STRICTLY BUSINESS

Limits to Growth

by Paul Eldrenkamp

These days, I hear and read a lot about the forces driving growth in the remodeling industry. Many industry pundits claim that the steady increase in remodeling activity over the last decade is proof that bigger — bigger sales force, bigger jobs, bigger crews, bigger marketing budgets — is better, both for the industry and for individual companies. Some even claim that this growth signals a fundamental, historic shift in the industry, a change in the rules that will pressure small companies to "partner" with suppliers to become more competitive with the Home Depots of the world.

While I agree that there's a place for this kind of trend analysis, it reminds me of a time a few years ago when I watched my daughter's encounter with a video racecar game at an amusement arcade. She was enthusiastically spinning the wheel, hitting the pedals, and responding to the screen, but she didn't realize you had to put a quarter in. She was taking her cues from a random loop of race course, unaware that her movements had no effect on the action.

Remodelers who make too much of their current prosperity are operating under the same illusion. The simple reason the remodeling industry is growing is because we're riding a record-breaking economic boom. Business acumen may be playing a role, but when times are this good, it's harder *not* to grow than to grow, so we all look like marketing geniuses.

Supply and demand. The current speculation on the coming need for larger remodeling companies is all supply-side talk; in other words, it's contractors and industry consultants who are having the conversation. That's because the demand side — our clients — don't really care about remodeling company growth. They understand that a company just needs to be big enough to handle their job — anything beyond that adds no value. In fact, growth may be a drawback because as a remodeling company grows, its overhead increases, and that means higher prices to the client.

To me, company size follows basic supply and demand. You can bet that if there were a big demand for large remodeling companies, there would be a big supply of them. Instead, there's a big supply of *small* remodeling companies, which tells me that client demand is high for personal attention and friendly, familiar faces.

Four Reasons to Stay Small

Some large remodeling companies have had success with specialties, like window replacement, roofing, and siding, all of which are improvements you can sell using big marketing campaigns and straight-commission salespeople. But it's much harder to make this model work for kitchens, baths, and room additions, where a homeowner actually has to let people into the house for an extended period. No nationwide company, including franchise efforts like "Mr. Build," has ever been able to sustain even a mid-scale remodeling business. I'm not going out on a limb to predict that Home Depot won't either.

There are reasons so few custom residential construction companies grow big; reasons that offer useful warnings for contractors eager to grow and grow and grow.

It's hard to be big and to act small. When was the last time you got friendly, familiar, reliable personal attention from, say, General Motors —

or from Home Depot, for that matter? The bigger the company, the less likely it is to offer the sort of "personality" that a homeowner wants from a remodeling contractor. Smaller companies are better positioned than larger companies to offer highly customized services.

Small companies provide better custom service. In most service industries, larger companies prefer to handle problems that lend themselves to cookie-cutter solutions. They can keep the cost down because they can provide the exact same service to every customer. For example, if you have simple tax problems and moderate income, you go to a chain like H&R Block. But if your tax problems are more complex, you'll probably spend a little more to hire a sole proprietor or a small firm.

The same is true in the remodeling industry. Specialties like window replacements or reroofing are predictable problems that can be handled nearly the same way every time. A kitchen remodel, on the other hand, is almost by definition a complex problem that requires a customized solution.

Marketing costs more for large companies. Big companies have a hard time coming across as if they really care about their clients as individuals. As a result, they get fewer referral leads, which are the cheap, good leads. This means larger companies have to spend more to get lower-quality leads. More expensive sales and marketing means higher prices, which in turn means increased vulnerability to competition.

Small companies are better employers. To good carpenters, a big company doesn't make an appealing employer. Most of you probably know several skilled lead carpenters who have jumped ship to start their own businesses, but how many do you know who have gone to work for Home Depot to do installed sales? Probably far fewer. On the whole, people who go into construction do not want to work for corporate America. Skilled, entrepreneurial individuals who are comfortable and happy in a small company where they have lots of autonomy and recognition tend to chafe in large structured organizations. I don't believe Home Depot or any really large construction company will ever attract the caliber of people that a good small-scale contractor will.

Measuring Up

When the next recession hits, all this talk of growth will disappear and the hot topic will be survival. The companies left standing, I predict, will be those that have resisted growth for growth's sake, companies whose owners have focused instead on supplying the high level of service remodeling customers demand. In boom times like these, the hard part is not increasing volume — it's finding ways to get the most satisfaction with the least effort. Here are four that are much more challenging than increasing volume:

- Improve the gross margin on the volume you now have.
- Reduce the hours you have to work to generate your salary.
- Reduce the hours your employees need to work to produce the jobs.
- Increase the number of prospects that call your office having already decided to hire you.

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