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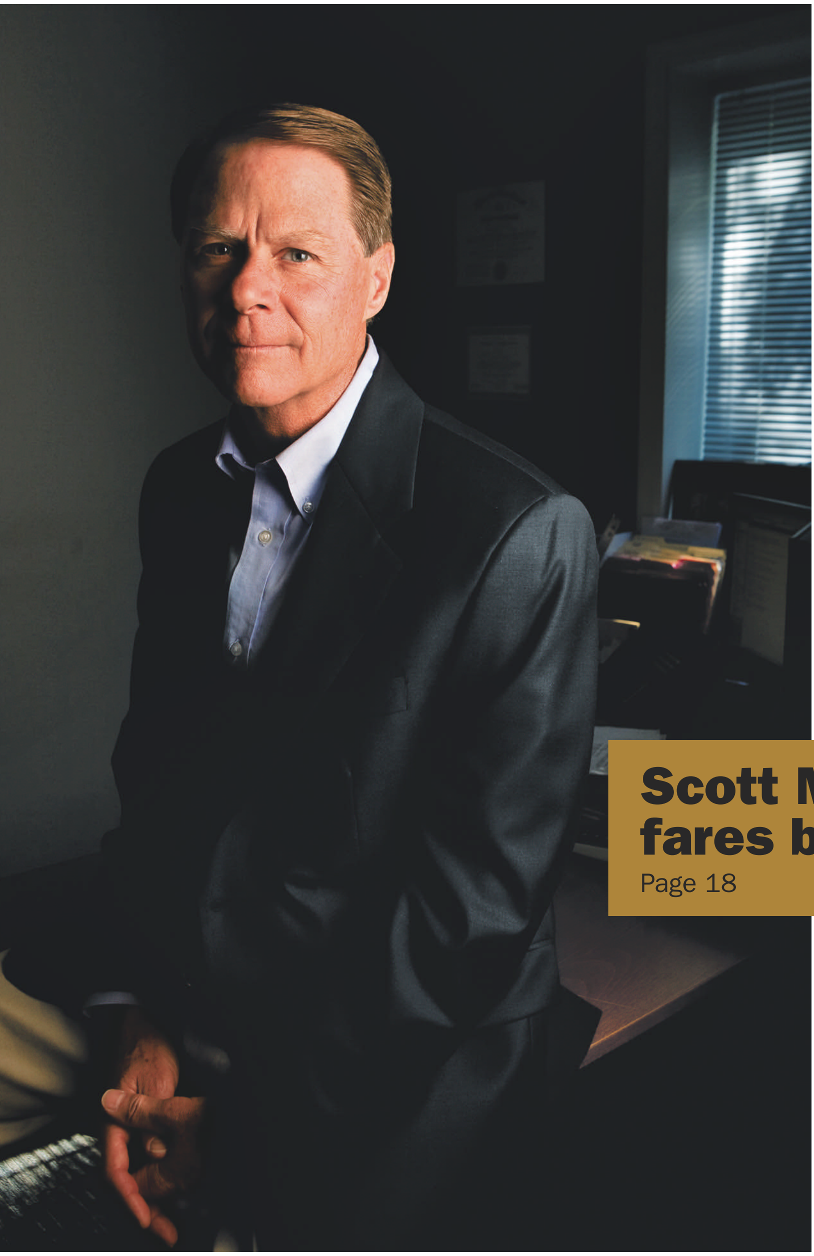

DILIP VISHWANAT/GETTY IMAGES

Scott Mosby's St. Louis market fares better than most.

Page 18

RBI™ Reed Business Information®

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By **Paul Deffenbaugh,** Editorial Director

An era of upheaval

We are in a transition period between two historical eras. We're in the waning days of the Industrial Revolution and the start of a new age. We don't have the perspective to know what to name this new age, but many have taken to calling it the Information Age.

You're likely wondering what that has to do with remodeling. Excellent question.

During times of change there is considerable upheaval. And in the midst of great change — epochal change — the upheaval is gargantuan. Even within this change, we have microcosmic upheaval occurring such as the transition of the dominance of the Baby Boomers to the Echo Boomers. (Sorry, Gen Xers.) And there's the rise of two new economic superpowers in China and India.

The remodeler used the resources he had and applied them in a new way. His company survived.

The only thing we can be certain about in housing is that the industry we have known since World War II is no longer the reality. How can businesses survive all of that upheaval? The companies that survive will all share these characteristics.

Low Overhead/No Debt: Few remodeling businesses take on much debt because they grow the business on retained earnings. But too many have been adding to the overhead during the good times. Now that job sizes are shrinking that nut is harder to cover. Cut your overhead; get out of debt. You need the freedom to react to the opportunities, and your overhead and debt will squander opportunity before it even arises.

Learning Culture: If your company has been operating a niche and doing things the same way for years, then you probably do not have a culture of learning. Learning companies take what they're learning and implement it throughout the company. They improve processes and are willing to take on new ideas. Just that willingness can help you be more flexible, adapt to new opportunities quicker and not hold on to the way you used to work that is currently dragging you down.

Not Leader-Centric: This is probably the hardest of all the characteristics for remodelers to overcome. Owners of most remodeling companies are the franchise. If he or she leaves the company, the value plummets. In tough times, having a leader who doesn't delegate prevents a company from reacting to market conditions, meet customer demands and improve quality. What good employee wants to work for someone who holds all the information in a vault and doesn't allow motivated, smart people to make decisions? Clear responsibility and accountability that come with a clear vision is essential for survival.

Read my blog at **www.HousingZone.com/blogs**

Flexibility: All those characteristics allow remodelers to meet the most important one of flexibility. During the early '90s housing downturn, a remodeler in Oregon ran out of leads and had no jobs. To keep his company going and his crews employed, he took work clearing land for a local farmer. It wasn't remodeling, but he used the resources he had and applied them in a new way. His company survived. Will yours?

Contact me at paul.deffenbaugh@reedbusiness.com or 630/288-8190

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The basics about the new lead paint rules

With only six months to go until the new lead paint regulations take effect, remodelers are still faced with a lot of uncertainty. What we do know is that starting April 22, remodelers will have to start using lead-safe work practices as defined by the Lead Renovation, Repair and Painting Program Rule; be certified to use those practices; and keep detailed records to verify they followed the rules. (The full rule is available at http://epa.gov/lead/pubs/renovation.htm.)

1. Are the rules still changing?

Probably. In late August, the EPA announced plans to propose two new rules as part of a settlement with several groups, including the Sierra Club.

The first would eliminate the "opt-out" provision. Under the original rule, homeowners could sign a waiver stating they had no children nor pregnant women in the home. With that waiver, the remodeler is not required to use the EPA-defined lead-safe work practices. The EPA is expected to officially propose the rule by the end of this month, with it set to take effect by April 22.

The second change would be the implementation of third-party post-project clearance testing instead of the original "wipe test" in which remodelers were responsible for their own post-project evaluation. NAHB estimates that this would cost $500 to $700 per project. EPA plans to propose this rule by April 22 and make it final in July 2011.

Once the rules are proposed, they will be posted at www.epa.gov and open for public comments, which will shape the final rule.

2. What projects will this apply to?

Any project in a pre-1978 home that disturbs more than 6 square feet of interior painted surface or 20 square feet of exterior surface. While the opt-out provision seems to be going by the wayside, remodelers can still avoid following the procedures if the home is tested and declared to be free of lead paint by a certified inspector.

3. What training and certification do remodelers need?

Firms must have at least one person on staff who is trained in lead-safe work practices. This requires an eight-hour course provided by an EPA-certified trainer. As of this writing, there are only 62 firms certified to train remodelers. (A full list is available at www.epa.gov/lead/pubs/trainingproviders.htm.) Training costs average $200 a person. Remodeling companies also have to be certified by the EPA. Firms can start applying this month for the $300 certification. The training and certification have to be renewed every five years.

4. How will the rules be enforced?

Right now, it comes down to paperwork. Remodelers have to keep records for three years that show they followed all of the various procedures. At any time, those records can be audited by the EPA. States can create their own enforcement arms as well, so your local situation may vary.

5. What will stop some remodelers from ignoring the new rules?

The same thing that stops them from working without a license or insurance. In other words, if that doesn't worry them, this probably won't either.

"Those who have too much to lose, the larger professional firms, are going to do this," says Robert Hanbury, president of House of Hanbury Builders in Newington, Conn. Hanbury has spent years working on the lead paint issue with NAHB and was part of the group that negotiated with the EPA on the initial rule.

6. How much will this add to the average project price?

Certainly more than the $35 the EPA originally estimated when they published the rule. Remodelers and trade associates have given estimates ranging from hundreds to thousands of dollars. It will have a bigger impact on smaller projects, Hanbury says, on a percentage basis.

— JONATHAN SWEET, SENIOR EDITOR

Advice from a Lead Paint Trainer

Listen to a podcast with Paul Toub of Kachina Contractor Solutions, a firm that will be offering lead certification training for remodelers, at **www.HousingZone.com/PR.**

Important dates for new lead paint regulations

Now: Since December 2008, remodelers should have been providing the new EPA lead paint brochure, "Renovate Right: Important Lead Hazard Information for Families, Child Care Providers, and Schools," to all clients living in pre-1978 homes.

Oct. 22: Firms can start applying to the EPA to become certified to renovate pre-1978 homes.

April 22: Starting on this date, remodelers working on homes, home daycare centers or any other "child-occupied facility" built before 1978 must be certified, follow specific work practices to prevent lead contamination and keep detailed records.

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Hard choices to cut labor costs

According to *Professional Remodeler's* 2009 Business Results Survey, labor is a remodeler's biggest expense, accounting for 44 percent of expenditures. To tighten up labor costs while the economy remains in a slump, remodelers are utilizing a variety of approaches including layoffs, reduced work schedules and cuts in wages and benefits. Some are bringing work in-house that used to be subcontracted. The following are the stories of three remodelers who made some tough decisions to keep their businesses going.


MEDIOIMAGES

In January 2008, Anthony Home Improvements/Housecrafters in Elkins Park, Pa., had a backlog of big-ticket jobs such as kitchens, baths and sunroom additions, "but our pipeline wasn't filling up," says President Stephen Klein. It was clear that several employees had to be let go, though Klein emphasizes that it was done with compassion.

"We didn't just say seven people had to go and that's it. We analyzed the impact of the layoffs on different departments and how it would affect people psychologically," he says.

The remaining employees were asked to take pay cuts. "I took a large cut, around 35 percent, and asked [employees] to take a 3 or 5 percent cut," Klein says. "The good part was that we got a lot of buy-in. They realized we're in it for the long haul and wanted to stick with us."

Some employees went from full-time to part-time schedules; others from five-day to four-day work weeks. The company is also subbing out less electrical work and plumbing, Klein says.

Remodel Works Bath & Kitchen in Poway, Calif., didn't let anyone go, but there were pay cuts. "I cut what I was paying my trades by 15 percent, and nobody complained," says Joe Christenson, president of the firm. "They're very happy they still have work. We also cut employee salaries by 10 percent, across the board."

Christenson asked his staff if they would rather keep their health care benefits or their Simple IRA plan. They voted to eliminate the latter. "My people are doing the best they can under the circumstances, so we gave bonuses this quarter. It wasn't a lot, but at least we acknowledged their hard work."

Before the market crashed, a typical project for Weidmann & Associates in Roswell, Ga., was in the $50,000 to $500,000 range. Now Dan Weidmann and his brother, Bill, are taking on smaller jobs, reaching out to past clients and paring overhead costs. They've also readjusted the division of labor.

"I've got five project managers and two carpenters on staff," says Dan. "For a period of time we moved one of the project managers into a carpenter position, and asked all project managers to spend more time with tool belts on, doing work that would otherwise have been subcontracted." Much of the design work on smaller projects is being delegated to Weidmann's on-staff interior designer.

When Weidmann's office manager left, the company hired someone on an as-needed basis who is paid only for the hours she works. Weidmann also reduced benefits and pay for regular employees, with the brothers taking the lion's share of the cuts. Healthcare deductibles and co-payments increased and certain bonus programs were put on hold. But Dan emphasizes that there have been no staff reductions: "I don't know of any other remodeler of any size that has not cut staff."

— SUSAN BADY, SENIOR EDITOR, DESIGN

Contributing Editor

Get the right close ratio

How many of your leads should turn into jobs? Can your close ratio be too high? *Professional Remodeler*'s Tom Swartz talked to remodelers Todd Newman and James Wiese about identifying and achieving the right close ratio. Highlights of that conversation appear here. To listen to the full discussion, visit www.HousingZone.com/remex.

This month featuring:

Todd Newman
President, Newman Co., Riley, Ind.
Newman Co. is a full-service remodeling firm with 10 employees and annual revenue of $1 million to $1.5 million. Todd Newman started the company 20 years ago and handles most of the sales for the company himself.

James Wiese
President, Great Lakes Roofing and Great Lakes Custom Building, Rochester Hills, Mich.
Great Lakes' primary business is in residential siding, roofing, windows and gutters. The company also does some new construction and commercial work. The 19-year-old company in the Detroit suburbs has 19 employees, including four salespeople, with revenues this year expected to be $7.5 million to $8 million.

TOM SWARTZ: *Todd, I'd like to start with you and actually define your interpretation of closing ratios, and not necessarily get into the specifics — we'll probably do that in a little bit. But define closing ratios and what they can do for you as a company.*

TODD NEWMAN: We close about probably 75 to 80 percent on our projects but we get the inquiries, and we try and weed out the projects that don't necessarily line up with what our company does.

SWARTZ: *I just want to be specific on this because when we talk about closing ratios, it obviously has to be based on an event that happens. We do a closing ratio on the lead that comes in, but then we do another closing ratio on the job that we actually estimate. Based on those two different areas, your 75-80 percent is based on what?*

NEWMAN: On the projects we actually estimate.

SWARTZ: *James, define closing ratios for your company.*

JAMES WIESE: We do it very similarly. If we are to talk about the closing ratios of the calls that come in, we only close about 10 percent of those. For every 10 people that call us, we probably close only one of those calls. For the actual estimates and the leads that we go on with the customer, when we are looking to have a project done, our closing ratio is 24 percent. We are much lower than Todd.

SWARTZ: *OK, one in four. That's good. Why do you track closing ratios?*

WIESE: We think it's important to see where we are marketing and where we are advertising, and if it is worth it or not. Also, we are closing at a high percentage. Our price is probably too low if we are getting 50 percent or more of the jobs we are bidding on and we feel we're not doing something correctly; we are probably bidding the job too low, and if we are not getting enough of the work, then the bidding is too high. So we need to track how many jobs we are closing so that we can adjust our price to stay competitive in the market.

> To listen to a podcast of the full conversation, visit **www.HousingZone.com/remex**

SWARTZ: *Todd, why do you track the leads that you have?*

NEWMAN: We track a lot from the standpoint of knowing where we need to spend our time. If we are getting in the south end or the north end, we track the zip codes of where we are at, where we get the leads from. We find out who has actually recommended us or what association recommended us. And we also track by the type of project — whether it's a room addition or kitchen remodels or bathroom remodels — and when we do that we also know which ones we make a higher percentage on. We know if one comes in, we aggressively follow that closely, as you are always going to go after something that gets a higher margin than something that is questionable.

SWARTZ: *James, let's talk about what are closing ratios; in other words, using specific number, can you talk about what is a good closing ratio? And are they different for different products?*

WIESE: Not just different products, but different leads. If it's a referral, we expect to close that at a much higher percentage. We try to be over 50 percent on our referred leads. But if it's someone just calling us from a direct mailer, then that lead is obviously not as valuable as a referral — then it drops usually to below 20 percent. Yellow Page ads are above 20 percent. Every lead that we get is a little predetermined what the ratio is if we are going to sell it or not sell it.

SWARTZ: *James, can you have a bad closing ratio? Is there such a thing as a bad closing ratio?*

WIESE: I believe there is. If your closing ratio is under 15 percent, that's a bad closing

ratio, and if it's above 50 percent, unless it's a referred lead, then I also think that's a bad closing ratio.

SWARTZ: *Why do you think above 50 percent is a bad closing ratio?*

WIESE: Because you're not selling your services, you're just giving away the work. Most consumers today are going to shop. They're not just going to get one lead or two leads, whether they're referred or not. If we are closing over 50 percent of the jobs, then we are not charging enough.

SWARTZ: *Todd, you have different numbers. Can you have a bad ratio?*

NEWMAN: Well, if we're falling below 50 percent, then I would say that we've got an issue. Ours is all relationship. A lot of ours is design/build, so ours is a larger project — it may be a $180,000 to $200,000 project. Well, not everyone is going to be able to bid on a project like that.

SWARTZ: *That brings me to the next question: what's the difference between specialty and full-service? In this particular case, you actually have totally different guidelines on it. So Todd, what's the difference between specialty and full-line?*

NEWMAN: Most of ours comes down to reputation. We've got a very good reputation for the quality of work that we put in, the type of products that we're using and the special details we try to put into every project that's custom to the homeowner. So like I said, it comes down to the design. I mean, everyone is going to look at a project and design it differently. If someone wants to do a room addition or a whole-house remodel, every person is going to have a different idea.

WIESE: Well, when you're talking about remodeling and doing a design/build project, like Todd is, you're going to spend a lot more time with the customer; you're not going to go in and close a job within three to four hours like we're used to. For roofing, siding, windows, the average salesperson will spend three to four hours with a homeowner, and they have to make a decision in a very short period of time. If you are doing a design/build project, where you are designing the addition, picking out selections and pricing it out for them, you are going to have a much better relationship with that homeowner.

SWARTZ: *James, how are we going to improve our ratios?*

WIESE: The best thing we can do to improve our closing ratio is to better inform the consumer. We want to give them as much information about our company and the product and services that we are going to give them, to have them make a better informed decision on what contractor they're going to go with. That's the only thing we can do, and try to teach them that price is not everything.

SWARTZ: *Todd, if you were to be asked to give advice to remodelers on why to track leads, how to track ratios and how to get the best benefits, what advice would you have?*

NEWMAN: I would say tracking leads gives you a great way of knowing who your customer is, knowing how many you're closing — whether you need to adjust those numbers. And, like I said, our biggest thing is that you know exactly where your customer is and where you need to spend most of your time.

SWARTZ: *James, what advice would you give to the contractors on why to track it or how to track it to help their companies?*

WIESE: Ah, that's a tough question. Knowing the people who you are dealing with, what they are looking for and how they heard about you will definitely help you in the long term with your business, especially for marketing and knowing what areas to market towards your company. It's basically that. •

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Contributing Editor

Use abandoned phone numbers to boost business

The first thought most business owners have when they hear the term "acquisition" is money. They think it takes a large financial investment to get the job done. While this can be the case when purchasing a well-run, profitable business, some companies are not that viable.

There are many types of acquisition strategies, but here's one often ignored: acquiring abandoned phone numbers. Using the same phone number that an out-of-business contractor in your niche previously used can be a quick and easy way to get extra calls.

Using the same phone number that an out-of-business contractor in your niche previously used can be a quick and easy way to get extra calls.

I use the term "acquisition" generally to discuss a way to leverage a closed business to grow your market share and to generate new qualified leads and business.

Usually, the core goal of an acquisition is to increase customer calls. Because of this goal, one of the most valuable assets a company has is its published phone number — the number customers and business associates call on a regular basis.

Many companies with great reputations have closed. Even during a normal year, thousands of remodeling companies go out of business. Many of them don't attempt to sell anything — including their phone number — by rationalizing that if the business failed, no one would want to buy anything related to it.

Even when businesses close and sell everything, most simply abandon their most valuable asset: the repeat business that comes from their phone number. These are low-risk, low-cost and high-return situations.

CONSIDERATIONS

Some business owners are afraid to pick up abandoned numbers, especially if the previous company filed bankruptcy. They fear that bill collectors or upset customers who call will give them a bad name. If the company closed, you will get some of these calls. But generally speaking, unless you purchased the company stock, the liability of past bills and warranty calls is not your responsibility. When clients of the previous company do call, you have the option of offering them your services at a reduced cost if work was not completed. This gives them an alternative they didn't have otherwise. (It's a judgment call as to whether they are a client you are willing to and can work with successfully. Consult your attorney before implementing this strategy.)

If a business phone number is disconnected, many phone companies will hold the disconnected number for up to a year, in case the business is re-established. In this instance, the only way you will get the number is to have the previous owner transfer it to you. Why would they do this? The relationship or money. How much is a number worth? It depends on how many customers you expect to gain, the closed company's size and how long the number has been disconnected. The longer a number is stagnant, the less likely customers will call it. We know someone who paid $500 for two phone numbers from a company that had been in business for more than 80 years. The first job landed from that acquisition was for $10,000 — easily justifying the purchase.

HOW TO GET STARTED

Start by calling numbers from current phone directories. You'll be surprised by how many companies go out of business while the phone directory is still active. Also, research phone directories from three to five years prior. Consumers not only keep phone books but also invoices, stickers and other materials from the closed company, increasing the likelihood those numbers will continue to be called.

For more of Doug Dwyer's columns visit, **www.HousingZone.com/PR**

If you stop and think about it, you may know someone who has closed his or her business. You could create a win-win-win situation for them, you and consumers by acquiring the outdated phone number. This is an opportunity that could strengthen your business and, in a way, keep the legacy and hard work of the previous owner alive. •

Doug Dwyer is president and chief stewarding officer of DreamMaker Bath & Kitchen, one of the nation's largest remodeling franchises. He can be reached at doug.dwyer@dreammakerbk.com.

By **Paul Winans**
Columnist

Your employees have a say in your mission

As a business owner you make decisions every day about the right thing to do. The fact is that every person in the company does the same thing.

What is being used as a point of reference for these decisions? And is there a common point of reference?

It's the company's mission and core values. Without them, your company is actually a collection of companies all sort of doing the same thing but not providing the same experience.

Any company, to truly be all it can be, needs to stop and get clear about The Point. What are we about (mission)? What do we use to decide what the right thing to do is in a given situation (mission and values)?

As the leader you are The One, the person who *must* provide your employees with direction. Let's look at how this might be done.

Your company exists because of your drive, your vision and your desire to bring life to an enterprise that is unique. Given that presumption, the logical conclusion is that your idea of mission and values is definitely the most important in the process of discovering the company's mission and values.

I'm distinguishing between the mission and values of you as a person and those of your company because the respective sets of mission and values, while both starting with the same individual, will necessarily be different. A company is not a person, and vice versa. Often the owner of a small business does not make this distinction and consequently runs the business without the objectivity needed for intelligent decision making. A cunning client can take advantage of that in a heartbeat!

What is the role of your employees in formulating the company's mission and values? If the company was conceived and started by you, is employee input even needed?

The input of your employees is very important. Notice I said *input*. The request for input needs to stress the desire for input and that you will have the final word.

The input of your employees is very important. Notice I said *input*. Their input is very important, and a savvy owner will ask for it. The request needs to stress the desire for input and that you will have the final word on what the company is about.

You might worry that your employees will feel left out or believe they do not having an appropriate amount of influence for a company where they spend so much of their lives. But if you handle the process well, asking for their input will not produce that resentment.

To get employee input, many leaders use a team-building event, usually over a day or so, that contemplates questions like these:

- What are we really good at?
- What are we not so good at?
- How can we get better at those things?
- How is our company unique?
- What is The Point of the company?
- What would it look like if we were as successful as we really want to be?
- When faced with a tough decision what are our points of reference?

And so on. The idea is to discuss, share perspectives and gather information. As an important result, you get the input and employees feel connected to one another and the company.

I believe that such an event is more successful if you are not running it. The owner is a powerful person in the company's world and can unwittingly stifle needed conversation. Better results are achieved by using a facilitator to plan and run the meeting.

In this process, you promise your employees several things. After you use their input to help shape the mission and values, you will report back to the employees by a certain date. Their input will then be used to refine the draft. Once done, the mission and values are from that point forward brought to life as part of every company meeting.

For more of Paul Winans' columns, visit **www.HousingZone.com/PR**

I cannot stress how good everyone feels when the process is handled as I described it. Never done it? Give it a try and get the input you need so you can provide your employees the direction they want. •

Paul Winans, CR, works with Remodelers Advantage, the premier peer group and consulting company serving the industry. He is a founder of Winans Construction, which he and his wife, Nina, sold in 2007. He can be reached at paul@remodelersadvantage.com.

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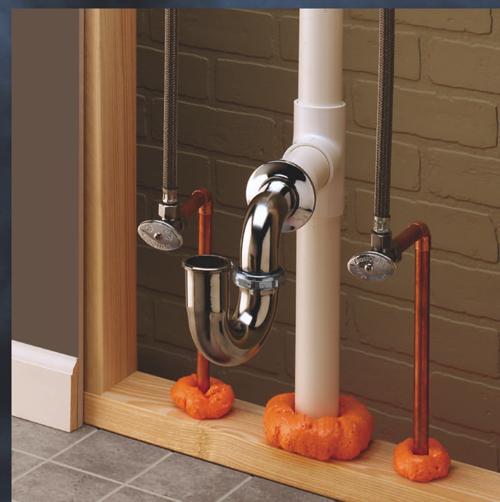

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Market

Our report on the industry's leaders shows no one's been immune to the downturn

By Jonathan Sweet, Senior Editor

It's no secret that 2008 was a tough year for remodelers, and the 2009 *Professional Remodeler* Market Leaders report shows that even the biggest companies felt the pain.

The Market Leaders list, which identifies the largest remodelers in 20 top remodeling markets, was compiled through a combination of research by *Professional Remodeler* staff and information provided by the listed companies.

For our third annual list of Market Leaders, we expanded the survey to ask for more details about the companies' operations and business so we could compare these leading companies to the industry to the data we gather from our annual Business Results study. (For more on this year's Business Results study, which we published in April, visit www.HousingZone.com/bizresults.)

2008 was bad; 2009 looks no better

More than 60 percent of our Market Leaders saw a decline in business in 2008 and nearly that many are expecting 2009 to end up being even worse. The median installed volume of this year's Market Leaders dropped by nearly 15 percent from \$6.7 million to \$5.7 million.

Those numbers are even worse than those from our Business Results study, which found 50 percent of remodelers with a drop in business in 2008 and only 43 percent expecting a decline this year — although it's worth noting that num-

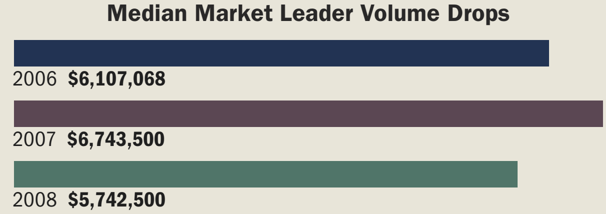
Market Leaders vs. the Industry

	Market Leaders	Industry Averages
Installed volume	\$5,742,500	\$995,000
Annual jobs	85	76
Employees	21	8
Years in business	26	21
Average job size	\$67,559	\$13,092

SOURCES: *PROFESSIONAL REMODELER* 2009 MARKET LEADERS RESEARCH AND 2009 BUSINESS RESULTS SURVEY

Although Market Leaders completed about the same number of jobs in 2008 as the average remodeling company, their average job size was more than five times that of other firms.

Median Market Leader Volume Drops



SOURCE: *PROFESSIONAL REMODELER* 2009 MARKET LEADERS RESEARCH

The average Market Leader saw a drop in volume of more than \$1 million in 2008 after peaking in 2007 at \$6.7 million.

Leaders 2009

St. Louis stays steady

While some remodeling markets have soared and then crashed over the last few years, St. Louis continues to move steadily along, says Scott Mosby, president of Mosby Building Arts.

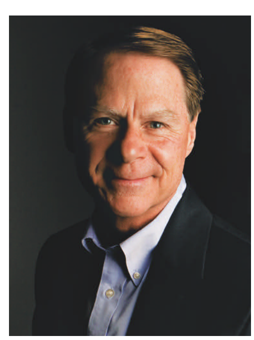
The St. Louis area isn't immune to the larger economic challenges, but unlike the boom markets never saw the huge home price increases that have led to equally large drops. Mosby believes that leaves the market poised for a return to a solid if unspectacular rebound in the latter part of next year.

In recent conversations with his fellow St. Louis area remodelers, Mosby is hearing more optimism as leads and inquiries increase.

"The world's been on hold for a year," he says. "There are a lot of people with life plans that have been postponed."

The company's core customer base of baby boomers still has money to spend and equity in their homes, Mosby says. This year many have opted for smaller projects, with the company's 60/40 revenue split between design/build jobs and smaller "solutions" in 2008 reversing in 2009. Still, clients want a company that can manage those solutions with the care of a design/build project — an ability Mosby calls the company's "unique advantage." That has allowed Mosby Building Arts to stay relatively strong against lower-priced competition.

"We're competing with the economy," Mosby says. "I don't think we're losing sales to anything other than greater needs."



DILIP VISHWANAT/GETTY IMAGES

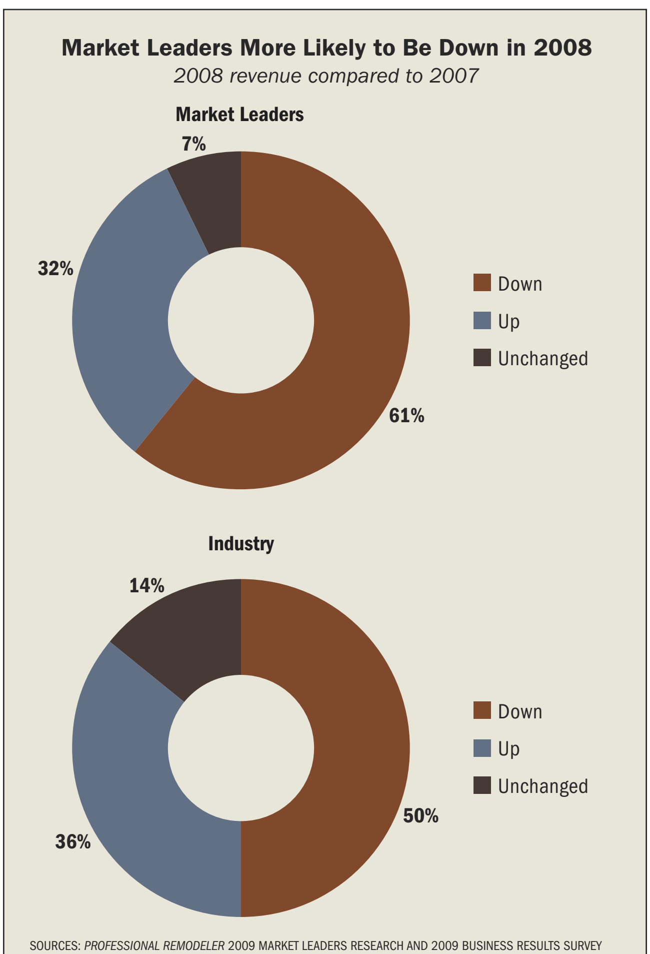
Mosby Building Arts

No. 3 in St. Louis
President: Scott Mosby
Specialty: Full-service remodeler
2008 projects: 38 design/build, 200 small-project "solutions"
2008 volume: $10.2 million
Projected 2009 volume: $8 million
Employees: 65
Years in business: 62

Market Leaders 2009

ber was recorded in January of this year, when remodelers may had been more optimistic that we would see a quicker turnaround in the market.

Lead activity was also down for most Market Leaders, with 56 percent reporting a decline in leads in 2008, although 28 percent actually reported receiving more leads last year. There was no clear trend in how Market Leaders did in closing on those leads, though. The largest group (38 percent) said their closing ratio was basically unchanged. Another 37 percent saw a decline and 25 percent saw an increase. As a group, Market Leaders converted an average 30.8 percent of their leads into sales.

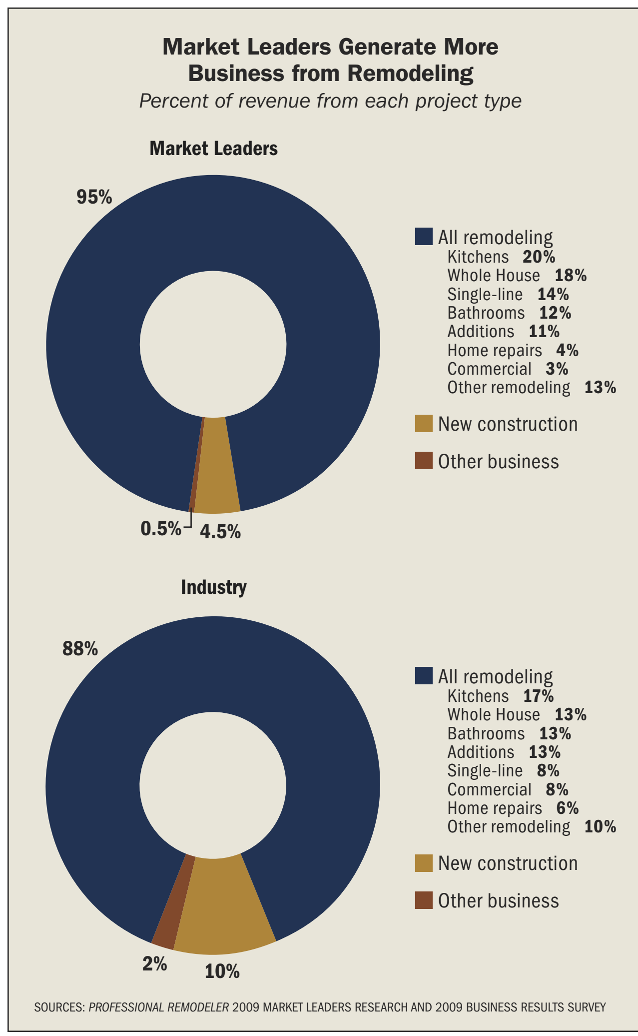


Less than a third of Market Leaders saw an increase in business in 2008 compared to 2007.

How they build their business

One way in which these larger Market Leader firms is strikingly different is marketing.

Market Leaders spend about 5 percent of their budget on marketing expenses, compared with the 1 percent the average firm spends. In fact, 15 percent of Market Leaders reported spending more than 10 percent of their budget on



Although Market Leaders boast a higher average job size and get a significant amount of business from large whole-house remodels, they're also more likely to generate business from a single line of products such as windows or siding. They also are less reliant on other sources of income than the average firm.

More cautious in Boston


TSAR FEDORSKY/GETTY IMAGES

FBN Construction Co.
No. 2 in Boston
Chairman: John DeShazo
President: Robert Ernst
Specialty: Full-service remodeler
2008 projects: 60
2008 volume: $8.9 million
Projected 2009 volume: $6 million
Employees: 18
Years in business: 30

Homeowners in Boston are still buying remodeling projects — they're just taking a lot longer to make decisions and going with smaller jobs when they do finally decide.

Business is about 50 percent of what it was last year, says Robert Ernst, president of FBN Construction Co. Not coincidentally, the company's average job size is 50 percent of what it was a year ago.

"We've still sold a lot of work this year, we're just seeing much smaller jobs," Ernst says.

The company has also experienced a longer cycle time from first customer contact to decision. In the past, that's been a 30- to 60-day period. This year it's taking 90 to 120 days.

Clients are being much more cautious than in the past. They are more carefully checking out their options and talking to more remodelers. Although most of FBN's clients are not using financing to pay for projects, finances are also playing a role in the delays. Many homeowners are wary of using investments to pay for the projects and possibly losing money in the process.

"They want to play the market to get the best opportunity to get the best return when cashing out to pay for the remodel," Ernst says.

Ernst doesn't expect the market to change anytime soon. He's not projecting a decline in business from this year in 2010, but says he isn't predicting any growth either.

Bargain hunting in Seattle


KEVIN CASEY/GETTY IMAGES

State Roofing
No. 1 in Seattle
President: Lance Smith
Specialty: Exterior remodeler
2008 projects: 1,306
2008 volume: $19.1 million
Projected 2009 volume: $13 million
Employees: 100
Years in business: 40

In a recession, homeowners tend to migrate toward less expensive options when it comes time to remodel or repair their homes. That's especially bad news for a company that delivers high-end materials in the specialty exterior market.

"Everyone that's ever put on a roof before, when they're out of work they get themselves a pick-up truck and call themselves a roofer," says Lance Smith, president of State Roofing.

Over the last 40 years, the company has built itself into one of the largest roofing companies in the country by focusing on high-end materials such as metal and rubber roofs that appealed to clients for their longevity and quality. Now, price is driving many buying decisions as homeowners opt for the cheapest option — even if that option is a remodeler that isn't licensed, insured or bonded.

State Roofing's siding and decking business are down more than 75 percent this year and the roofing business is down about 40 percent. Despite those declines, the company has been able to survive while many of its big competitors haven't.

Smith credits that to his cautious approach to business built over the 30 years since he and his brother bought the company from their uncle.

For example, the company buys all of its trucks instead of leasing them like many of his competitors. At the same time, State Roofing keeps those trucks for as long as possible instead of buying or leasing new ones every few years. State Roofing also owns its own property instead of renting.

Perhaps most importantly, State Roofing never jumped into the new construction market, even when it was booming in the Seattle area. More than one of his former competitors has disappeared because of an over reliance on home builders, Smith says.

More on Market Leaders: We talked with market leaders and delved into market data.
Check out the podcasts and videos online at **www.HousingZone.com/MarketLeaders.**

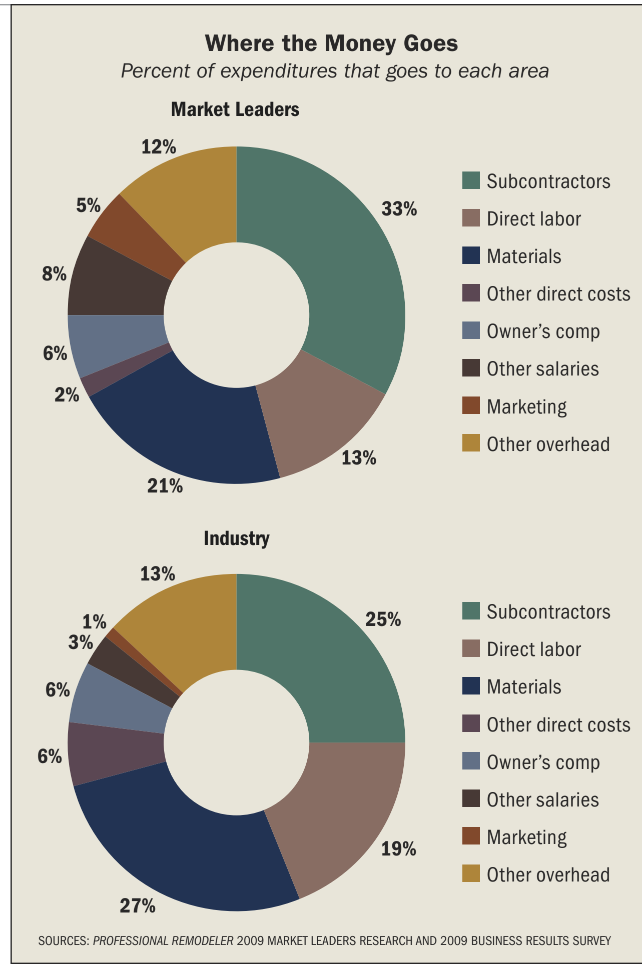
Market Leaders 2009

marketing. Clearly, these companies have recognized the value of marketing as part of a growth strategy.

In other expenditures, Market Leaders are relatively similar to the average remodeling company. Both groups spend about 70 percent of their budgets on labor and materials, although Market Leaders are more likely to opt for subcontractors than other companies. This same trend appeared in our Business Results study — the bigger a company was, the more likely it was to sub out work to trades instead of keeping labor in-house. Market Leaders also have slightly higher overhead in office salaries, spending about 8 percent compared with the 3 percent other firms spend.

That higher overhead probably accounts for the larger gross profits Market Leaders aim for. They had a target gross profit of 33 percent per job, hitting 32 percent on the average job. The average remodeling company instead was looking for 28 percent and slipped to 22 percent in reality.

Despite that higher gross profit, Market Leaders have smaller net profits, at least on a percentage basis, aiming for 7 percent for 2008 and achieving 4 percent on average, compared with a 12 percent target and 8 percent actual net profit for other firms. All told, 8 percent of Market Leader lost money in 2008 and 22 percent had net profits of less than 1 percent. •



Market Leaders and other firms spend at relatively the same levels on major expenses — with one glaring exception: Market Leaders spent nearly five times as much on marketing in 2008 as the average firm.

Seeing bottom in Phoenix

If there's a ground zero in the housing crash, Phoenix may be it. No city on our Market Leaders list has seen a bigger decline in home prices and only Las Vegas has been hit harder among all major metros, according to the S&P/Case-Shiller Home Price Index.

With prices down 31.8 percent in the last year and 53.9 percent since the market peak in mid-2006, it's no surprise that remodeling has been hard hit.

"Many homeowners just don't have equity in their homes anymore," says Tom Sertich, president of Kirk Development Co. "The banks just aren't loaning. Everyone's just kind of scared."

Kirk's leads are barely 25 percent of what the company normally gets. Even those who can afford to remodel and don't need financing are reluctant to spend their money on a home that could continue to lose value in a recession.

"I don't think they want to start doing things until they know their home values aren't going to go down any further," Sertich says.

BLAIR BUNTING/GETTY IMAGES

Kirk Development Co.

No. 3 in Phoenix
President: Tom Sertich
Specialty: Design/build remodeler
2008 projects: 86
2008 volume: $3.2 million
Projected 2009 volume: $2 million
Employees: 15
Years in business: 31

There's some evidence that Phoenix may be at or close to bottom. Sales continue to pick-up this summer as buyers look for bargains in the foreclosure market, and home prices were up slightly from May to June, the first month-to-month increase in Phoenix prices in three years, according to the Case-Shiller index.

The remodeling market is also starting to improve recently, albeit slightly, Sertich says.

"I wouldn't say that it's great, but it's getting better," he says. "Because of what we've been through, I think Phoenix is going to be one of the first ones to start coming back."

2009 Market Leaders

	Volume	Specialty	Location
Atlanta			
Home Rebuilders	$6,400,000	Design/build	Atlanta
Weidmann & Associates	$5,335,000	Design/build	Roswell, Ga.
Renewal Design-Build	$4,334,000	Design/build	Decatur, Ga.
MasterWorks Atlanta	$4,000,000	Design/build	Roswell, Ga.
Cruickshank Remodeling	$3,806,000	Full service	Atlanta
Boston			
F.H. Perry Builder	$9,496,797	Full service	Hopkinton, Mass.
FBN Construction Co.	$8,946,485	Full service	Boston
Feinmann	$4,200,000	Design/build	Lexington, Mass.
The Wiese Co.	$3,097,227	Design/build	Sherborn, Mass.
The Remodeling Co.	$2,480,100	Full service	Beverly, Mass.
Chicago			
Airoom	$40,000,000	Full service	Lincolnwood, Ill.
Normandy Builders	$22,968,000	Design/build	Hinsdale, Ill.
J.C. Restoration	$13,484,332	Insurance restoration	Bensenville, Ill.
Benvenuti and Stein	$12,306,645	Design/build	Evanston, Ill.
Orren Pickell Remodeling Group	$6,973,141	Full service	Lake Bluff, Ill.
Dallas			
Elite Remodeling	$2,700,000	Full service	Frisco, Texas
Capital Improvements	$2,299,883	Full service	Allen, Texas
Skillful Improvements	$1,499,359	Full service	Mesquite, Texas
Home Artisan Authority	$1,100,000	Full service	Aubrey, Texas
Curb Appeal Renovations	$997,000	Design/build	Keller, Texas
Denver			
Boa Construction	$13,853,980	Full service	Denver
Finished Basement Co.	$11,000,000	Design/build	Denver
Old Greenwich Builders	$6,450,000	Full service	Denver
HighCraft Builders	$3,663,127	Full service	Fort Collins, Colo.
UNI Design	$3,000,000	Full service	Greeley, Colo.
Detroit			
DA Home Improvement	$8,000,000	Full service	Wyandotte, Mich.
Great Lakes Roofing	$6,430,000	Exteriors	Rochester Hills, Mich.
Father & Son Construction	$4,670,387	Full service	Troy, Mich.
Rolar	$4,134,681	Full service	Troy, Mich.
Bloomfield Construction	$1,873,787	Exteriors	Bloomfield Hills, Mich.
Houston			
Crawford Renovation	$16,557,365	Design/build	Houston
DWR Construction	$4,400,000	Full service	Spring, Texas
Living Improvements	$2,350,115	Full service	Stafford, Texas
Heritage Construction	$1,700,000	Design/build	Houston
Brothers Strong	$1,200,000	Design/build	Houston
Los Angeles			
Pacific Home Remodeling	$17,088,806	Exteriors	Los Angeles
Reborn Cabinets	$12,700,000	Full service	Anaheim, Calif.
Dial One Window Replacement Specialists	$8,698,222	Exteriors	Laguna Hills, Calif.
One Week Bath	$3,440,801	Bathrooms	Gardena, Calif.
Plaskoff Construction	$2,700,000	Full service	Woodland Hills, Calif.
Minneapolis/St. Paul			
Budget Exteriors	$6,632,334	Full service	Bloomington, Minn.
Minnesota Rusco	$5,186,349	Exteriors	Minnetonka, Minn.
Plekkenpol Builders	$4,801,518	Full service	Bloomington, Minn.
Authentic Construction Co.	$2,909,928	Design/build	St. Paul, Minn.
Murphy Bros. Designers & Remodelers	$2,818,521	Full service	Blaine, Minn.
New York			
Alure Home Improvements	$44,974,616	Full service	Plainview, N.Y.
Jarro Building Industries	$13,720,922	Design/build	East Meadow, N.Y.
Karp Associates	$8,600,000	Full service	New Canaan, Conn.
Murphy Brothers Contracting	$7,290,000	Full service	Mamaroneck, N.Y.
Remodeling Consultants	$5,200,000	Design/build	Mamaroneck, N.Y.

continued on page 25

market LEADERS Professional Remodeler

2009 Market Leaders

	Volume	Specialty	Location
Philadelphia			
Power Windows and Siding	$42,844,390	Exteriors	Brookhaven, Pa.
Gardner/Fox Associates	$29,939,386	Design/build	Bryn Mawr, Pa.
Pine Street Carpenters	$7,251,540	Full service	West Chester, Pa.
Brindisi Builders	$6,150,000	Full service	Marlton, N.J.
Housecrafters	$5,279,994	Kitchens/baths	Elkins Park, Pa.
Phoenix			
Legacy Design Build Remodeling	$10,157,500	Design/build	Scottsdale, Ariz.
Kowalski Construction	$3,775,439	Insurance restoration	Phoenix
Kirk Development Co.	$3,198,000	Design/build	Phoenix
Arizona Fire & Water Restoration	$2,300,000	Insurance restoration	Phoenix
Tri-Lite Builders	$1,653,443	Full service	Chandler, Ariz.
Portland			
Neil Kelly Co.	$25,433,294	Design/build	Portland, Ore.
A Cut Above Exteriors	$11,132,880	Exteriors	Portland, Ore.
Olson & Jones Construction	$2,000,000	Full service	Portland, Ore.
Master Plan Remodeling	$1,645,500	Design/build	Portland, Ore.
SLS Custom Homes	$1,200,000	Full service	Tigard, Ore.
Sacramento			
Kitchen Mart	$9,500,000	Full service	Sacramento
Vinyl Designs	$7,000,000	Exteriors	Sacramento
B-Line Construction	$3,200,000	Full service	Sacramento
D & J Kitchens & Baths	$2,200,000	Design/build	Sacramento
Zebra Restoration Services	$2,100,000	Insurance restoration	Rancho Cordova, Calif.
St. Louis			
Thomas Construction	$22,300,000	Full service	Bridgeton, Mo.
Callier & Thompson Kitchens, Baths and Appliances	$12,000,000	Kitchens/baths	St. Louis
Mosby Building Arts	$10,200,000	Full service	St. Louis
PK Construction	$4,270,177	Full service	St. Louis
S.W. Scheipeter Construction	$2,200,000	Design/build	St. Louis
San Diego			
Marrokal Design & Remodeling	$17,712,596	Design/build	San Diego
Lars Construction	$11,589,296	Full service	La Mesa, Calif.
Dewhurst & Associates	$6,500,000	Full service	La Jolla, Calif.
Jackson Design and Remodeling	$6,500,000	Full service	San Diego
Remodel Works Bath & Kitchen	$4,557,601	Kitchens/baths	Poway, Calif.
San Francisco			
Canyon Construction	$14,000,000	Full service	Moraga, Calif.
Pete Moffat Construction	$12,000,000	Full service	Palo Alto, Calif.
Harrell Remodeling	$10,155,797	Design/build	Mt. View, Calif.
McCutcheon Construction	$6,993,177	Full service	Berkeley, Calif.
Schiller Construction	$3,733,679	Full service	Mt. View, Calif.
Seattle			
State Roofing	$19,089,684	Exteriors	Monroe, Wash.
Sound Glass Sales	$13,155,206	Exteriors	Tacoma, Wash.
Westhill Design Build	$8,504,919	Design/build	Woodinville, Wash.
Chermak Construction	$8,300,000	Full service	Edmonds, Wash.
Tenhulzen Remodeling	$5,062,300	Design/build	Redmond, Wash.
Tampa			
TriplePoint Construction	$2,675,000	Full service	St. Petersburg, Fla.
Kitchen Creations	$1,938,656	Kitchens/baths	Tampa, Fla.
Strobel Design Build	$1,600,000	Design/build	St. Petersburg, Fla.
Zimmerman Associates	$1,500,000	Design/build	Lakeland, Fla.
AAA Services of Central Florida	$800,000	Home repair	Belleair Bluffs, Fla.
Washington, D.C.			
Case Design/Remodeling	$46,000,000	Full service	Bethesda, Md.
BOWA Builders	$26,000,000	Full service	McLean, Va.
Katchmark Construction	$11,246,761	Exteriors	Chantilly, Va.
Windsor Construction Group	$10,436,979	Full service	Rockville, Md.
Renewal by Andersen at The Window Place	$8,874,565	Exteriors	Fairfax, Va.

Survey: Stimulus package not all it's cracked up to be

Less than a third of remodelers expect it to improve economy

By Jonathan Sweet, Senior Editor

The stimulus package and its energy-retrofit tax credits since their passage earlier this year have been the focus of attention in the remodeling industry. Remodelers, manufacturers and suppliers have been touting the consumer benefits of credits for replacing windows, improving insulation and installing alternative energy products.

But is it making a difference? For most remodelers, the answer appears to be no.

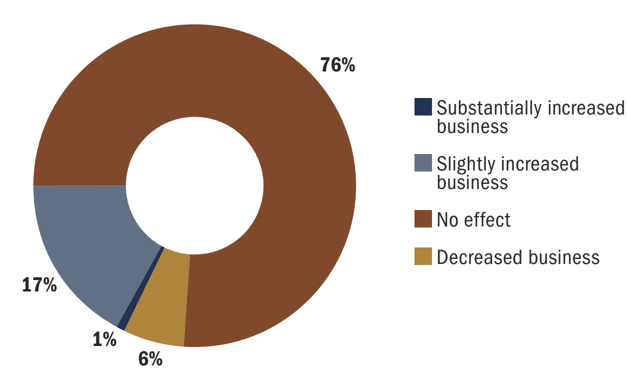
Small group reaps benefits

In our latest *Professional Remodeler* research, 18 percent of remodelers said they have had increased business because of the energy-retrofit tax credits, and only 1 percent said it substantially increased business. Instead, 76 percent said it has had no effect on their business, and 6 percent said it had actually decreased their business.

The stimulus didn't fare much better in the eyes of remodelers. A majority expect it to affect the economy — they just can't agree what that impact will be. In fact, more remodelers (32 percent) think the stimulus will worsen economic conditions than improve them (28 percent). More than 40 percent of remodelers said they expect the package to have no impact on conditions.

In both cases, remodelers in the Northeast are seeing a bigger benefit. Thirty percent of remodelers there said the tax credits have increased their business, compared with less than 20 percent in the rest of the country. Almost 40 percent of remodelers in the Northeast also said they expect the stimulus to improve the economy compared with 23 to 26 percent in the Midwest,

Majority not feeling impact from tax credits



SOURCE: *PROFESSIONAL REMODELER* SURVEY, AUGUST 2009

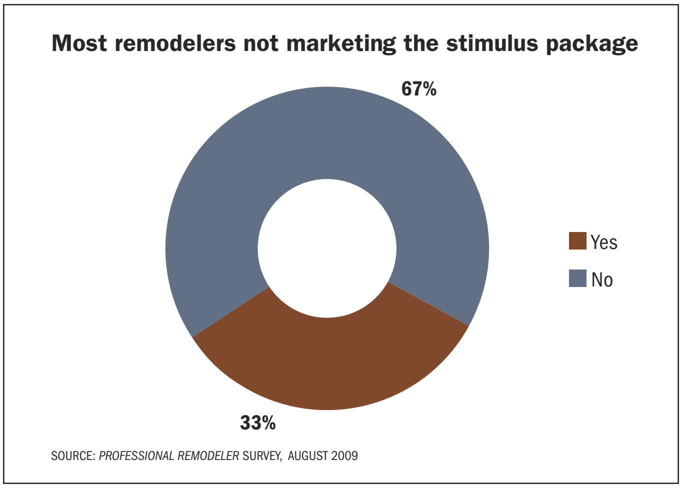
More than 80 percent of remodelers said the tax credits have had no effect on their company or decreased business.

South and West. With the oldest housing stock in the country, remodelers in the Northeast may be best positioned to take advantage of credits for upgrades.

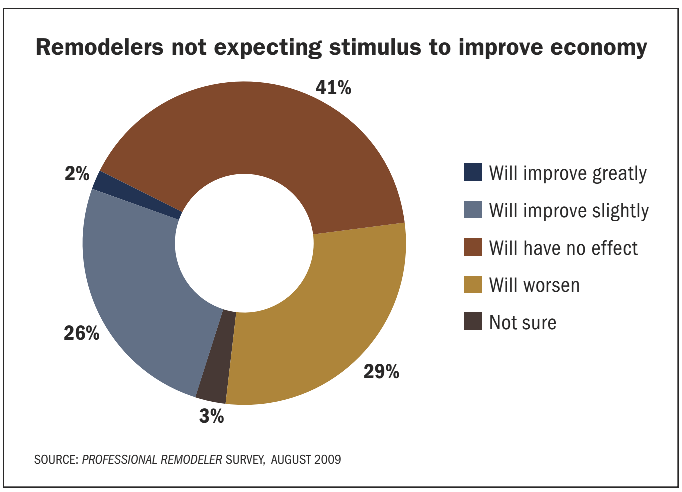
Qualms with the stimulus package

We asked remodelers to identify the biggest flaw of the stimulus package, and 48 percent said too much government involvement, followed by 19 percent who said it didn't help their individual business, 11 percent who said it was too little stimulus and 9 percent who said consumers are unaware of the tax credits.

Another 11 percent selected "other." Some of their responses:



Only a third of remodelers are using the stimulus package as part of their marketing efforts.



A plurality of remodelers expect the stimulus to have no effect on the economy and only 28 percent expect it to improve economic conditions, compared with 32 percent who think it will worsen them.

• "Too much emphasis on energy."
• "Unless there are ongoing monies available, it can only act as a short-term mechanism."
• "Window criteria is ridiculous."
• "Rebates/credits are too complex."
• "Not long enough."
• "A tax credit of $1,500 is too little and too late."
• "Too much paperwork."
• "My clients just do not want to spend any money or they do not have any money to spend."

Stimulus strengths

Half of all respondents said the stimulus package had no strengths. Not everyone has a negative outlook on the stimulus, though. The top strength of the package is that it is encouraging people to upgrade their product choices, said 21 percent of remodelers. Another 10 percent said it stimulates the economy, 6 percent said it drives business to remodelers and 5 percent said it builds consumer confidence.

The category that will see the biggest benefit from the tax credits is windows and doors, according to our survey, with 49 percent of remodelers noting it. That's not particularly surprising, as window replacement contractors and manufacturers have made the biggest push in marketing the stimulus tax credits. The next highest categories were insulation and HVAC, each selected by 14 percent of remodelers. Only 9 percent of remodelers said they think alternative energy, such as solar and geothermal, will be the most popular type of remodel despite the larger credits on those projects. •

What else can be done?

We asked remodelers, "What else could be done to stimulate the remodeling industry?" Here are a few responses:

- "Provide funds for the poor to repair or maintain their homes."
- "Income tax cuts so everyone who is earning has more money to do things like remodeling."
- "Do something similar to the Cash for Clunkers program for homeowners improving or replacing what they have."
- "Tax break for the contractors."
- "Money must come to the remodeling industry in the way of loans. Banks still are not loaning."
- "Appraisals that are reasonable."
- "Lower taxes and reduce government involvement in the private sector."
- "I believe that we are already giving away our kids' future. I do not believe we should do anything else with government money."
- "Free up lending to existing homeowners and new-home buyers."
- "The banks need to start lending again."
- "Sales tax relief on building products."
- "Cause homeowners to feel more secure that they won't lose their job any day."
- "I believe the market could be stimulated by more positive media coverage."
- "Get the government out of our pockets."
- "Tie tax credits to major recycling."
- "Provide low-interest loans to people who are looking to renovate using green materials and contractors certified in green building."

Methodology

549 remodelers completed the Internet survey Aug. 3 to Aug. 11, 2009. Participants were chosen from a random sample of subscribers to *Professional Remodeler* magazine or its Remodelers' Update e-newsletter.

Radical discounting is business suicide

By Wendy A. Jordan, Contributing Editor

Editor's note: Wendy A. Jordan will answer remodelers' most difficult questions and report them in our new feature, Executive Insight. Jordan's vast array of contacts and deep knowledge of the industry give her uncommon ability to research and report solutions that have been shown to work. Not theory — proven best practices. Send your question to paul.deffenbaugh@reedbusiness.com.

Can remodeling contractors survive a strategy of radical discounting?

— Kitchen and bath designer, California

The short answer is no. If you slash prices deeply to generate business, you may see success in the short-term, winning contracts from bargain-hunting homeowners. In the long run, though, you are setting yourself up for failure.

Radical discounting is a topic that stirs strong emotions among established remodelers. I contacted several around the country, and they said it is business suicide for all but extremely large companies, and eventually those giants, too. As design/build remodeler Iris Harrell of Harrell Remodeling in Mountain View, Calif., put it, the only way to survive radical discounting is to stop doing it. Now.

Say you cut prices by 20 percent or more, which is one general definition of radical discounting. You've fried your profit and probably a good share of your overhead coverage. Even if the low prices draw new business, your company has only so much sales and production capacity. You'll never be able to make up the lost revenue through increased volume.

Radical discounting carries another danger as well. It devalues your company. And once you start down that road, it's hard to turn back. Jesse Morado is a remodeling pro who now runs a residential remodeling consulting firm, Renovation Coach, in Atlanta. He warns that repositioning yourself as a low-price company moves you into the market niche of bottom-dollar companies. It's a whole different world where buyers fixate on price negotiation and don't think about the workmanship, customer service and reliability. You will have to cut corners to save money

How Discounting Affects Profits in a Down Market

Normal Pricing Model

	# Projects	Avg. Project Price	Costs
Sales	20	50,000	1,000,000
Direct Project Costs	20	30,000	600,000
Gross Profit			400,000
GPM			40%
Fixed Costs/OH			275,000
Net Profit			125,000
NPM			12.50%

Discounted 10% Sales with Customer in Ohio

	# Projects	Avg. Project Price	Costs
Sales	20	45,000	900,000
Direct Project Costs	20	30,000	600,000
Gross Profit			300,000
GPM			33%
Fixed Costs/OH - Cuts in staff			200,000
Net Profit			100,000
NPM			11.11%

DISCOUNTED SALES WITH CUTS IN OVERHEAD

THE COMPANY IS STILL VIABLE AS LONG AS SALES VOLUME HOLDS UP.

Effect with Continued Loss of Sales

	# Projects	Avg. Project Price	Costs
Sales	12	45,000	540,000
Direct Project Costs	12	30,000	360,000
Gross Profit			180,000
GPM			33%
Fixed Costs/OH - Cuts in staff			200,000
Net Profit			-20,000
NPM			-3.70%

DISCOUNTED SALES WITH DROP IN SALES; THE COMPANY'S BLEEDING CASH.

SOURCE: JESSE MORADO, RENOVATION COACH

This comparison by Jesse Morado shows the true cost of discounting. The more discounted projects you sell, the farther behind you get.

— perhaps reducing the number of workers on the job, providing less frequent production oversight, scheduling fewer dumpster pickups, doing less painstaking site protection, and so on. All this raises the risk that you will make more errors, fall behind, disappoint your clients and sow the seeds of negative PR. That's a deadly price to pay.

Moderate price reduction is a different matter. Many remodelers are tightening their operations to lower their estimates a few percentage points. The difference is that they are calculating the price cuts around careful cost cutting that protects the quality of their remodeling product and safeguards their profit margin.

Morado says that by doing a line-by-line analysis of projects completed in the last year you may be able to identify a 25 percent savings without altering your margin. Look at the schedule: Is there waste? Can you shave off some labor hours? Could you save money, without hurting quality and control, by subbing out some aspects of production? And so on.

Over the past five years, Dave Bryan has systematically cut costs within Blackdog Builders in Salem, N.H. Today it costs $1 million less to run the $5 million-volume operation.

At Atlanta's Small Carpenters at Large, Danny Feig-Sandoval is doing a company-wide cost analysis now. He's looking not only for savings within the company; he's asking suppliers and subcontractors to pass along savings. He's also shopping other high-quality trades, which he figures may uncover better prices and keep him more attuned to competitive rates.

Belt-tightening may enable you to reduce your bids somewhat, but they are likely to be higher than the prices quoted by low-ball companies. So be it. You also can offer multiple options, including modest, economical designs, along with more full-bodied plans. For example, says Harrell, you could base estimates on grade A or good-quality-but-less-expensive grade B cabinets, depending on the homeowners' priorities and budget.

In today's market, what can we do to grab the attention of prospects and differentiate ourselves from the competition?

— Remodeling design specialist, Illinois

We know the remodeling market has changed in many ways since the economy went south. Even the top clients of the market are affected. Mason Hearn, owner of HomeMasons, a high-end remodeling company in Manakin-Sabot, Va., says, "Folks who have plenty of money and security to do what they want seem to be sitting on their wallets."

It sounds odd, but to stand out from the crowd and stimulate business in this changed buying environment, one important thing for established companies to do is not to change. You built a name for your company doing something well. Focus on that strength in talks with prospects as a way to differentiate your company and bond with homeowners who are a good fit for you.

The idea is to sell value — specifically the value your professionally managed company has to offer. But it accomplishes more than that. As you describe your services, you will be steering prospects away from bargain-basement contractors and other competitors without saying a word against them. Your selling message will be strong and positive, not defensive.

Kuhn Construction of Oakland, Mo., won remodeling awards this year, so owner Rick Kuhn is using that achievement to market the company's superiority. Dennis Gehman of Gehman Custom Builder in Harleysville, Pa., adds value and stands out from the competition by providing a five-year warranty on workmanship. The company has almost no calls for workmanship warranty work "so we took the risk" to offer this, he says.

When Pennsylvania put a contractor registration law into effect in July 2009, Gehman gained another differentiating factor. All contractors in the state must register, display their registration number and include certain buyer protections in their contracts. "The small guys are not registering," Gehman says. He simply tells prospects about the new law and refers them to the state Web site for more information.

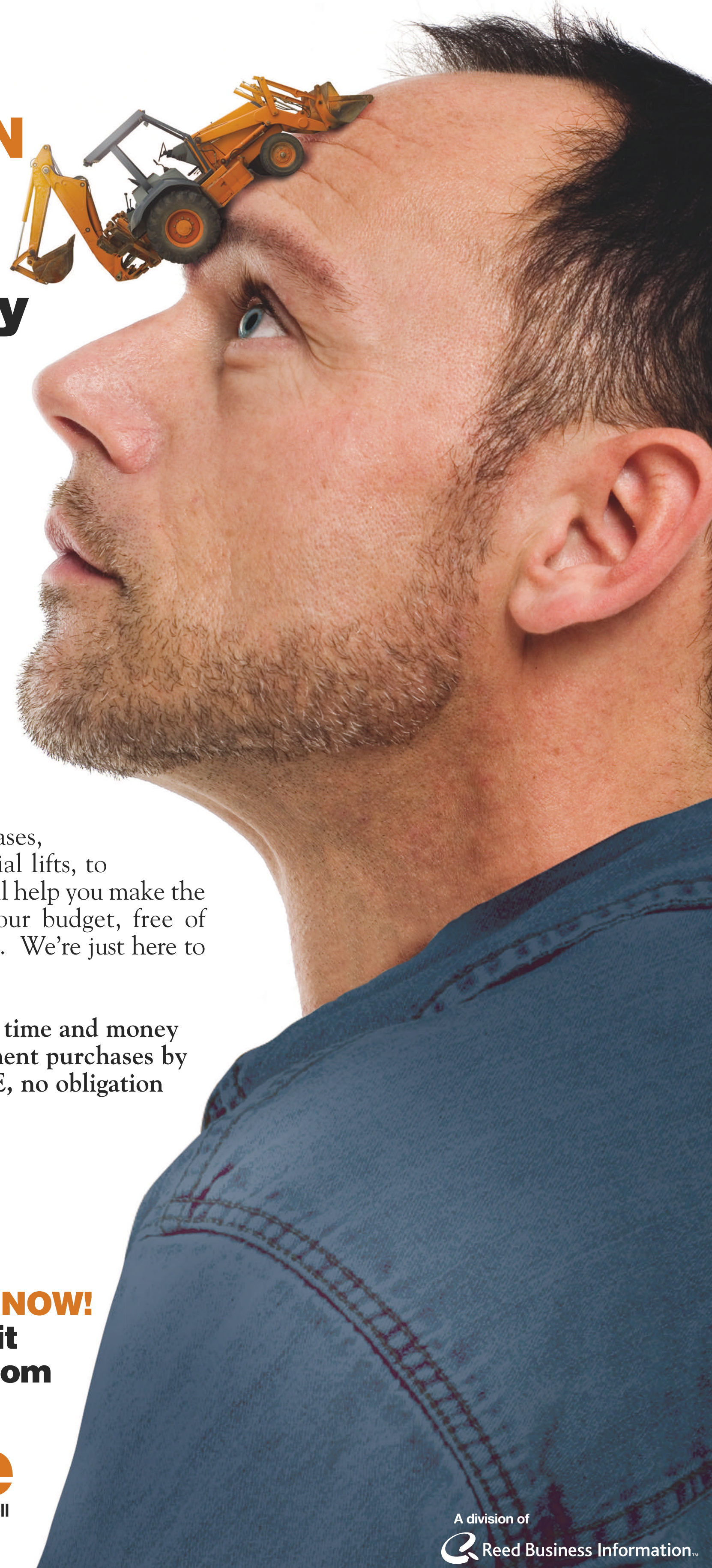
Remodeling coach Jesse Morado advises contractors to survey prospects and clients and then to use the databases actively. Customer feedback information serves as a third-party endorsement of what you do well and makes prospects wonder why your competitors have no such information. Using data from past clients who sold their homes, Mason shows that HomeMasons remodeling projects boost resale value. HomeMasons is not the cheapest company around, but prospects see that the project quality represents a good investment.

Submit your own question to Editorial Director Paul Deffenbaugh at **paul.deffenbaugh@reedbusiness.com**

Mining records about prospects — even one-time callers — helps you to keep communications active. That is something most remodelers do need to change in today's market. Don't be pushy, but do stay in touch. Follow up on every contact homeowners make with your company. Call every homeowner who contacted your company over the past year, simply to touch base and ask if you can be helpful. Ask about their remodeling wants and needs, ask about any changes in circumstances that might affect their remodeling priorities.

After you make a presentation on a sales call, most prospects will say they want a few days to think about their remodeling plans. Ask when you might expect to hear from them. If they do not contact you when promised, make a polite, low-pressure call to them to ask if they have any questions. •

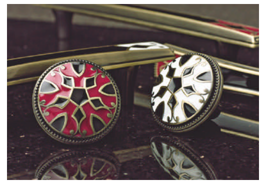
Wendy A. Jordan, CAPS, has more than 30 years of experience covering the residential remodeling industry as an award-winning writer and trade magazine editor. She's the author of many books on residential remodeling, most recently "Universal Design for the Home" and a 2009 edition of "The Paper Trail: Systems and Forms for a Well-Run Remodeling Company."



Stat Sheet

New products to make your projects shine and your crews more efficient

By **Nick Bajzek**,
Products Editor



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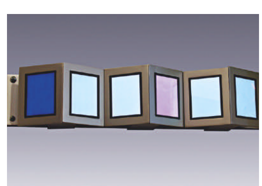

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Fireplaces

Though gas-burning products continue to be more popular, pellet fireplaces gain traction

Pellet burners will likely gain popularity in colder climates.

D-KURU/WIKIMEDIA COMMONS

Pellet fireplace shipments up 161%

By **Nick Bajzek**, Products Editor

While gas-burning products continue to represent the largest number of fireplace products shipped to retailers in the U.S. (1,017,000), pellet stoves and inserts and other biomass-burning fireplaces saw a 161 percent spike in shipments (141,000) in 2008.

The figures, posted by the Hearth, Patio & Barbecue Association (HPBA), also show that fireplaces are a $5 billion–a-year industry.

Leslie Wheeler, director of communications for the Pellet Fuels Institute, a trade organization that represents the wood pellet fuel manufacturers, attributes the spike to last year's fossil fuel prices. "When oil prices were predicted to be off the charts, people just scrambled for secondary sources of heat," she says, adding, "Inserts turn a very inefficient traditional fireplace to an efficient system so the homeowner can turn their thermostats down."

Contractors and homeowners alike have a reason to warm up to pellet and other biomass-burning fireplaces and stoves. Homeowners may qualify for a federal tax credit of up to $1,500 if they purchase and install a 75-percent efficient wood- or pellet-burning (biomass) stove in 2009 or 2010. Thirty percent of the total cost, including the appliance, installation and piping, can be claimed.

EXAMINING PELLETS

According to the HPBA, pellets burn cleaner than virtually any other biomass fuel and produce low particulate matter. They are made from compacted sawdust, wood chips, bark, agricultural crop waste and other organic materials. Combustion is achieved through an electrically controlled, high-temperature burner with ample oxygen and sufficient burning of gases before they are exhausted.

The Wall Street Journal reports American-made pellet shipments to Europe, where the fireplaces are more prevalent, were up 62 percent in the first quarter of 2009 from the same period a year ago. In the U.S., wood pellets are typically purchased in 40-pound bags for between $5 and $7, though prices vary by region and availability.

According to the Encyclopedia of Alternative Energy and Sustainable Living, pellet stoves typically are $1,700 to $3,300, depending on the quality and features of the appliance. Installation costs are fairly low, usually from $350 to $550, because a pellet stove does not require a chimney but only a straightforward 3- to 4-inch venting system.

Most current pellet stoves on the market are not whole-house furnaces but rather room heaters that can offset heating needs in occupied rooms, allowing homeowners to lower the thermostat in other rooms. Thus, it should be noted that these stoves do not offset the need or capital cost expenditures for a whole-house furnace when used in a typical residential setting. •

Pellet Tax Credits, Standards and More
Head online for more information on pellet stoves. Visit **www.housingzone.com/PR**

Insulation

The spray-foam insulation industry is poised to grow almost 3% annually thanks to lower prices and rising consumer demand

Construction Insulation Market for Foamed Plastics
(IN MILLIONS OF POUNDS)

Item	1998	2003	2008	2013	2018
Foamed Plastics in Insulation	1392	1544	1445	1685	1920
Ridgid Urethane	842	959	915	1085	1250
Polystyrene	550	585	530	600	670
% Insulation	63.2	62.2	66.3	65.8	65.2
Foamed Plastics in Construction	2204	2481	2180	2562	2945

SOURCE: THE FREEDONIA GROUP

Spray-foam segment to expand through 2013

By **Nick Bajzek,** Products Editor

The "U.S. Foamed Plastic Demand" report from market research firm Freedonia Group says spray-foam insulation in residential homes will grow 2.8 percent annually.

Slightly better growth is expected for foamed flexible urethane products instead of their rigid counterparts through 2013, says Corinne Gangloff, media relations director for Freedonia. She also says the firm forecasts annual growth for foamed insulation from 2013 to 2018 to be 2.6 percent.

"The new U.S. Administration has put energy efficiency front-and-center," says Torsten Kraef, vice president and general manager for Dow Building Solutions. "It is clear that we must stop the tremendous waste of energy and money spent operating poorly insulated homes, offices, schools and government buildings. That means building right the first time with products that perform as well today and 60-plus years from now."

The growth in the industry can also be attributed to less-costly alternatives such as mixing spray foam and fiberglass batts to create a hybrid insulation system.

Tom Quigley, vice president and general manager for Owens Corning Residential Insulation, says the prices for spray-foam insulation projects have eased somewhat in recent years. "Builders and contractors were eager to meet those demands but, until now, other options were prohibitively expensive, not easy to use or did not provide a sealing solution for the life of the home," Quigley says. •

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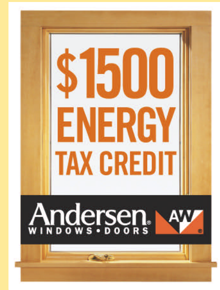

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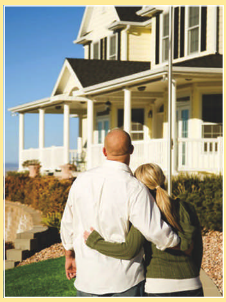

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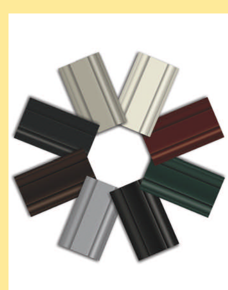

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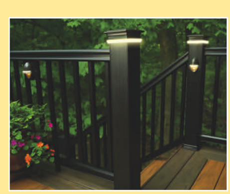

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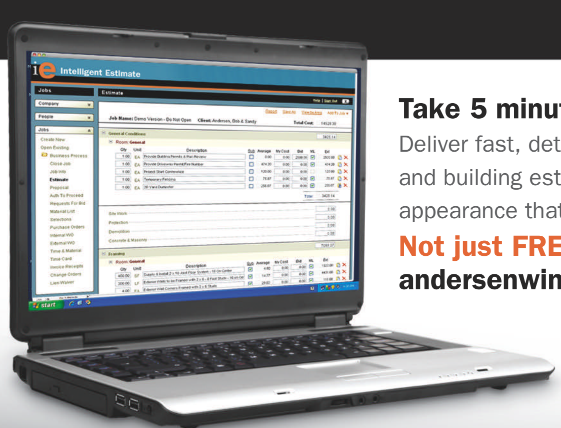

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