

Reaching Out

Often buried among customer lists of high-profile builders and big-volume accounts, remodelers like Harth Builders and Mark IV Builders have the potential to grow a healthy niche business for dealers that offer face-to-face dependability and timely delivery, and are willing to lend a helping hand to smaller businesses.

Just-in-time delivery. Near-perfect service execution. A broad inventory and the product knowledge to back it up. Open communication lines. A single, dedicated sales rep who picks up the phone on the first ring. Fair prices. No, it's not another production builder regional vice president waving titanic volume dollars in your face and asking for the sun and moon; it's your local professional remodeler. But if you thought remodeling accounts were small change, think again.

The \$236 billion-plus repair/remodel segment of the construction industry is huge and is only getting bigger as remodelers report increasing revenues and growing work backlogs. While the service demands at first may seem disproportionate to the account size, remodelers often promise higher margins, better brand support, and consistent payment to pro dealers willing to take them on as VIP accounts. And now some can even offer the volume to go along with it. Professional remodelers are getting backlogged and busier with each passing year, and they are looking for a few good suppliers to lend a helping hand.

Harth Builders Seeking Service

At the beginning of June, Allyn Harth, CR, CKBR, president of Springhouse, Pa.-based Harth Builders, was already booking first meetings with prospective remodeling clients through the end of July and beginning of August. He's got a desk stacked with project estimates and blueprints, and a market reputation for getting things done right that keeps him coming back to current jobs to execute all of the finishing touches and slight change orders as a project nears completion. Selected by Remodeling magazine (a sister publication of ProSales) in 2004 as a Big50 Remodeler, a distinction bestowed on best-in-class remodelers across the country, Harth is as busy as ever keeping up with remodeling clients in the Philadelphia metro area, and suspects most other professional remodelers are pushed to the max with activity in 2004, as well.

Nationwide, remodeling spending and estimations of future spending continue to add luster to a market that many pro suppliers are finding to be a hidden gem between production and custom home builders. In May, the Quarterly Survey of Remodelers conducted by the NAHB's Economics Group revealed all-time-high index rankings for current market conditions (a weighted average of major additions and alterations, minor additions and alterations, and maintenance and repair) and future expectations (an average of calls for bids, amount of work committed for three months, backlog of jobs, and appointments for proposals).

Harth is not surprised. "I have 15 jobs in estimation, and I just told another prospect that I could not see her for two months, but she booked the appointment anyway," Harth says. "She

already had called around and tried some other firms, but they were busy, too.” Harth Builders has seen revenue increases between 25 and 30 percent since 2002, and is closing in on the \$1 million mark for 2004. “We expect to grow 20 percent per year for the next five years,” says Harth, who cajoled his son Greg away from a commercial construction estimating job in Colorado to join the family firm as a much-needed project manager last year. Between father and son, the two-man team is managing approximately 35 jobs a year, and for each project, a Harth is always at the jobsite to accept product delivery from a supplier.

“Remodeling takes more coordination and hand-holding than any other type of construction,” says Allyn Harth, who estimates that building material costs approach roughly half of the company’s annual dollar volume. Relying almost entirely on subcontractors for jobsite labor and construction, and with homeowners on site scrutinizing every delivery truck coming up the street, Harth requires his suppliers to meet stringent schedules and make immaculate, error-free deliveries. “If there is any question about delivery or procedures, the subcontractor will do one of four things: just sit there; leave the job; do it wrong; or maybe do it right. As a result, we like to be there as soon as a delivery hits, as soon as a subcontractor initiates work—you want a minimum of errors.”

With up to 11 different suppliers on any one project and multiple deliveries, the company has come to depend on reliable, on-time delivery of materials to keep subcontractors busy working and to maintain a more seamless construction schedule for concerned homeowners on the lookout. “Remodeling is 30 to 40 percent more labor intensive and less efficient than new construction,” says Greg Harth, who on any given day is orchestrating the jobsite to account for a carpet supplier, a surfaces supplier, a drywall installer, or the more traditional lumber package or window and door delivery. “Every day you have to set up, and every day you have to break down, and at every step the homeowner is either second-guessing you or grading your performance, or both, so for any of our suppliers, we are going to stress the importance of relationship over price. We are going to stress time savings, and we are going to stress product knowledge.”

But despite the daily logistics and high service order, Harth is reluctant to consolidate suppliers or buy into a one-stop-shopper mentality, especially if it involves supply from the big boxes. In addition to a cost savings that the company recoups in saved time as compared to sourcing material at a box store, both Allyn and Greg Harth look to their pro suppliers for in-depth product knowledge past and present to satisfy project requirements for their inquisitive and option-minded clientele, a criteria they have not found from suppliers offering a consolidated gamut of building materials. “Our clients are people with harried lifestyles that include many demands, and for most of them, this is the second largest purchase they will ever make [next to their home],” says Allyn Harth. “In turn, they are either looking for, or in some cases even demanding, more assistance from the remodeler in product selection. From counters to siding, they want options, but they also want guidance.”

With projects varying from three-story additions on new custom homes to bathroom and kitchen remodels of century-old houses, meeting the high demand for product knowledge—both cutting edge and historical—is something Harth Builders gets only from the pros. “The warehouse stores have wide selection, but every time I go in there I lose an hour of my life,” explains Greg Harth. “With remodeling, you can’t apply a generic template to every job, you have to be an artist and a mechanic and an engineer. You have to know current products, but also products from 10 or 20 years ago. We gladly pay for that product knowledge from the pro houses.”

Doylestown, Pa.–based Marvic Supply is about as close as Harth Builders gets to turnkey supply, relying on the six-unit specialty distributor of exterior building materials for siding, roofing, windows, and doors. According to Allyn Harth, Marvic meets his company's need for first-name-basis, top-notch service and consistently passes his informal supplier litmus test: "If a supplier does not have time for us," he explains, "they obviously don't want our business."

Marvic has been gradually increasing its focus on the remodeler market over the past decade, shifting from encompassing 25 percent of its business approximately 10 years ago to a high of about 75 percent in most locations for 2004. "We are built on that business," says Jim Stevens, a general manager at the dealer's North Wales, Pa., location, who was a remodeler himself for several years before joining the supply side of the industry. "Remodeling and new-home construction are simply two different animals. The remodeler wants quality materials, warranties, and high service, where the new-home builder wants to get the materials thrown up, the job done, and to get out."

Stevens acknowledges that the service requirement is always extremely high. "The remodeler wants fast and fair pricing, they want on-time delivery, and they want turnaround on their quotes," he says. "For every order, you have to be willing and able to explain where it is, when it is, and how it is at any given time in the supply process. The thing about remodelers [is that] even if it is bad news, they want to hear it. They have their backs to the wall on time frames, but if you can communicate, they can usually deal with it."

In Allyn Harth's opinion, Marvic's intimate understanding of the service requirements and communication needs of remodelers like himself is a rarity in the construction supply chain. Harth even hypothesizes that many pro dealers and specialty distributors are not even aware of who their remodeling customers are. "I think they don't realize what a large market remodeling has really become," he says. "[But to be fair], I don't think the market itself even knows the true statistics."

While Harth allows that many suppliers may not have the time or capital necessary to either add or train salespeople to specifically address the remodeler market, he feels good old-fashioned service will likely win the day for pro dealers seeking to gain a larger remodeler market share. "Serving remodelers means prompt return of price quotes, timely deliveries, and knowledgeable salespeople," he says. "But it is more fundamentally the consistency in that service, and the supplier honestly wanting to help us succeed."

MARK IV Builders

Time Sensitive

At Bethesda, Md.–based MARK IV Builders, a Remodeling Big50 1996 alumnus, president Mark Scott does not have an immediate answer to what he also sees as the difficulty pro suppliers often have identifying their professional remodeling markets. In fact, MARK IV company officials share the lament of many professional remodelers that pro dealers still do not seek out, service properly, or sell to their segment of residential construction, despite the market numbers that should convince them otherwise. "I'd be willing to bet that most of the time suppliers do not even know who their remodeler customers are," says MARK IV estimator Kirk Van Camp, who supervises the firms' six in-house superintendents.

"I don't know how to make the remodeler more important to suppliers," Scott adds. "Generally speaking, a fairly [small] home builder building four to five houses a year is going to be [on par with how much we purchase]." Scott also feels that some of the financial risks

inherent to full-scale home building results in a certain amount of speculation among contractors, and suppliers are often the ones to pay the price. “There are a lot of small home builders that are really just gamblers,” he says. “Having been through commercial, residential, and now remodeling,

I realize that small home building is all about the money—it is all about cost.”

Not necessarily so with professional remodeling, Scott says, where MARK IV’s average project budgets in the Washington, D.C., market have been edging close to \$250,000, and upgrade-minded homeowner clients are less likely to make product decisions based solely on price. “I don’t think suppliers [and manufacturers] realize how important the remodeler is to the product selection process,” Scott says of the gravity of his role as a salesperson helping clients spec products for their projects, adding that it is the remodeler’s recommendation rather than a TV ad that will establish the weight of any given brand at the end of the day. “[Manufacturers] can spend as much as they want on consumer advertising. I can beat that in two minutes.”

In addition to helping to push product sales through at the homeowner end, remodeling clientele may be less challenging to pro dealers than other contractors when it comes to balancing the accounts. Scott feels that most professional remodelers pay supply invoices within 30 days, a benchmark that MARK IV consistently beats by approximately two weeks.

Still, Scott concedes that remodelers are a service-dependent segment of the industry, perhaps even more so than custom home and production builders on the new-construction side. “We are a pain in the ass, individually as a company and as an industry,” he says. “We require a lot of product knowledge, and we are not ordering five to 50 houses at a time.”

According to MARK IV production manager Andy Hannan, who supervises the firm’s 12 jobsite superintendents, the variety in remodeling projects eliminates the ability of suppliers to cookie-cut specs and pricing from one purchase to the next. “We never do the same thing twice,” he says, adding that the complexity in sourcing different materials from job to job actually increases the remodeler’s need for consistent, face-to-face, relationship-based supply. “We’ll usually use about five to eight suppliers depending on the type of job, but we seek to create a relationship with dependable suppliers rather than bid-out jobs,” says Hannan. “It’s something that we try to keep control of because those suppliers constitute roughly 20 percent of our job. Our normal job budget is 20 percent labor, 20 percent materials, 60 percent subs.” So with MARK IV approaching the \$5 million mark in annual volume for 2004, that’s \$1 million in revenue being pulled in by the firm’s primary suppliers—not a bad payback for the effort. Pro dealers who want in on that game need only deliver on the age-old contractor cry for service, which for MARK IV means on-time, error-free delivery. “Bad service will outweigh any other factor in choosing a supplier,” explains Van Camp. “Bad service is not delivering when you say it is going to be there. And it doesn’t matter how far out the delivery is—if it is four weeks, it is four weeks—because we schedule that far in advance, but if you say it is going to be there in four weeks—make it happen. We have schedules to meet and zero extra time left.”

When the materials finally do hit the jobsite, supplier drivers and unloaders need to remain conscious of the ever-alert homeowner who holds ultimate contract authority with the remodeler. “These projects to them are personal,” says Van Camp. ““Don’t block the driveway because I can’t get in,” they are thinking, or “There is paint running out of the Dumpster. Why?””

Like Harth Builders, the crew at MARK IV feels pro suppliers looking to establish a presence in their remodeling market can overcome a lot of the service and logistic idiosyncrasies by providing dedicated, face-to-face service from salespeople trained in the remodeling side of the business. “At TW Perry, for instance, we have one salesperson that all of our

superintendents deal with, and we have salespeople and superintendents meet on site at the outset of a project,” explains Van Camp of the Gaithersburg, Md.–based dealer that supplies approximately 80 percent (30–35 jobs a year) of their projects. “And we do get better service that way.”

At TW Perry, president and CEO Ed Quinn is the first to agree that remodelers can be a little high maintenance. From frequent, small-load and just-in-time deliveries to servicing logistically tight jobsites in high-density housing areas, Quinn says there is a lot for the pro dealer to buy into. But the payoff of getting remodelers addicted to you as a supplier is worth the effort. “More product to the same guy is the name of the game, and by servicing the remodeler, you get the whole package,” Quinn says. “You get the millwork, you get the hardware, you get the interior doors, you get all the high-margin items that enable you to be successful.”

Whether it is answering the product knowledge call of an option-heavy project or delivering small-lot jobs on precise time schedules, Big50 remodeler teams like Harth Builders and MARK IV rely on pro dealers to go the extra service mile, but feel there is a lucrative market in the wait for those who are willing to step up. With the high maintenance comes greater rewards, including higher margin products, market differentiation, and consistent payment of accounts.

“Go out of your way to prove yourself to remodelers,” says Scott. “We are not going to be huge buyers, but we are going to be steady pays, and ultimately your growth will be exponential to ours.” ■