived overhead. Some companies classify this labor as part of overhead, while others include it in Cost of Goods Sold (COGS), leading to substantial variations in reported overhead percentages. ***Please see the Project Management in Financials section on page 46 for a detailed discussion on how different cost allocation methods impact financial reporting and overall profitability.***

Methodology Note: To present a clearer picture of overhead costs within the restoration industry, we recalculated these expenses using a reverse engineering method. Since the survey did not explicitly ask for Cost of Goods Sold (COGS), overhead, and net profit directly, we derived these figures by subtracting gross profit from 100% to estimate COGS. Subsequently, overhead was calculated by subtracting net profit from the gross profit margin. This approach ensures that all three components—COGS, overhead, and net profit—add up to 100%.

- **Total Average Overhead:** 36%
- **Overhead Labor:** 27%
  Note: This figure includes labor costs for roles such as accounting, coordinators, admin, and sales. It may also include project management and estimator labor for companies that categorize these roles as overhead. However, the classification of project management and estimator labor varies among companies, with some including these costs in COGS instead.

The table to the right highlights how average overhead labor expenses, specifically, vary by total annual gross revenue, reflecting the scale and complexity of operation.

IS 10 & 10 STILL RELEVANT?
find the answer on page 61

What's causing this discrepancy between traditional expectations and current realities? It's likely several factors. The increasing complexity and scope of restoration projects often require more specialized labor and higher administrative costs. Plus, managing these projects involves more than just the physical restoration work—it includes detailed documentation, compliance with regulatory requirements, and meticulous project management. All these activities drive up overhead costs.

AVERAGE OVERHEAD LABOR % BY TOTAL ANNUAL GROSS REVENUE FOR FY2023

Gross Revenue	Overhead Labor %
Under $1M	30%
$1M - $2.99M	22%
$3M - $5.99M	18%
$6M - $9.99M	30%
$10M - $19.99M	19%
$20M - $29.99M	35%
$30M - $49.99M	28%
$50M - $99.99M	16%
$100M+	22%

RIA RESOURCE: FINANCIAL & ACCOUNTING GUIDELINES

Want to learn more about how restorers allocate project management in their financials? The RIA Accounting and Financial Management Guidelines (AFMG) were developed to provide restoration contractors with a practical understanding of day-to-day accounting and financial management as it applies to operating a restoration business. Written by restorers for restorers, AFMG covers many important financial aspects of running a restoration business.

SCAN TO DOWNLOAD FREE RESOURCES FROM THE RIA

PROFITABILITY DRIVERS AND THE IMPORTANCE OF ADVOCACY

Before 2010, some insurance carriers allowed for higher overhead and profit percentages, up to 19%, based on factors like location and project complexity. This variation better reflected the actual costs incurred by contractors.

Yet here we are, in 2024, where this is often no longer the case, and contractors may feel pressured to accept outdated terms to stay on approved vendor lists—perpetuating the issue but feeling their hands are tied.

Are we going backward?

Despite advancements in technology, current software and AI tools used by companies may not accurately reflect the true costs faced by restoration contractors. Crunching numbers in these platforms often leads to inaccurate results, as they can't account for rapidly increasing labor rates and material costs and can fail to take local market conditions into account in a meaningful way.

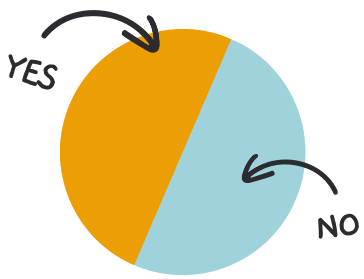
For example, smaller independents face higher material costs without the bulk buying power of large franchise networks. In high-cost cities like San Francisco, restorers face a stark cost disparity compared to smaller cities like Omaha. These discrepancies place the industry at a financial disadvantage, underscoring the need for proactive advocacy to push for fair and transparent pricing models that truly represent the industry's economic realities.

Advocacy through the RIA can lead to greater transparency in independent pricing methodologies to help ensure the sustainability of the restoration industry. Read more here.

Additional Findings and Considerations

- Companies with higher overhead costs, particularly in labor and administrative expenses, do not necessarily have lower profit margins. Efficiency and strategic investment in overhead can lead to higher profitability.
- The standard deviations indicate significant variability in both profit margins and overhead costs, highlighting diverse financial conditions across companies. Our survey sample size would have to be bigger to achieve statistical relevance when filtering the data through geographic location, for example.

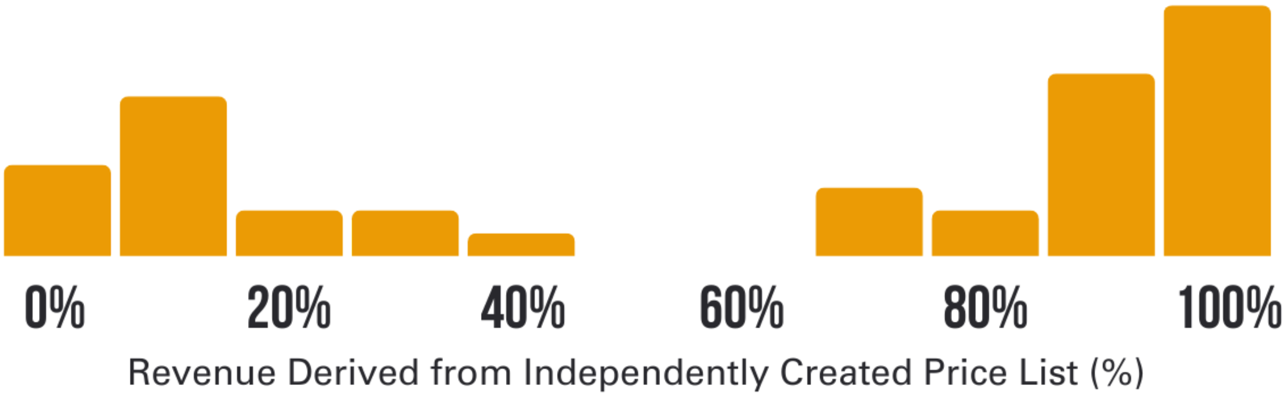
INDEPENDENTLY CREATED CUSTOM PRICE LISTS



The term independently created price list refers to price lists created independently by each restorer (without collaboration with or among other restorers). Some restorers choose to use independently created price lists rather than utilizing or solely relying on the standardized price lists provided by various software providers.

Respondents are split almost perfectly down the middle when it comes to independently created price lists: 49.5% use them, while 50.5% do not.

PERCENTAGE OF REVENUE DERIVED FROM AN INDEPENDENTLY CREATED PRICE LIST, FOR THOSE USING ONE



For those that do use independently created price lists, approximately 36% rely heavily on them—these companies derive 90% or more of their revenue from independently created price lists.

But is it more profitable? Technically, yes!

Independently Created Price List	Average Profitability
No	10%
Yes	15%

Among respondents, data shows that using independently created price lists correlates with an approximately 5% increase in net profit margins.

Insights by Company Size

It should be noted that we'd need more survey participation from companies in the highest gross revenue brackets to break out those tiers further while achieving statistical significance. For analysis, we've grouped them accordingly (see page 36).

Key Takeaways

The analysis of responses reveals a clear trend: Smaller companies, particularly those with under $3M in revenue, experience significantly higher net income when using independently created price lists—approximately 8.5 times higher than those that don't. For

Company Size		Independently Created Price List	Average Profitability
Smaller Companies (Under $3M)		No	2%
		Yes	19%
Smaller to Mid-Sized Companies ($3M - $29.99M)		No	11%
		Yes	13%
Mid-Sized to Larger Companies ($30M+)		No	9%
		Yes	5%

smaller to mid-sized companies ($3M-$29.99M), independently created price lists also contribute to slightly higher profitability.

However, as companies grow larger and exceed $30M in revenue, the advantage of using independently created price lists seems to diminish.

RIA RESOURCE: DEVIATION FROM STANDARDIZED PRICING POSITION STATEMENT

The RIA Advocacy and Government Affairs (AGA) Committee researches and assembles peer-reviewed position statements on issues commonly encountered by restoration contractors. This position statement addresses when insurance carriers and their partners attempt to prohibit deviations from standardized price lists. Restorers can review and discuss the position statement to determine if and how their company would like to incorporate the statement into communications when this issue arises.

SCAN TO DOWNLOAD FREE RESOURCES FROM THE RIA

First of all, nearly three-quarters of companies in this bracket do not use custom pricing at all and report an average net income of 9%.

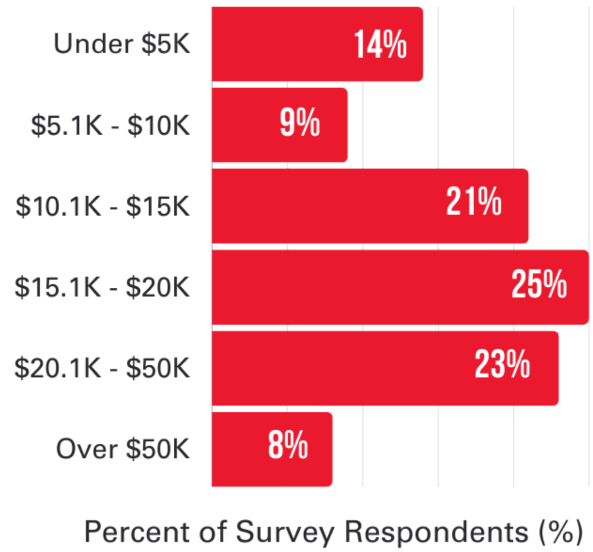
Of the few larger companies that do use independently created price lists, net profitability averages out at 5%—but it's important to keep in mind that the sample size for these companies is too small to draw significant conclusions. Still, we can speculate that, for larger companies, standardized processes and market power may play a more crucial role in achieving high profitability, while smaller companies can leverage independently created price lists to enhance their financial performance.

AVERAGE JOB SIZE

REPAIR/RECONSTRUCTION

As a whole, the majority of all reconstruction jobs land somewhere between $10K and $50K for respondents, indicating that mid-sized projects are the most prevalent. Extremely small or large projects are less common.

AVERAGE JOB SIZE: REPAIR AND RECONSTRUCTION

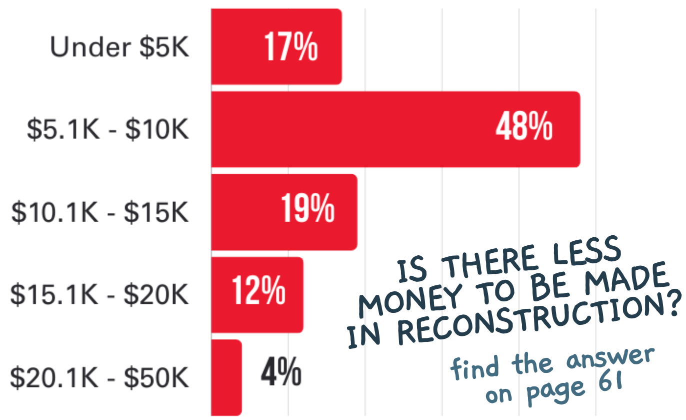


MITIGATION

Mitigation jobs tend to be smaller in size compared to reconstruction jobs, with the majority (65%) coming in at under $10K (see page 38).

This difference could reflect the nature of mitigation work as less extensive and quicker to complete compared to reconstruction.

AVERAGE JOB SIZE: MITIGATION



Percent of Survey Respondents (%)

JOB SIZE AND COMPANY NET INCOME

How does the average job size affect a company's overall net income? In this section, we'll explore the relationship between job sizes and their impact on net income, providing insights into how different job sizes can influence a company's financial performance.

Mitigation

Mitigation job sizes impact overall company net income. Perhaps unsurprisingly, companies with the smallest average job sizes report the lowest net income at 7%.

Companies with larger average job sizes in the $20.1K-$50K range report an average net income of 20%. Mid-sized jobs ($5.1K-$15K) also contribute positively to overall company profitability, with net income ranging from 12% to 15%.

AVERAGE NET PROFITABILITY BY MITIGATION JOB SIZE

Job Size	Profitability (%)
Under $5,000	7%
$5,001 - $10,000	12%
$10,001 - $15,000	15%
$15,001 - $20,000	8%
$20,001 - $50,000	20%

Reconstruction

A company's net profit tends to decrease as reconstruction job sizes increase.

Companies with smaller average reconstruction projects under $5K report an average net profit of 21%. In contrast, companies with larger reconstruction jobs over $50K see a lower average net profit of 7%. Those with mid-sized jobs ($10.1K - $20K) have a moderate net profit of around 11%.

AVERAGE NET PROFITABILITY BY RECONSTRUCTION JOB SIZE

Job Size	Profitability (%)
Under $5,000	21%
$5,001 - $10,000	11%
$10,001 - $15,000	11%
$15,001 - $20,000	11%
$20,001 - $50,000	9%
$50,000 +	7%

Comparative Analysis
Smaller reconstruction projects under $5K contribute more significantly to overall company net profit, but this contribution drops substantially as job size increases. In contrast, larger mitigation jobs enhance company profitability, making reconstruction generally less impactful on net profit compared to mitigation.

The data indicates that while larger reconstruction projects can significantly boost revenue, they tend to be less profitable due to higher costs and longer completion times. As such, focusing on large mitigation jobs and smaller, profitable reconstruction projects may enhance overall company profitability for some restoration businesses.

On the other hand, companies can also explore improving profitability in larger reconstruction projects by optimizing budgets, implementing smarter scheduling practices, cultivating strong relationships with subcontractors, and leveraging effective project management practices.

PROFITABILITY DRIVERS AND NET INCOME TRENDS

Building on these insights, we can go deeper and explore how different revenue streams from mitigation, reconstruction, and residential services impact net income trends from 2021 to 2023.

Mitigation Revenue

- Respondents with **decreased net income** report an average of **45%** of their revenue from mitigation.
- Those with **increased net income** have an average of **37%** of their

revenue from mitigation.
- Companies with **stable net income** show high mitigation revenue at **43%.**

These mixed results show that while high mitigation revenue supports stable net income, it doesn't always lead to higher profitability.

Takeaway: Smaller, quicker mitigation jobs contribute to steady revenue but not significant profit growth.

Reconstruction Revenue
- Companies with **increased net income** report an average of **47%** of their revenue from reconstruction.
- Those with **decreased net income** have a lower average of **37%** from reconstruction revenue.

Takeaway: If managed efficiently with a strategic focus on project management tools, training, and other resources, larger projects, while having lower margins, can be optimized for profitability.

Residential Revenue
- Respondents with **stable net income** have the highest average percentage of revenue from residential services at **77%.**

Takeaway: High revenue from residential services correlates with stable net income, indicating that residential projects offer consistent and reliable revenue streams—not a benefit to be underestimated in a time of economic flux!

Overall, the relationship between job size, revenue sources, and net income trends provides valuable overall awareness and points to explore based on each restoration company's specifics. What is the most applicable profitability driver across the board? Restoration companies can balance their mix of mitigation, reconstruction, and residential projects to optimize profitability and financial stability.

AVERAGE GROSS MARGINS BY WORK TYPE

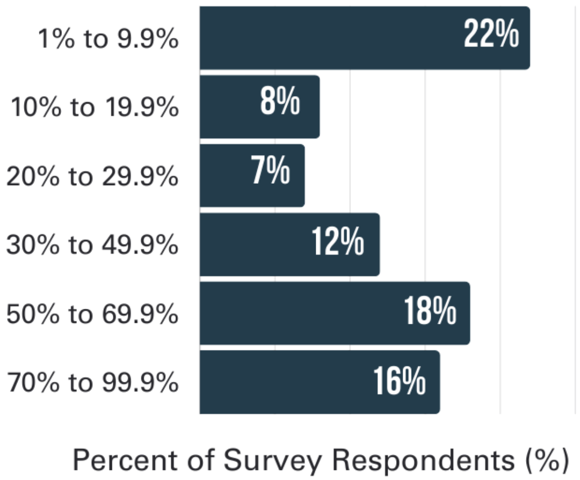
In this section, we explore how average gross margins are distributed across different types of work within the restoration industry, offering a snapshot of where companies may find varying levels of profitability.

Methodology Note: In alignment with the survey's instructions, responses of '0' will be excluded from the dataset. The survey prompted respondents to enter '0' for any work type that does not apply to their business. By excluding these, we aim to focus on the work types that actively contribute to gross margins, providing clearer insights into financial performance across different areas of restoration work.

Residential Mitigation: Direct
The largest group of respondents indicated that direct residential mitigation work accounts for less than 10% of their average gross margins. However, the data generally shows a wide distribution of reliance, indicating diverse business strategies within the industry. Some companies may use this as their primary focus, while others integrate it into a broader service offering.

Notably, nearly a quarter of companies rely on direct residential mitigation work for over 70% of their average gross margins, with 6% specializing solely in this area.

AVERAGE GROSS MARGINS FOR DIRECT RESIDENTIAL MITIGATION

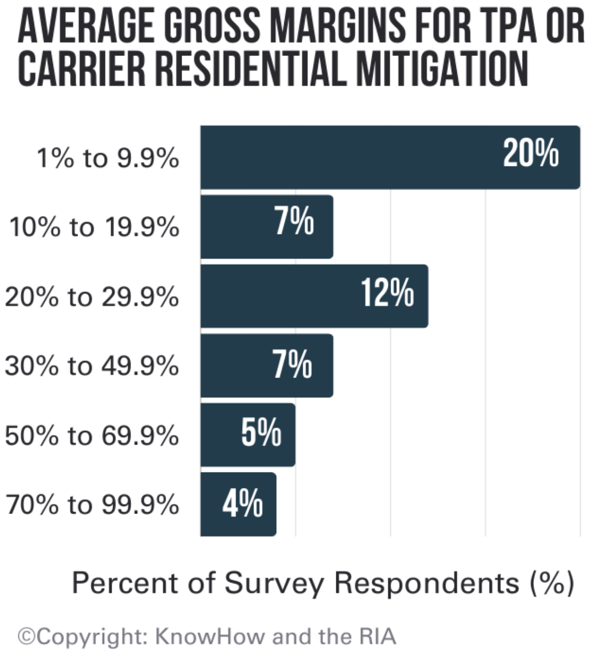


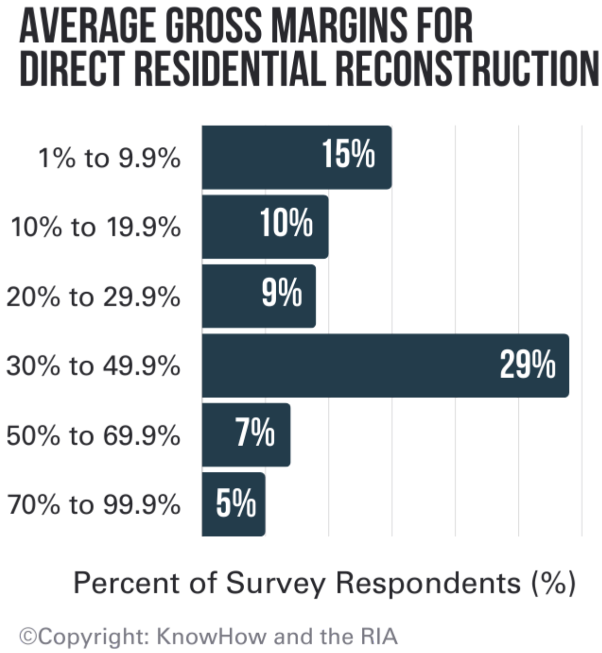
Residential Mitigation: TPA or Carrier Provided
Though, as with direct, the largest group of respondents indicate that TPA or carrier-provided residential mitigation work accounts for less than 10% of their average gross margins, fewer respondents fall into higher ranges (see page 42).

Instead, there's a more noticeable concentration in lower percentage ranges (under 30%), which suggests that for many companies, TPA or carrier work constitutes a smaller portion of their gross margins.

The number of responses indicates that a smaller percentage of companies rely on TPA work for their gross margins compared to direct work.

Comparatively, we see many restoration companies may rely more





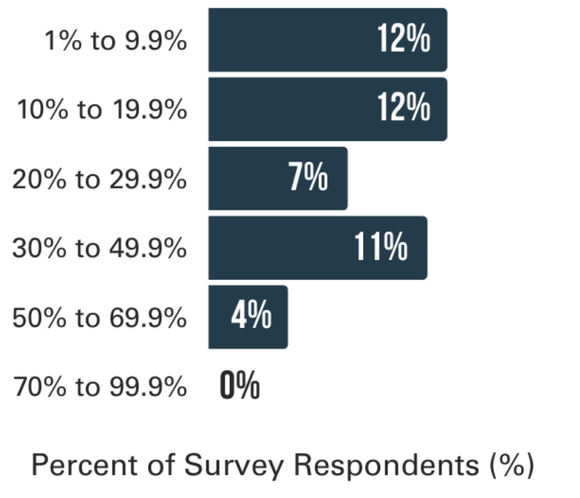
heavily on direct work than TPA work for their gross margins, potentially due to factors such as higher profitability or less complexity in direct work compared to TPA agreements.

Residential Reconstruction: Direct
Unlike residential mitigation work, where a larger percentage of companies reported lower reliance (1%-10%), reconstruction work shows a more even distribution with a significant peak in the mid-range (30%-50%).

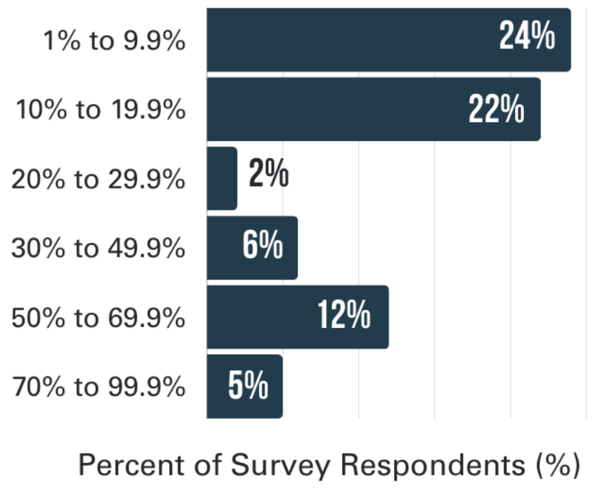
This could indicate that reconstruction work, while potentially less profitable on a per-job basis, constitutes a larger segment of overall business operations. for a significant number of companies. Notably, no companies surveyed specialize exclusively in reconstruction.

Residential Reconstruction: TPA or Carrier Provided
Over half of survey respondents do not use TPA or carrier channels at all for residential reconstruction, indicating a significant portion of the industry either prefers direct contracts or finds TPA work less attractive for reconstruction projects. Among those who do engage in TPA or carrier work, most companies report that these projects contribute only a small portion of their gross margins, typically between 1% and 20%.

AVERAGE GROSS MARGINS FOR TPA OR CARRIER RESIDENTIAL RECONSTRUCTION



AVERAGE GROSS MARGINS FOR DIRECT COMMERCIAL MITIGATION



This suggests that while some companies use TPA or carrier channels to diversify their project sources, they often do not rely on these channels as a primary source of revenue, potentially due to perceived lower profitability or complexity in these projects compared to direct work.

Commercial Mitigation: Direct

The wide distribution of responses reflects that companies that do engage in direct commercial mitigation work vary greatly in their reliance on it as a source of revenue.

The largest concentration of respondents falls within the 1% to 10% range, followed closely by those in the 10% to 20% range. This suggests that many companies consider direct commercial mitigation work as a supplementary source of revenue rather than a primary focus.

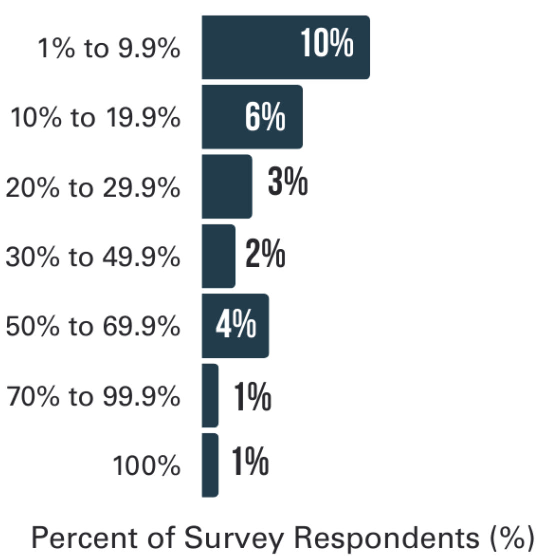
Interestingly, though, a quarter of respondents reported that this type of commercial mitigation work makes up over 50% of their average gross margins. For some, it seems to be a central component of their business model, highlighting a focused strategy to drive profitability through this sector.

Commercial Mitigation: TPA or Carrier Provided

Nearly three-quarters (72%) of respondents do not use TPA or carrier-provided work for commercial mitigation. The findings for those that do are based on a small subset of companies and may not fully represent broader industry trends.

Interestingly, there are a few outlier companies (2%) that rely on TPA or carrier-provided commercial mitigation work for over 70% of their total gross margins.

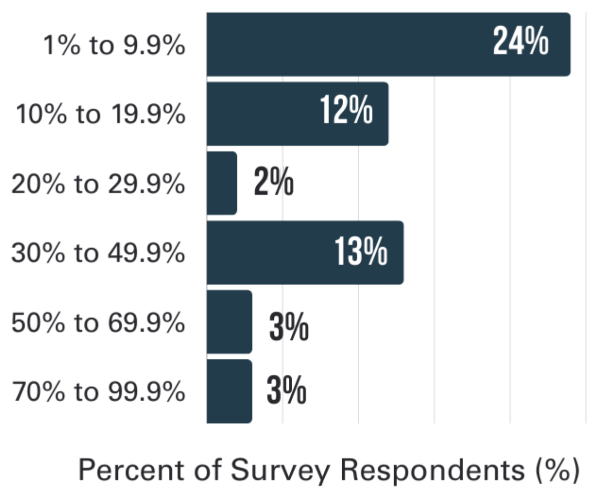
AVERAGE GROSS MARGINS FOR TPA OR CARRIER COMMERCIAL MITIGATION



Commercial Reconstruction: Direct

Most companies (75%) participate in direct commercial reconstruction work to some degree. Among those who do, the majority report minimal engagement (1% to 10%), yet a noteworthy 18% find commercial reconstruction a significant contributor to their gross margins, with contributions between 30% and 50%.

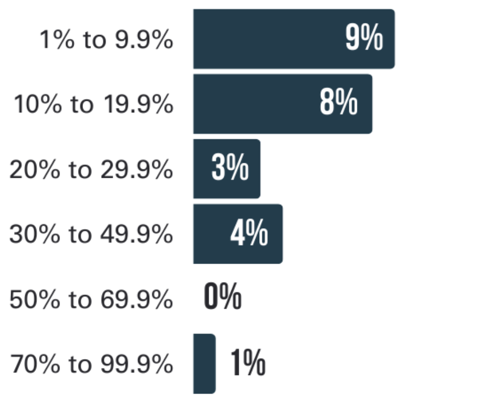
AVERAGE GROSS MARGINS FOR DIRECT COMMERCIAL RECONSTRUCTION



Commercial Reconstruction: TPA or Carrier Provided

Similar to TPA or carrier-provided work under commercial mitigation, three-quarters of respondents do not engage

AVERAGE GROSS MARGINS FOR TPA OR CARRIER COMMERCIAL RECONSTRUCTION



Percent of Survey Respondents (%)

with TPA or carrier-provided work for commercial reconstruction. Therefore, the findings for those that do are not statistically significant or conclusive.

Still, we see a similar breakdown, with most of the small subset of companies falling into the 1%- 10% range and an outlier company seemingly relying wholly on TPA-provided commercial reconstruction work.

KEY INSIGHTS

Preference for Direct Work:

- Many companies prefer direct work over TPA or carrier-provided projects, potentially due to higher profitability and fewer complexities.
- Direct contracts may offer better control over project execution and margins.

Residential Mitigation and Reconstruction:

- Direct residential mitigation work is often part of a diversified service offering.
- Some companies rely heavily on residential mitigation as a primary source of gross margins.
- Residential reconstruction work shows a more even distribution, contributing significantly to operations but potentially less profitable per job.

Commercial Mitigation and Reconstruction:

- Direct commercial mitigation work serves as a supplemental revenue stream for many companies, with some relying heavily on it.
- A strategic focus on commercial mitigation may drive profitability for certain companies.
- Direct commercial reconstruction work is widely adopted, though most companies report minimal engagement, suggesting its complexity and resource demands.

PROJECT MANAGEMENT IN FINANCIALS

Project management is vital for overseeing and executing jobs effectively, and the way these costs are accounted for can significantly impact a company's financial statements and profitability. Deciding where to allocate these costs—whether as part of overhead or within Cost of Goods Sold (COGS)—influences financial analysis and decision-making.

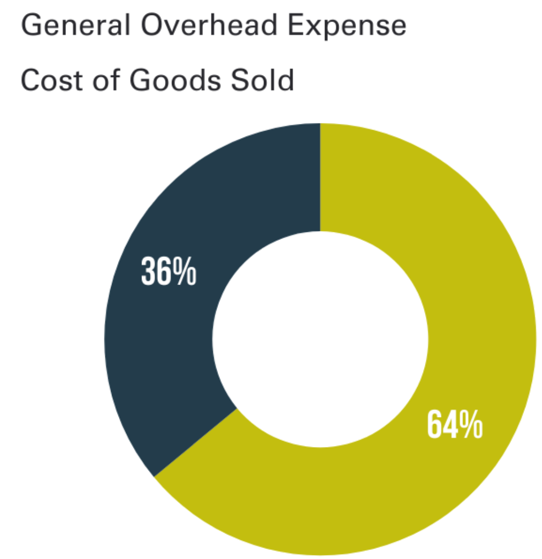
General Overhead Expenses (64%)
The majority of companies categorize project management costs as part of their general overhead, reflecting these roles' essential and ongoing nature across multiple projects.

- **Pro:** Simplifies accounting processes by treating project management as a fixed expense, reducing administrative complexity.
- **Con:** May obscure the direct impact on individual job profitability, potentially inflating perceived gross margins.

Cost of Goods Sold (COGS) (36%)
A smaller portion of companies allocate project management costs to COGS, associating expenses directly with revenue from specific projects.

- Pro: Offers a more precise analysis of project-specific profitability by accurately reflecting each project's true cost structure.
- Con: Increases accounting complexity, requiring detailed cost tracking and potentially leading to higher administrative burdens.

WHERE DO YOU ALLOCATE THE COST OF PROJECT MANAGEMENT (INDIRECT JOB COSTS) IN YOUR FINANCIALS?



Significance and Implications
The choice of where to allocate project management costs can significantly affect key financial metrics like gross profit and net profit. Allocating these costs to COGS provides greater transparency regarding project-specific expenses, allowing for a more accurate

assessment of profitability per project. This method can help companies better understand the true cost of their services and make more informed pricing and budgeting decisions.

On the other hand, treating project management costs as overhead might present inflated gross margins, giving a skewed view of profitability. This can lead to underestimating the actual costs associated with specific projects, potentially affecting pricing strategies and overall financial planning.

Understanding these implications is crucial for strategic planning. Companies focused on detailed project cost tracking and profitability may prefer allocating project management costs to COGS. In contrast, those aiming for streamlined overhead management might favor categorizing them under general overhead. By carefully analyzing cost allocation methods, companies can better understand their financial performance and make informed strategic decisions.

DISCUSSION QUESTIONS FOR TEAMS

1. How do we currently determine our gross margin goals, and are these goals aligned with the actual needs of the company? Do our team members responsible for setting gross margins understand the strategic importance of these targets?

2. Is our current software providing us with an accurate representation of the gross margins we achieve, including the combined impact of Labor Overhead and "10 and 10"? If not, what adjustments or additional tools might we need to ensure we are getting the right information?

3. Based on our analysis of current pricing structures and the margins we need to achieve, is there a case for developing our own independently created price list? What would be the potential benefits and challenges of this approach?

4. Are all overhead and profit components accurately reflected in our current independent pricing structure?

5. How does our current allocation of project management costs (COGS vs. General Overhead) impact our financial transparency and profitability analysis? Would a different allocation strategy provide clearer insights or improve decision-making?

6. In what ways can we diversify our revenue streams to balance high-margin services with our current offerings? What new opportunities in commercial work or specialized services should we explore to enhance our profitability and growth?

SECTION SUMMARY

Overhead and Profit: Rethinking the "10 and 10" Model

- **Markup vs. Margin:**
    - Misconceptions around markup and margin can lead to underestimating necessary margins.
- **Current Overhead Realities:**
    - The average overhead percentage is around 36%.
    - This overhead figure includes all indirect costs such as administrative expenses, sales and marketing, and other overhead expenses that are not directly tied to project costs.
- Efficient management of overhead costs, especially labor, is crucial for profitability.
- Your company should advocate for independent pricing models that reflect true operating costs.

Independently Created Price Lists:

- **Usage and Profitability:**
  - 49.5% of companies use independently created price lists, with 36% heavily relying on them.
  - Using independently created price lists correlates with a 5% increase in net profit margins.
- **Insights by Company Size:**
  - Smaller companies (<$3M) experience significantly higher net income with independently created price lists.
  - The advantage diminishes for larger companies, where market power and standardized processes play a more crucial role.
- Independently created price lists can enhance financial performance, especially for smaller companies.

Average Job Size and Profitability:

- **Repair/Reconstruction:**
  - Most projects fall between $10K and $50K, indicating a prevalence of mid-sized projects.
- **Mitigation:**
  - 65% of mitigation jobs are under $10K, reflecting their quicker completion compared to reconstruction.
- **Job Size vs. Profitability:**
  - Smaller reconstruction jobs under $5K have the highest net profit, averaging 21%.
  - Larger mitigation jobs ($20.1K - $50K) offer the highest profitability at 20%.
- Focusing on smaller, profitable reconstruction projects and larger mitigation jobs may enhance overall profitability. Efficient project management and strategic focus are key to optimizing larger reconstruction projects.

Revenue Streams and Net Income Trends:

- **Mitigation Revenue:**
  - High mitigation revenue supports stable net income but doesn't always lead to higher profitability.

- **Reconstruction Revenue:**
  - Companies with increased net income report higher reconstruction revenue, highlighting the importance of efficient management.
- **Residential Revenue:**
  - High residential revenue correlates with stable net income, offering consistent revenue streams.
- Balancing revenue streams across mitigation, reconstruction, and residential projects optimizes profitability.

Average Gross Margins by Work Type:

- **Residential Mitigation:**
  - Direct residential mitigation is a primary focus for many, with nearly a quarter of companies relying heavily on it.
- **Residential Reconstruction:**
  - Shows an even distribution of reliance, contributing significantly to operations but potentially less profitable per job.
- **Commercial Mitigation and Reconstruction:**
  - Many companies use direct commercial mitigation as supplemental revenue.
  - Direct commercial reconstruction is widely adopted, though engagement levels vary.
- **Limited Use of TPA Work:**
  - Preference for direct work over TPA or carrier-provided projects is evident.
  - Direct contracts offer better control over project execution and margins.

Project Management in Financials:

- **Accounting for Project Management Costs:**
  - 64% of companies allocate project management costs to general overhead.
  - 36% allocate them to Cost of Goods Sold (COGS).
- **Significance and Implications:**
  - COGS allocation offers precise project profitability analysis but increases complexity.
  - General overhead allocation simplifies accounting but may obscure job-specific costs.
- The choice of allocation affects financial metrics like gross and net profit. Strategic decisions should consider operational focus and financial performance goals.

SECTION 3

LEADERSHIP, TRAINING, AND WORKFORCE ANALYSIS

People are the heart and soul of any restoration company, and their skills, dedication, and leadership are essential for the success and longevity of the business. So how are companies extending their spending beyond things like equipment and materials and making crucial investments in human capital?

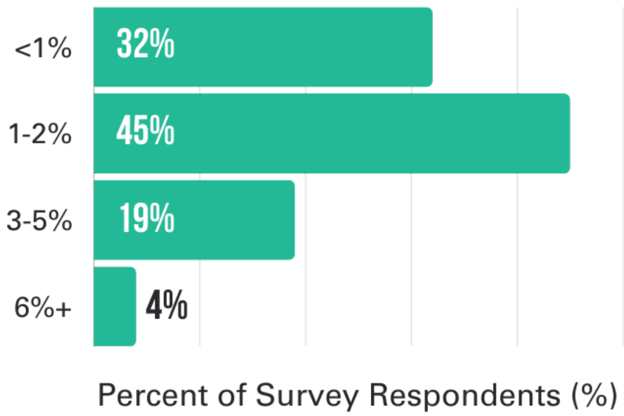
A people-powered organization recognizes that its workforce is its most valuable asset and understands the importance of investing in development. It's not just about meeting immediate operational needs but also prioritizing sustainable growth; a well-trained and well-supported team can adapt to changing conditions, solve complex problems, and drive the company forward.

EXTERNAL LEARNING, TRAINING, AND DEVELOPMENT BUDGET

More than three-fourths of respondents report spending less than 2% of their budget on external learning, with 32% spending less than 1% and 45% spending between 1% and 2%.

According to respondents, the length of time a restoration company has been in business does not affect training and development investments. There is no significant variation between newer and more legacy operations and their investments.

PERCENTAGE OF BUDGET ALLOCATED TO EXTERNAL LEARNING, TRAINING, AND DEVELOPMENT



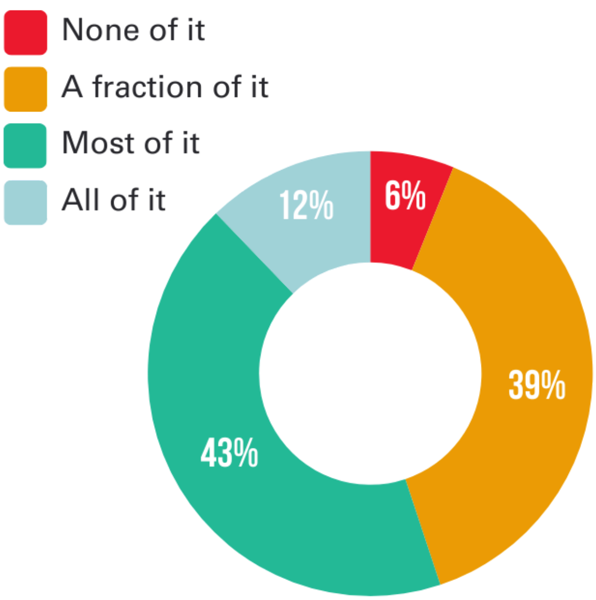
Interestingly, through the lens of gross annual revenue growth trends between 2021-2023:

- 22% of companies that experienced **growth** invested between **2%-10% in external learning, training, and development**
- 24% of companies that experienced a **decrease or stagnation** in growth invested **less than 1% in these initiatives**

INVESTMENTS IN INTERNAL MANAGERS OR LEADERS

Of the external learning, training, and development investments, it seems most (55%) are investing all or most of their budget in developing internal managers or leaders.

LEARNING AND DEVELOPMENT BUDGET ALLOCATED TO INTERNAL LEADERS

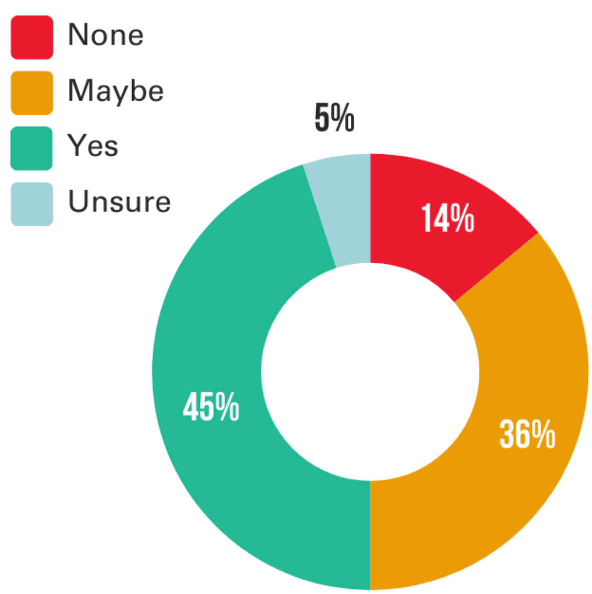


71% of financially healthy companies (reporting a year-end net income of 25% or more) allocate all or most of their development budgets to internal leaders and managers. This suggests that these companies are engaged in active succession planning and are forward-thinking, recognizing that investing in their internal talent is key to sustained growth and profitability.

LEADERSHIP RECRUITMENT

When asked whether they anticipate recruiting middle and senior-level managers in the next 24 months, 45% of respondents answered in the affirmative.

PLANS TO RECRUIT MIDDLE OR SENIOR MANAGEMENT IN THE NEXT TWO YEARS



HIRING MANAGEMENT INTERNALLY VS. EXTERNALLY

Interestingly, however, 69% of respondents would prefer to fill future management positions internally rather than recruit outside of their businesses.

SOURCING FUTURE MANAGEMENT POSITIONS

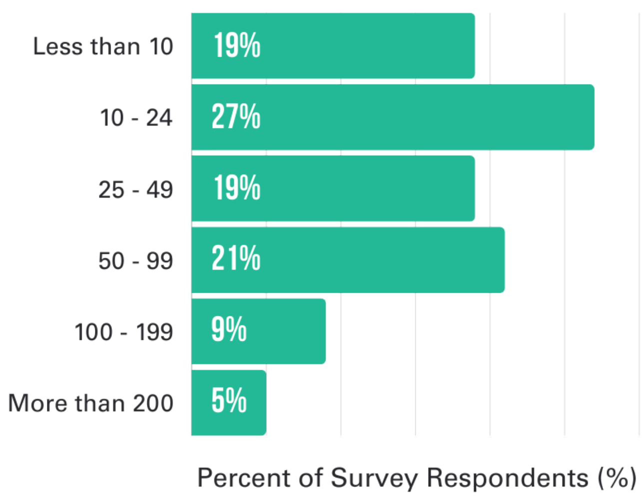
Despite the preference for internal promotions, many companies face obstacles in identifying and nurturing potential leaders. The discrepancy suggests that existing leadership development programs might be insufficient or ineffective.

Factors such as lack of formal training frameworks, inadequate mentorship opportunities, and the rapid pace of industry changes could be contributing to this gap. Additionally, external recruitment can be costly and time-consuming, potentially impacting organizational culture and cohesion.

WORKFORCE BREAKDOWN

In property damage restoration, the number of full-time employees can be a key indicator of a company's ability to respond quickly to emergencies and manage projects efficiently. The chart below highlights the breakdown of full-time employees across restoration companies, offering a snapshot of typical workforce sizes in the field.

NUMBER OF FULL TIME EMPLOYEES



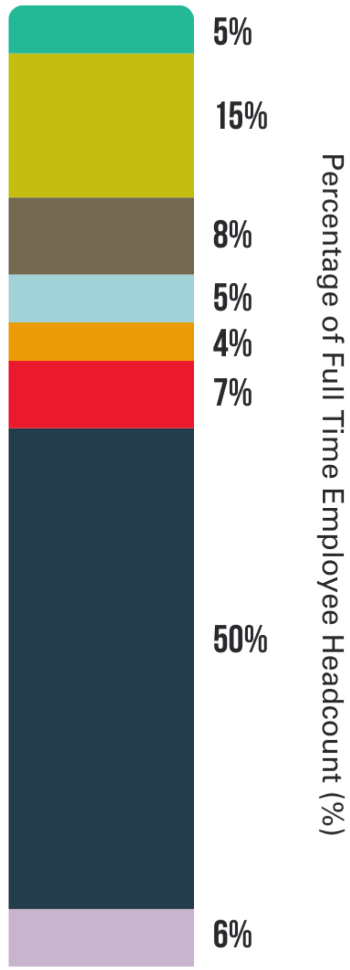
- Nearly half of the surveyed companies (46%) have fewer than 50 full-time employees, reflecting the industry's reliance on smaller, agile teams.

Staffing allocation by department provides valuable insight into how restoration companies prioritize different operational areas. The breakdown below highlights the distribution of full-time employee headcount across key roles, showing the central role of direct labor in the workforce.

- Half of all employees are in Direct Labor, which may reflect the labor-intensive nature of the restoration

AVERAGE STAFFING BY DEPARTMENT

- Marketing, Sales, and Business Development
- Project Managers
- Estimators and Project Directors
- Owners and Executive Management
- Accounting, Finance, and AR/AP
- Admin, HR, Customer Service, Coordinators
- Direct Labor*
- Other



*Direct Labor includes Hourly Mitigation, Contents, and Reconstruction Services

KNOWHOW: GET 20X ROI ON LEARNING, TRAINING, AND DEVELOPMENT INVESTMENTS

We see it all the time: A manager or leader attending a conference (likely funded by the learning and development budget) having to step out to take a call from a technician in the field who can't find the answers they need.

What can we do with the rest of the budget that isn't going to develop leaders but can still hugely benefit them? The answer lies in making the entire team more autonomous, standardizing your company's playbook to ensure excellence across the board, and freeing up managers and leaders to focus on strategic growth and development.

Learn how a restoration company achieved a 20x return on their investment in their first year with KnowHow by:

- Providing instant access to detailed how-to guides.
- Reinforcing learning through on-demand access to best practices.
- Helping team members grow their skills and prepare for advancement.

SCAN TO READ MORE

Read the full case study here.

industry and its reliance on skilled hands-on work.

- Project Management accounts for 15% of staffing, showing the critical need for coordination and oversight to ensure timely, organized project completion.
- Despite its importance for growth, only 5% of staff are dedicated to Marketing, Sales, and Business Development, suggesting many companies may focus more on operational delivery than client acquisition. It's also possible that reliance on TPAs, which provide a steady stream of leads, could reduce the need for larger internal sales and marketing teams. However, this comes with the trade-off of managing higher administrative burdens and revenue sharing with TPAs.

DISCUSSION QUESTIONS FOR TEAMS

1. Do we have a clearly defined culture and direction for the company that attracts ideal team players who will fit well? Is it merely generic and marketing-oriented, or is our culture genuinely adhered to, with hiring, coaching, and even firing decisions based on these core values?

2. What barriers might exist in promoting from within, and how can we address these to create a stronger leadership pipeline?

3. How could increasing our budget allocation to between 2%–10% for training enhance our teams skill development through external learning and development initiatives?

4. How can we develop and implement a formal leadership development program that includes mentorship opportunities, structured training sessions, and clear pathways for internal promotions?

5. How can we measure the return on investment for our training programs and ensure they meet the evolving needs of our team?

6. How can we encourage team members at all levels to contribute ideas and solutions that drive company growth and success?

7. How can we establish a talent pipeline focused on prioritizing internal promotions by identifying high-potential employees and providing them with leadership training and growth opportunities?

SECTION SUMMARY

People-Powered Growth:

- The success of restoration companies hinges on their workforce's skills, dedication, and leadership.
- Investment in human capital is crucial for sustainable growth and adaptability.

Training and Development Investment:

- **Budget Allocation:**
  - More than three-fourths of companies spend less than 2% of their budget on external learning, with the largest portion (45%) in the 1%-2% range and 32% spending less than 1%
  - There is no significant difference in training investment between newer and more established companies.
- **Impact on Growth:**
  - 22% of companies with revenue growth (2021-2023) invested 2%-10% in training and development.
  - Companies with stagnant or declining growth often invested less than 1%.

Focus on Internal Leadership Development:

- **Investment in Managers and Leaders:**
  - 55% of companies dedicate most of their training budgets to developing internal managers and leaders.
  - 71% of financially healthy companies (net income of 25%+) prioritize leadership development.
- **Key Insight:**
  - Investing in internal talent through succession planning is essential for sustained growth and profitability.

Leadership Recruitment:

- **Recruitment Plans:**
  - 45% of respondents plan to recruit middle and senior-level managers in the next 24 months.
  - 69% prefer promoting internally, highlighting a desire to nurture existing talent.

- **Challenges in Internal Promotion:**
  - Despite a preference for internal promotions, many companies struggle to identify and nurture potential leaders.
  - Barriers include insufficient training frameworks, lack of mentorship, and the rapid pace of industry changes.

UNDERSTANDING INDUSTRY MYTHS

MYTH: "Canadian Restoration Companies are Less Profitable Than Their U.S. Counterparts"

from page 4

STATUS: **Inconclusive**

Unfortunately, we did not have enough responses from Canadian restoration companies to satisfactorily bust this myth.

MYTH: "Higher Revenue Equals Higher Net Income"

from page 7

STATUS: **Inconclusive**

When examining the data, we see varying average net income percentages across different revenue brackets. These figures are approximate averages based on survey responses:

- Gross average revenue between $1M–$5.99M:
    - **12% net income**
- Gross average revenue between $6M - $29.99M:
    - **14% net income**
- Gross average revenue $30M+:
    - **10% net income**

The data suggest that higher revenue does not necessarily equate to higher net income percentages. In fact, companies in the mid-range revenue bracket ($6M-$29.99M) reported the highest average net income percentages, while those in higher revenue brackets ($30M+) showed slightly lower average net income percentages compared to smaller companies.

MYTH: "TPA Work is Not as Profitable as Non-TPA Work"
from page 17

STATUS: Inconclusive

There isn't a strong enough correlation between TPA work and net profit margins to make this statement definitively. As our analysis shows, multiple factors must also be considered.

The average net income for TPA work, whether companies derive little or most of their revenue from it, is around 11%. The average profitability for non-TPA work is around 13.5%.

MYTH: "The Insurance Industry-Imposed Markup Factor for Overhead and Profit, Known as 10 & 10, is Still Relevant for the Restoration Industry in 2024."
from page 32

STATUS: Busted

According to survey responses, the total average overhead across all categories is approximately 36%.

A 36% margin for overhead is much more than a 10% markup and would actually require a 56% markup, underscoring the necessity for a different approach to accounting for overhead costs in today's market.

MYTH: "There's Generally Less Money to Be Made in Reconstruction"
from page 38

STATUS: True

Mitigation projects, particularly larger ones, offer higher profit margins compared to reconstruction.

CONCLUSION

While this inaugural report provides valuable insights, it is just the beginning. As we gather more data and continue this journey, our understanding will deepen, and our data analysis will become even more robust. Together, we can build a future where restoration businesses not only survive but flourish, honoring both the economic realities and the enduring spirit that defines this industry.

RIA Resources

Throughout this report, you'll find callouts to RIA resources that offer valuable frameworks and insights to complement the data shared here. These tools are designed to help restoration professionals better understand cost accounting principles, enabling them to set prices independently from those imposed by insurers and other third parties.

Included in this report are free resources such as:

- **Deviation from Standardized Price Lists Position Statement:** This document, crafted by the RIA Advocacy and Government Affairs (AGA) Committee, addresses challenges restorers face when insurance carriers and partners prohibit deviations from standardized price lists. It provides a foundation for communication strategies when navigating these issues.
- **Third Party Administrator (TPA) Scorecard:** Developed by the RIA AGA Committee, this Scorecard aids contractors in making informed decisions and improving relationships with TPAs. It serves as a constructive tool for driving change and enhancing profitability within the TPA environment.
- **Accounting & Financial Management Guidelines (AFMG):** Written by restorers for restorers, the AFMG offers a practical understanding of accounting and financial management in the restoration industry, covering essential financial aspects critical to running a successful business.

These resources aim to empower restoration companies to navigate industry challenges effectively, drive strategic decisions, and ultimately thrive in a competitive market.

Looking Forward to 2025

As we look ahead to 2025, we invite you to pre-register for the next edition of the RIA Cost of Doing Business Report. As you know, advocacy in our industry isn't a one-and-done effort. Increasing participation and administering a survey like this every year will give us important trend information on where our industry is headed. This data does not exist anywhere else.

In particular, for the 2025 report, we are seeking greater participation among individual franchisees. By asking that each franchise location submit its own survey response, we can accurately represent each location's unique financial data, avoiding the pitfalls of consolidated reports or averages. We take this approach to ensure that the nuances of individual operations are captured.

We also aim to increase Canadian restoration representation and see a future where we are able to produce a Canadian Cost of Doing Business Report. To take steps to realize this goal, we hope to see a significant uptick in survey participation from Canadian restorers next year.

Though we're proud of our inaugural report, we are committed to taking what we've learned and improving every year. But we need your help.

Pre-registering for next year's survey ensures you're at the forefront of this crucial industry initiative. Join us in making the 2025 report even more comprehensive and impactful by contributing to a growing database that will help us all better understand and navigate the restoration industry's financial landscape.

Pre-register now at costofrestoration.com.

APPENDICIES

APPENDIX A: ACCOUNTING TERMS AND DEFINITIONS

Accrual Accounting: An accounting method in which revenues are recognized on the income statement when they are earned, and expenses are recognized when they are incurred. Generally, economic activities are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (received). Accrual accounting is considered to be the standard accounting practice for most companies, with the exception of very small operations.

Accounts Payable (AP): Money the company owes but has not yet been paid to a creditor for previously purchased merchandise or services. It can be found on the company's balance sheet as a current liability.

Accounts Receivable (AR): Money a business expects to receive for merchandise or services it furnished to others on open account. It is money owed to the company and is listed on the balance sheet as a current asset.

Assets: The cash, merchandise, land, buildings, equipment, and vehicles that a company owns that have a monetary value.

Break Even: The point at which profits from sales or revenues exactly equal total expenses. There is neither a profit nor a loss. The break-even point tells an owner/manager what level of output or activity is required before the company can make a profit.

Budgeted Gross Margin: Budgeted Gross Margin = General Overhead Costs as an Average + Net Profit Target.

Capital Expenditures (CAPEX): Money spent by a business to either buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond the current taxable year.

Cash: A current asset account which includes currency, coins, checking accounts, and undeposited checks received from customers. The amounts must be unrestricted. Restricted cash is recorded in a different account as a current or non-current asset. These are monies earmarked for a specific purpose such as loan repayment, investment, or equipment purchase.

Cash Basis Accounting: An accounting method or system that recognizes income (revenue) only when payment is received and expenses only when payment is made. For example: Someone writes a check, uses a charge or debit card, or uses cash for a purchase.

Cost of Goods Sold (COGS): All the expenses a company incurs as a direct result of producing the products or delivering the services the company sells. COGS generally include direct labor, direct materials, direct equipment allocations, and direct subcontracted expenses.

Current Assets: Assets that can be turned into cash within one year: Accounts Receivable, inventory/supplies, etc. Also includes things that are already cash, like checking account balances, savings account balances, and money market accounts.

Current Liabilities: The total monies owed by the company within one year and include such items as accounts payable, payroll, health insurance, and retirement funding. Typically, this includes all liabilities except long-term portions of debt and deferred tax liabilities.

Debits and Credits (DR and CR): Entries made in account ledgers to record changes in value due to business transactions. Generally speaking, the source account for the transaction is credited (an entry is made on the right side of the account's ledger) and the destination account is debited (an entry is made on the left). Each transaction's debit entries must equal its credit entries.

Depreciation: A deduction from replacement cost to reflect the lessened value from age, use, wear and tear, obsolescence, or other departure from pristine condition. Buildings, machinery, equipment, furniture, fixtures, computers, outdoor lighting, parking lots, cars, and trucks are examples of assets that will last for more than one year but will not last indefinitely and, therefore, will need to be depreciated over time. During each accounting period (year, quarter, month, etc.) a portion of the cost of these assets is being used up. The portion being used up is reported as Depreciation Expense on the income statement. In effect, depreciation is the transfer of a portion of the asset's cost from the balance sheet to the income statement during each year of the asset's life.

EBITDA: The acronym for Earnings Before Interest, Taxes, Depreciation & Amortization. EBITDA is most commonly used for calculating profitability and efficiency ratios for companies.

Equity/Net Worth/Stockholder’s Equity: The amount of money due to owners or stockholders of a company when all the liabilities are subtracted from all assets.

Fixed Assets: Assets that cannot typically be converted into quick cash, less the accumulated depreciation on those items. This includes buildings, land, equipment,

General and Administrative Expense (G&A) (aka Overhead Expenses): Money spent on operating a business that is not directly associated with the production of goods and services. Examples include rent, salaries, and utilities.

Gross Profit (Gross Margin) (GM): This is a single line on a company's income statement. It is the result of subtracting the Cost of Goods Sold from Sales Revenue. Gross Profit = Revenue – Cost of Goods Sold (Direct Costs).

Indirect Costs (ID): Fixed or variable expenses associated with production not included in COGS. Examples include production vehicles and maintenance, production personnel payroll burden, and benefits.

Liabilities: A company's legal debts or obligations incurred during normal business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services.

Long Term Liabilities: This can also be called Long Term Debt. The debt is "long term" because it encompasses all the obligations such as mortgages, term loans, and any other monies that come due more than one year from the date of the statement.

Margin: Margin is profit, expressed as a percentage of revenue. A profit margin is necessary to run a successful business in any industry. If a restoration company is only paid for its direct labor costs, its expenses incurred to perform the job, and the overhead to administer the work, there will be no profit, and the company cannot survive. Margin % = Sales (Revenue) – COGS. (See RIA's Margin Calculator for more information.)

Markup: Markup is the amount added to the cost to provide goods and services to arrive at a sales price. Markup is sometimes referred to as "overhead and profit" (O&P), but just because there is a markup does not mean there is net profit, so the phrase “overhead and profit” may be inaccurate, and “markup” may be more accurate. An estimator may add a markup as a separate item at the end of an estimate or include the markup within the individual line items. Contractors should understand that markup is NOT the same as margin.

Net Profit (Net Income): Net Profit is the revenue remaining after payment of all COGS (direct costs) and general overhead (indirect costs). Sometimes called Net Earnings, this is the profit that is earned after other income, other expenses, taxes, and any other accounting activities take place. This is the number that goes to the Equity section of a company’s balance sheet. Net Profit totals are the discretionary funds remaining to grow or maintain the business, provide additional income to employees and owners, fuel philanthropic endeavors, or retain as earnings to support cash flow demands. Net profit = Gross Profit – General Overhead Expenses (indirect costs).

Net Operating Income (NOI): A company's operating income after operating expenses are deducted, but before income taxes and interest are deducted. If this is a positive value, it is referred to as net operating income, while a negative value is called a net operating loss (NOL). NOI is often viewed as a good measure of company performance.

Operating Expenses: Operating expenses consist of selling and administrative expenses (expenses incurred as a result of performing normal business operations). Operating expenses (aka General & Administrative Expenses) are deducted from gross profit to arrive at income from operations.

Operating Income: A company's profit before non-operating expenses or other items. Other or non-operating expense items include interest income, interest expense, and gains and losses on the sale of assets used in the business, loss on lawsuit, etc.

Other Assets: Miscellaneous assets that cannot be classified as current assets, fixed assets, or intangible assets. Examples of other assets include deferred tax assets, bond issue costs, advances to officers, prepaid pension costs, and long-term prepayments.

Retained Earnings: To-date accumulated gains and losses of a company reduced by dividend distributions or prior accounting period adjustments. It is recorded under shareholders' equity on the balance sheet.

Sales (Revenue): Primarily, the money a company generates as a result of the products or services it sells. The sale of fixed assets may also be included in revenue figures but is more commonly reported as Gains or Losses on Disposal of Equipment on the Income Statement.

APPENDIX B: 2024 SURVEY QUESTIONS FOR THE RIA COST OF DOING BUSINESS REPORT

1. Do you currently work within a Property Restoration Company? (Yes / No)
2. Are you a member of the RIA? (Yes / No)
3. How many locations does your company have? (defined as brick-and-mortar locations)
4. Enter the State/Province and Country of your company's primary location.
5. How many years has your company operated in the restoration industry?
6. What is the population size of your primary market area?
   - Under 1 million
   - 1 million - 4.9 million
   - 5 million - 9.9 million
   - 10 million - 19.9 million
   - 20 million
7. What was your company’s total annual gross revenue for FY2023?
   - Under $1M
   - $1M - $2.99M
   - $3M - $5.99M
   - $6M - $9.99M
   - $10M - $19.99M
   - $20M - $29.99M
   - $30M - $49.99M
   - $50M - $99.99M
   - $100M - $499.99M
   - $500M +

8. **Indicate the percent of your FY 2023 business revenue in each of the following categories.** Entries should total 100%. *Please enter '0' if no revenue was generated in a category.*
    - *Commercial Services % (mitigation, reconstruction, any other commercial services)*
    - *Residential Services % (mitigation, reconstruction, and any other residential services)*
    - *Other % (specify)*
9. **Indicate the percentage of your FY 2023 business revenue in each of the following categories.** Entries should total 100%. *Please enter '0' if no revenue was generated in a category.*
    - Reconstruction %
    - Mitigation %
    - Contents %
    - Environmental %
    - Other (specify) %
10. **Indicate the percent of FY 2023 gross revenue that came from TPA work.** *Please enter '0' if no revenue was generated in a category.*
11. What is your company's average job size within the stated category for FY 2023?
    - Mitigation
    - Repair/Reconstruction
12. Do you use a custom price list? If so, what percentage of your revenue is derived using a custom price list?
13. **What was your FTE headcount in FY 2023 across the following categories?** If you had part-time employees, please use full-time equivalents, defined as the number of paid hours in each job class divided by 2,080 hours. Example: If a part-time employee works 1040 hours a year, they count as 0.5 FTE
(1040 hours / 2080 hours)
    - Marketing/Sales/Business Development
    - Project Managers
    - Estimators/Project Directors
    - Owner/Executive/Manager
    - Accounting/Finance/AR/AP
    - Admin/HR/Customer Service/Coordinator
    - Direct Labor (Hourly - Mitigation, Contents, Reconstruction)
    - Other (Specify)
    - Total FTE Headcount

14. Where does your company account for project management (indirect job costs) in your financials?
    - Costs of Goods Sold
    - General Overhead Expenses
15. Enter the dollar amounts for **assets** at year-end FY 2023.
    - Cash
    - Accounts & Notes Receivables
    - Other Current Assets
    - Other Assets
    - Total Assets (total must equal total of liabilities plus owner's equity)
16. Enter the dollar amounts for **liabilities** at year-end FY 2023.
    - Current Liabilities
    - Long-term Liabilities
    - Owner's Equity
    - Total Liabilities & Owner's Equity
17. **Enter the percentage distribution of your total direct cost of goods sold (COGS) at year-end FY 2023.** Ensure the total equals 100%. *Leave blank any untracked categories.*
    - *Direct Labor %*
    - *Subcontractors %*
    - *Materials %*
    - *Equipment (includes rentals) %*
    - *All Other Direct Costs %*
18. **Enter the percentage of your gross profit margin at year-end FY 2023.** *This is the ratio of gross profit (total revenue minus cost of goods sold) to total revenue, expressed as a percentage.*
19. **Enter the percentage of total revenue allocated to each category of general overhead expenses (indirect costs) at year-end FY 2023.** Entries should total 100%. *Enter '0' for any category that does not apply.*
    - *Overhead Labor % (project management, estimators, accounting, coordinator, admin, sales labor)*
    - *Sales & Marketing Expenses %*
    - *General & Administrative Expenses % (includes software and non-labor costs)*
    - *Owner's Compensation % (do not include distribution from retained earnings)*

20. **Enter the percentage of net income at year-end FY 2023.** *This is your net profit before taxes as a percentage of total revenue.*
21. Has your net income increased, decreased, or remained the same from 2021-2023? (Increased / Decreased / Remained the same)
22. Has your total annual gross revenue increased, decreased, or remained the same from 2021-2023? (Increased / Decreased / Remained the same)
23. Enter the total percentage of bad debt or write-offs for FY 2023.
24. What percentage of labor is completed by the following subcontractors:
    - Mitigation Services %
    - Reconstruction Services %
25. **What percentage of your average gross margins applies to the following types of work?** Entries should total 100%. *Enter '0' for any category that does not apply.*
    a. *Residential Mitigation - Direct*
    b. *Residential Mitigation - TPA or Carrier Provided*
    c. *Residential Reconstruction - Direct*
    d. *Residential Reconstruction - TPA or Carrier Provided*
    e. *Commercial Mitigation - Direct*
    f. *Commercial Mitigation - TPA or Carrier Provided*
    g. *Commercial Reconstruction - Direct*
    h. *Commercial Reconstruction - TPA or Carrier Provided*
26. In your estimation, what percentage of last year's budget was allocated to external learning, training, and development for your business?
    - Less than 1%
    - 1%-2%
    - 3%-5%
    - 6%-10%
    - More than 10%
27. How much of the aforementioned learning and development spending would you say was spent specifically on developing internal managers or leaders? (All of if / Most of it / Some of it / None of it / I don’t know)
28. Do you anticipate recruiting middle and senior-level managers in the next 24 months? (Yes / Maybe / No / I don’t know)
29. To fill your future management positions, do you prefer to hire externally to fill the positions, or promote internally to fill the positions? (Hire Externally / Fill Internally)

THE COST OF DOING BUSINESS REPORT

2024

KEY BENCHMARKS FOR THE PROPERTY RESTORATION INDUSTRY

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