



TOP 10 BUSINESS PRACTICES  
TO TRANSFORM YOUR COMPANY INTO AN ENGINE FOR WEALTH



## TOP 10 BUSINESS PRACTICES

# Top 10 Business Practices Guide: Transform Your Kitchen and Bath Company Into an Engine for Wealth

It's been more than 50 years that I have been in the kitchen and bath industry. First, as a sales designer, in a small family business in West Hartford, CT. Then, as president of that company, I expanded it with three satellite showrooms in the late 1980s by leveraging a unique, consumer-loving sales process and teaching it to 14 sales designers totally new to our industry. In 1987, that company produced the equivalent of \$12,000,000 — in today's dollar value — at a 51.5% gross profit margin.

Launching the SEN Design Group in 1994, which was the kitchen/bath industry's first buying and business development group, I have had the good fortune to work with hundreds of design firm owners. I have analyzed their financial statements, studied their business models up close and personal, critiqued their operations on-site, and coached owners for many months on end — through both good and bad economic times.

What follows now are the key takeaways from these myriad experiences. Specifically, what I consider to be the "Top 10 Best Practices to Transform Your Business into an Engine For Wealth."

Let's start with #10 and work down to #1 in true Dave Letterman tradition, leaving the most important for last.

— Ken Peterson CKD, LPBC  
President, SEN Design Group  
Co-Founder, operateIT



*A Dartmouth College graduate, Ken Peterson, CKD has over 50 years of experience in the kitchen and bath industry, including 23 of those years as a sales designer and president of Signature Kitchen & Bath, Inc. In 1976, he pioneered a new, faster way of selling projects where he engaged clients to interactively and transparently develop a kitchen redesign budget. He leveraged this unique selling system to scale a small family kitchen business into four Connecticut showroom locations, generating \$4.2M in 1987 company revenue (\$12M in today's dollars) at 51.5% gross profit margins.*

## #10—Know Your End Game

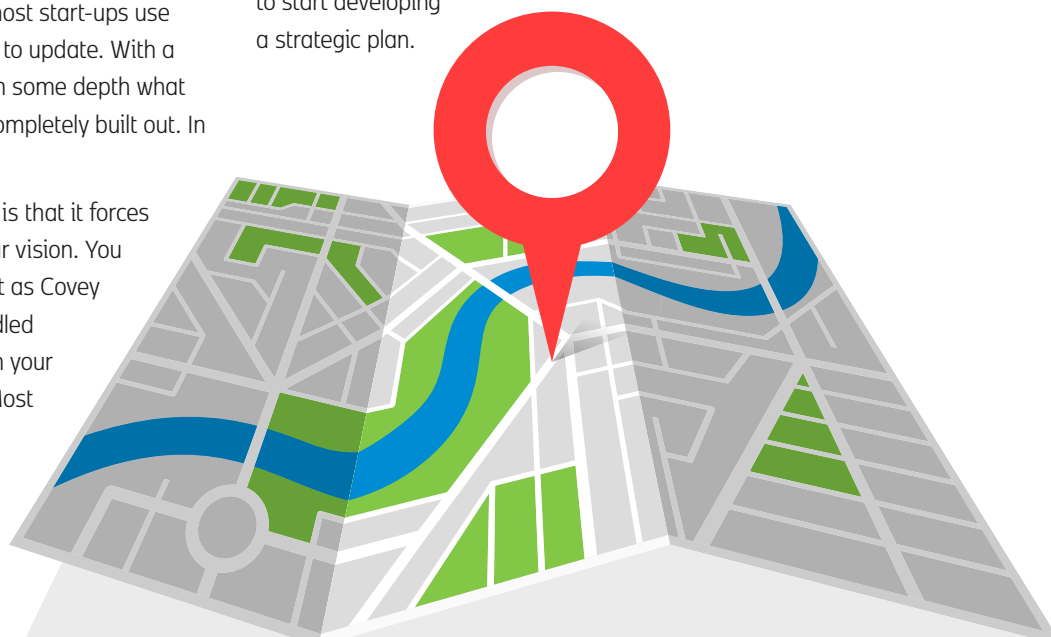
When it comes to achieving goals, Stephen Covey said it best in his book *The 7 Habits Of Highly Effective People*: “Start With The End In Mind.” Most well-intentioned owners may very well start with an end-game for their business, but lack the discipline to pull it off.

Dealers in their 50s and 60s today, who survived the recent pandemic-induced economic downturn, have a particularly short window to rebuild their sales and get their businesses back in shape to sell at a premium price ... and retire comfortably. Even more reason to have a written vision for their business and a precise road map to get there.

That’s what a strategic plan will do for you. Every business owner should have one. It’s much different than the more common business plan that most start-ups use and, once launched, rarely continue to update. With a strategic plan, you start by writing in some depth what your company looks like when it’s completely built out. In other words, when it’s all grown up!

What’s great about a strategic plan is that it forces you to spend time to first define your vision. You begin with the clear end in mind just as Covey recommends. Not just a hazy, muddled collection of ideas, rattling around in your head without connecting threads. Most owners will typically say that the written definition, which is usually a single paragraph of 4-6 sentences, is the most difficult part of this strategic development process.

Once done, it helps you quantitatively analyze where serious gaps exist in your current operation to earn a premium price. Finally, it helps prioritize what must be done each year to realize that written vision. With 2-3 critical success factors to be realistically accomplished each year, because the vast majority of time is spent running their business, it’s not unusual for most owners to take 20-25 years to score the desired 9s and 10s in all of their key operational definitions. So it’s never too early to start developing a strategic plan.







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### #9—Sharpen Your Saw

Probably one of the most valuable lessons our most successful members have learned over their years in the kitchen/bath industry is the need for “sharpening your saw” on a regular basis. It’s critically important to learn from others... whether they be experts, instructors, or peers... because they bring a unique perspective to running a business that a typical owner lacks. They see things that owners just can’t.

Recall for the moment the thousands of kitchen/bath dealers and design/build owners that did not survive the Great Recession of 2008-2009. You probably knew a few. These people largely failed because there was either some flaw in their business model. Or a flaw in how they managed their operations.

Don’t you think that every one of them would have gladly fixed that flaw — at virtually any expense — rather than suffer the humiliation and financial ruin from shuttering their business? The trouble is none of these owners could see the fatal flaw. They lacked perspective.

The very essence of belonging to an industry group such as NKBA, NARI, NAHB, or SEN Design Group is to gain that perspective... to sharpen the saw to eliminate the flaw in your business model or managing style that you just can’t, or won’t, see.

There are a number of industry-specific assets available today that dealer/owners can engage to sharpen their saws. For example, dealer roundtables are held where non-competing owners from around the country work to solve common business problems. These roundtables are always deeply valued because they are face-to-face with no one holding back on privileged information. Online chat

rooms are good for more high level feedback. Then there are the TTI/DISC personality exams which give owners tremendous insights into adjusting their behavioral approaches to be far more effective in dealing with their personnel and selling customers.

Additionally, industry-specific business coaches offer indispensable advice and help determine action plan priorities. Then hold you accountable for completing certain critical success factors by the agreed upon time frame.



## #8—Motivate Through Emotion

Dealer income statements rarely reveal substantially higher gross margins than the industry norm of 29%. But those that did achieve 45% or more were typically found to have outstanding sales personnel... professionals who had excellent training and had mastered the fundamentals of selling, using them on a daily basis. As a result, they enjoyed high closing percentages, much greater sales volumes, and — most especially — higher gross profit margins than the typical industry sales designer.

The Great Communicator — Ronald Reagan — was known to persuade through logic, but motivate through emotion. Hence, his famous speech is so memorable where he described America as that “shining city of light on the hill.”

In the kitchen and bath industry, most design practitioners and salespeople seem to think that their designs should sell themselves... that a logical presentation that demonstrates a logical solution to a prospect’s set of issues will carry the day. That’s order-taking, a result of too much emphasis on design professionalism in our industry at the expense of selling professionalism.

When prospects balk at the presentation, and say they want to “think it over,” sales designers need to learn how to paint a picture of them using the new space based upon their prospects’ dominant buying motive. Tapping a Reagan-like emotional button will get them off the fence to sign an agreement. That takes professional salesmanship.



## #7—Collaborate On Price

Research shows that it's very difficult to convince anyone of anything. And that's understandable because it's an adversarial approach. Someone wins and someone loses.

Forty years ago I learned that people will literally convince themselves that the price of a kitchen or bath is the right price when they are involved in the process. I was stunned by two revelations. First, that people didn't need an exact floor plan and perspective to feel good about a conceptual design solution. And second, they didn't need a precise written estimate to make a buying decision; indeed, a budget range was just fine. The key was having them learn the incremental budgets for each product and/or labor category.

When you collaborate with consumers on transparently developing a project budget, they end up "owning" the price. So there is virtually no price resistance. This new approach made a transformative difference in my personal sales production... and my bank account.

I started receiving a client commitment in about 1/4 of the time by earning a 10% retainer check, increased my closing percentage from 35% to 75%, doubled my 4-month sales volume in a matter of 10 weeks, and increased my gross profit margin from 35% to 51.5%.

People reacted positively to this new educational approach where the design concept and budget development were done in front of them. And, most

importantly, with them. They loved the pricing transparency. They loved the education.

And it was this most meaningful consumer experience — this project-budgeting collaboration — that (a) I taught to 14 new Sales Designers that I developed from scratch and (b) subsequently leveraged into those 3 additional, highly profitable CT-based showrooms in the 1980s.

Today, the "Good-Better-Best" — or "GBB" Selling System is automated and embedded as the crown jewel of a ground-breaking, industry-specific technology. Consumers can shop within your company to receive the 3 different proposals recommended by experts, making an informed buying decision at the end of their very first showroom meeting.





## #6—Bottoms-Up Team Development

After cost of goods sold, your personnel payroll is the biggest expense on your Income Statement. Organized and supported properly, your team can make a night-and-day difference in the quality, appearance, function, and performance of a new kitchen or bath.

Contrary to popular opinion, “experienced” salespeople are frequently not as productive as expected. It seems owners always seek to hire CMKBDs. Yet that credential by itself is no guarantee of securing a real sales producer. It speaks only to their design ability, not their sales ability. “Experienced” industry salespeople also often carry baggage that hinders them from (a) producing high sales volume and (b) buying into your corporate culture.

Having aspirations of developing a string of satellite kitchen and bath showrooms, I decided to avoid this conundrum and develop a team of sales designers from the bottom up by attracting strong sales personalities from other industries. The big idea was to teach them the kitchen and bath business my way. I felt that I could get a sense of their potential by conducting a 5-week, adult education, evening class. Within 10-14 days of posting an ad, I would have 8-14 people registered for the course.

The 10-session curriculum covered the basics of design, the fundamentals of selling, and the differences in

cabinet quality grades. Ultimately, I was able to hire and develop 14 successful sales designers this way. My job as trainer and manager was to polish these “diamonds-in-the-rough” so they all would shine brightly. And they did, with an average 3 years of experience producing nearly \$900,000 in annual sales, in today’s dollars, at 51.5% gross profit margins.

I am confident that many kitchen and bath design firm owners today could also build their own productive personnel team. The equivalent of my evening course curriculum can come from industry-specific, online design courses and in-person sales schools, where role-playing is a key feature of the training.

This approach of developing a sales team from the bottom up may not deliver the immediate sales increase that an owner desires when there are too many leads coming in the showroom doors. In the longer term, however, you will have a far more professional, more productive, more disciplined, and more loyal team.



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### #5—Sell More Product Into Every Sale

Once you have won the customer's confidence, it's a lot easier than you think — and far less costly — to add more product into each project than it is to attract another lead. That's especially true during a business downturn or pandemic.

We would all do well to evaluate our business models from the consumer's perspective. After all, most have never experienced an extensive remodel or building a new house where kitchen and bathroom products must be selected.

When shopping for a kitchen or bath, consumers will first search the websites of local firms. Then selecting a few showrooms to visit, with the intent of comparing company showroom displays, product brands, and styling models featured in these displays. A similar process as shopping for a new car.

But shopping for a kitchen is completely different than shopping for a car. The car is a tangible product purchase whereas the kitchen purchase is far from it! It's really an intangible purchase.

That's why consumers need to be educated on the right way to buy a kitchen or bath; namely by researching the people and the process who ultimately create the tangible product in their home. Indeed, the skill sets of the people, the process they follow, the technologies they utilize, and the services they offer will have a much bigger impact on the client's satisfaction with the final project than any individual product brand used in the new kitchen or bathroom.

In my view, kitchen and bath professionals who basically have a one-stop showroom will best serve the needs of today's busy consumer. These potential buyers will have access to a complete offering of products from cabinetry

to flooring, from plumbing fixtures to appliances, and from lighting to the latest gadgetry and accessories. Promoting an affiliation with a kitchen and bath buying group would be perceived by consumers as an added value. Not to mention turnkey remodeling services where their team and company reputation shines brightly.

Out of sheer convenience alone, consumers will be motivated to do business with these one-stop firms. Companies organized this way would be fulfilling the #1 principle of doing business advocated by esteemed management guru, Peter Drucker: "You are not in business to create a profit. You are in business to get and keep customers. If you do a good job of that, you will certainly make a healthy profit."







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### #4—Account For Burden

One of the main reasons why the vast majority of kitchen/bath dealers have only marginally profitable operations is this: They fail to account for their burden expense in their pricing formula. As a result, the vast majority are not earning an 8-10% pretax net profit after a market-rate salary to the owner. Indeed, it's been my experience that most owners are undervaluing their own salaries by as much as 25-35%.

So what exactly is meant by “Burden”? Well, the labor used to install a kitchen is commonly referred to as a direct labor expense and can be easily posted to a specific job.

However, there are many indirect labor expenses that are more difficult to identify and cost to a specific project such as: project manager's salary, truck driver's salary, truck expense, warehousing, workman's compensation insurance (for production staff), health insurance, retirement, payroll taxes for your payroll installers, etc.

These indirect costs of production must be job-costed in some fashion before paying sales designer's percentage share of the gross profit. To do otherwise would be to overpay the sales designers and under-collect for the firm's overhead. The answer lies in the (a) development of a Production Overhead Schedule during the overall budgeting process and (b) the creation of a “Burden Rate” percentage to collect these indirect costs of production.

For example, let's say a project costs out at \$30,000 which covers all materials (except Appliances). This total also includes use tax, direct labor, and subcontractor expenses. The industry-specific, business school training received produces a 12% burden rate for your business. This 12% burden rate is then added, enabling you to collect on your Annual Indirect Production Overhead allotted to this particular job — \$3,600 in this case. To

the new, adjusted project cost of \$33,600 is now added the desired 1.70 markup for your particular operation, generating a Selling Price of \$57,120.

In this example, your company would expect to earn \$23,520 in gross profit from completing this project — for a GP of 41.2%. And it is in this gross profit number of \$23,520 that you would share with your sales designer at some equitable percentage, depending upon the person's job description and in accordance with your company's formal, written commission system.





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### #3—Focus On Gross Profit Dollars

Don't focus on the top line—revenue. Too many dealer/owners in the kitchen and bath and design/build industries do just that. When networking with industry colleagues, invariably the first question asked — to gain a reference point — is: What is your company's sales volume?

But gross margin dollars — and gross profit percentage — are the two most important numbers on your Income Statement. In other words, it's not how much you sell in volume, it is how much money you make on each job sold.

Why? Because if don't mark up your jobs high enough, you won't have enough gross profit dollars to cover your overhead, owner's market-rate salary, and desired company net profit. A majority of dealers have chronically weak bottom lines, so it's clear they are undercharging for their projects. From my perspective, I would say on average by as much as 15-20%. But that can be changed. All it takes is being trained on the right way to price your jobs.

Typically, the dealer's choice of markup to arrive at a selling price is not based upon any true financial reality. It's based more upon hearsay, myth, and/or what dealers think the market can bear. Sadly, most dealer-owners seem to be "too busy" to spend just the equivalent of a single day's time to budget their business properly, so they know precisely what gross margin they need to make on every single job.

If you are truly ready to make serious money in this business, to develop your business into an engine for genuine wealth, then there are one or two simple steps you should be taking right now.

Either (1) attend a business school to learn the right way of budgeting your business and developing the correct price formula — including "burden" — for your business. Or (2) engage an industry-specific business coach to interactively develop a 3-Year Profit Plan. Over just a few conference calls, you will create a detailed budget together, reverse-engineering to what the gross profit dollars must be collected at the projected revenue level to pay for your overhead and desired net profit. As a result, you will finally derive the correct pricing structure for realizing your financial objectives.



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### #2—Know Your Numbers

Numbers run a business. If you don't engage in reading your financial statements, and know what they are saying, you are literally driving blind.

If you know how to read them, but don't leverage the information the numbers reveal, then your business will be doomed to underachieving. In short, you will be buying yourself an underpaying owner's job with more headaches than working for someone else, earning higher pay and fewer headaches.

The kitchen/bath industry is dominated by owners who know how to successfully design and sell kitchens. Very few have disciplined themselves to learn the financial side of the business. Until owners do, they will never realize their full growth and profit potential, never develop sufficient reserves to fund a comfortable retirement, and never have white collar executives drooling to buy their businesses at premium prices when they are ready to exit the industry.

Take those blinders off and test your company's financial performance against a select group of financially successful kitchen/bath owners! The best way to accomplish this is to receive an industry-specific, annual Benchmarking Report.

Your most recent Annual Balance Sheet and Income Statement are entered into a computer program that produces a multi-page report, comparing your results for a host of key financial metrics against a select group of successful operations. Not only do you learn where your business could be doing a lot better, but

the report advises you how these specific metrics can be improved.

Then an industry-specific business coach can help you further understand (1) what the numbers are saying, (2) why you must be using accrual accounting to avoid making bad business decisions, and (3) how to prioritize the Top 3 Actions that should be undertaken to profit the most from the financial knowledge gained.

Receiving a Benchmarking Report is a smart first step to knowing the numbers. And, like a GPS, it will steer your business in the right direction so you reach your financial goals the fastest.







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### #1—Leverage the Latest Industry-Specific Technology

Over 35 years ago, the introduction of computer-aided design (CAD) enabled us to design kitchens faster and advanced institutional growth. Today, there's a new industry-specific software, embedded with best business practices, to speed up the sale of kitchens and baths.

Speed in business, just like in sports, kills the competition! With this new technology, accurate cabinet budgets are delivered in minutes before any formal design or estimating work is ever done. Everyone in the industry's ecosystem becomes more efficient and productive, potentially generating a bigger growth impact on the industry than CAD.

Marketing experts agree that the only way to differentiate a product or service is in the way it is delivered to the customer. If the service is outstanding... done in a meaningful, valued way... there is an extraordinary opportunity to win new business at much higher gross profit margins. And, if a conceptual plan and a price are delivered faster than the competition, consumers will respond very positively and make faster commitment decisions. Recall the rationale of the one-stop showroom and the maximum convenience it offers consumers.

With this latest cloud-based technology, dealer/owners and sales designers can now filter over 1 million brand name products into "Good-Better-Best" project-budgeting templates... covering cabinetry, appliances, plumbing fixtures, lighting, and bathroom products. And then, working interactively and transparently with consum-

ers, get retained on projects during the very first 2-hour meeting — even when conducted remotely.

In effect, this technology digitalizes your showroom into a mobile asset. Very talented young people entering the industry, and raised on technology, will find such an early-adopter business to be very appealing. And the dashboard analytics generated will make your business decisions to be sound, data-driven ones, eliminating the trial-and-error decision-making of yesteryear.

Technology was identified in Jim Collins's iconic book — *Good to Great* — as the single, most important growth accelerator for the 11 featured companies. This latest, industry-specific technology, once fully embraced and used by your team on a daily basis, can no doubt do the same for your company.

I can easily envision ambitious dealer/owners leveraging this selling system tool into a string of satellite showrooms, even spreading into neighboring states. It's exactly what's needed to scale up operations in a relatively short order.

It's what I would have loved to have 50 years ago!



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