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SUMMER 2007



Branching OUT

Some see specialization as the future of the industry, but plenty of remodelers beg to differ with the notion that a jack-of-all trades is a master of none.

By David Zuckerman

IN the remodeling industry, successes (and failures) come in a range of shapes and sizes. As the industry matures, some are seeing a trend toward specialization and niche focus. But plenty of companies have found success in diversification, running some combination of full-service, single-line, commercial, franchise, and insurance restoration operations under one roof.

Diversification is often intended to grow revenue. Just as often it's a hedge, generating an additional stream or streams of revenue to protect against the failure of any one. In other cases, remodelers diversify to meet a need in the market, or to enter a new market and gain cross-market business. Sometimes, too, your company diversifies almost by accident, either because you luck into a new opportunity or you're chasing one out of desperation. Whatever the motivation, if your company is entering a new business, you face a host of challenges and tough decisions. In the following pages, we profile contractors who have succeeded by refining the scope of their companies' operations.

SCOTT CIERZAN

First Call Construction, Urbandale, Iowa

For some in the industry, the smartest strategy is to find a core service and master it. Scott Cierzan doesn't have any less regard for mastery, but he's not content to limit his company to just one source of revenue. Instead, Cierzan aggressively seeks new opportunities, believing that if he doesn't take advantage, his competitors will.

"You have to be innovative to stay in business," he says. "If you're standing still, you're not going to last long."

Cierzan's company, First Call Construction, offers insurance restoration and a full complement of residential remodeling services. And now Cierzan is making a push into the commercial arena,

taking on smaller-scale jobs such as interior reworks, finish-outs, and small additions.

"We're trying to hit a niche where we basically can do the remodeling work on commercial buildings that large contractors would prefer not to do," Cierzan says.

The benefits, he says, are twofold: First, the new work offers a growth opportunity (Cierzan expects to add 15% to 25% in revenue over the next two years); and second, by adding a revenue stream that runs on a commercial rather than a residential cycle, First Call Construction is insulated from a residential slowdown.

"We're always looking for market niches," Cierzan says of the ambitious philosophy that has guided him to add insurance restoration, a design center, basement finishes, and home theater installations to his original full-service business. "We're looking for innovations that enter the market that we can learn and try to be the expert in," he says.

Cierzan takes the expertise part seriously, always preparing himself and his employees for a new line of work before diving into it. Before entering the restoration market, he received training and earned industry certifications that gave him credibility even though he lacked hands-on experience. Though it took time, Cierzan knew he'd be better off laying the foundation for long-lasting relationships with insurers.

"I didn't want to knock on any insurance company's door without being certified and having that expertise," Cierzan says. "When I first went to insurers and told them that I knew what I was talking about, I really did."

Aggressive as he may seem compared with some of his peers, Cierzan says he leavens his ambition with a healthy dose of skepticism.

"We're not big on just jumping on anything," he says, noting that he has resisted industry trends that he feels are just passing fads.

"I hope I'm in the middle of the road — entrepreneurial enough to take advantage of opportunities but cautious enough not to chase everything. Finding the balance is the hardest part," Cierzan says.

LARRY TAYLOR

*Taylor Restoration,
Anchorage, Alaska*

For Larry and Elaine Taylor, diversification wasn't so much a choice as it was an imperative. When recession hit Anchorage in 1985, the husband-and-wife owners of what is now Taylor Restoration nearly lost their business.

"It appeared to us that we were going to go out of business or find something else to get involved in," Larry says. "That's how we got into restoration. It was a desperation move at the time."

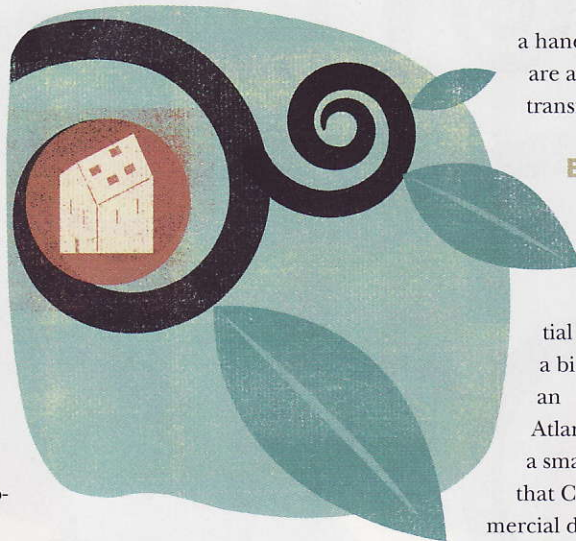
Since then, the Taylors have gone from merely surviving to thriving, building a \$10 million restoration business that employs more than 100 people. Insurance restoration is the company's focus. But the Taylors also re-entered the full-service market as soon as it recovered, and they recently opened a small-jobs department to handle handyman-type repairs for both the insurance and the general consumer markets. "We've become the major player in the restoration market, but we're always susceptible to the insurance companies trying to find someone else to do the work," Larry says. "We've always felt like we need to keep remodeling healthy so we wouldn't have to depend on restoration 100%."

The small-jobs department also helps the Taylors with marketing, keeping the company in front of customers who might one day need either restoration or larger-scope remodeling.

"We have to make sure people are aware that we do all three kinds of jobs," Larry says, "and we get good cross-referencing from each department. Once we're in their domain and they like us, they like us coming back to do another job."

Larry attributes the company's successful growth and diversification to a sound management structure and his and Elaine's willingness to delegate responsibility and step back from the day-to-day operation of the company. Larry and Elaine maintain a board-of-directors-like executive decision-making role and monitor fundamental financial data. But they have largely removed themselves from a hands-on role in managing the company. Instead, each of the company's three departments has its own manager (as well as its own budget and financials) under the oversight of a "leadership team" consisting of Larry and Elaine, their children and co-owners Lisa and Trent, and a fluid cast of key employees.

"The biggest problem is that the owner has to let go of responsibility," Larry says. "If you're trying to grow and diversify and you're



a hands-on control freak, which most of us are as contractors, it's difficult to make that transition."

BRAD CRUIKSHANK

Cruikshank Inc., Atlanta

Neither a deliberate nor a last-ditch effort, Brad Cruikshank's successful expansion from residential into light-commercial work began with a bit of good luck. When a retailer opening an

Atlanta location first approached him about a small job, Cruikshank hadn't considered that Cruikshank Inc. would head in the commercial direction. A subsequent run of ultra-light jobs didn't provide much guidance either.

"When it started out, it was 'Do you have someone who can put up a toilet roll dispenser?' It's hard to know where that's heading," Cruikshank says.

Last year, Cruikshank Inc.'s commercial services division generated about a third of his company's \$3.8 million revenue. Cruikshank attributes the success in part to his bringing a residential "do-what-ever-it-takes" philosophy to the commercial world.

"In commercial, expectations are lower," Cruikshank says. "They're just happy if you show up, so by providing the kind of customer service we do in residential, we're two steps ahead."

Cruikshank's commercial business didn't take off, however, until he recognized that a commercial business would require a dedicated staff and budget, as well as a different operational approach.

"I started out with my residential carpenters doing this repair work," he says, "but I quickly realized that scheduling and time are critical, so I had to have dedicated men. Commercial services also has its own fleet of vans, and they have a set inventory of tools and equipment."

The commercial services division operates differently too, Cruikshank says, billing differently, and tracking different data and key performance indicators. His commercial crews are different as well, mostly versatile, independent-minded workers who like being on their own and working evenings and weekends.

With each running its own set of books, Cruikshank says, his residential and commercial services divisions are essentially separate companies. Despite that degree of separation, however, Cruikshank hasn't split the two into separate corporate entities and markets them under the same Cruikshank Inc. name. A split, he says, would be costly — there's the cost of incorporating; insurance rates are better for one large company than two smaller companies; and accounting fees would increase if more returns are filed.

Still, Cruikshank is considering a new market identity for his commercial division and wishes he had looked into it sooner.

"If I had addressed that earlier, we could have been generating goodwill under that name for years instead of just starting it now."

JASON LARSON

Lars Construction, Costa Mesa, Calif.

Diversifying can be lucrative, but even then, it doesn't always work out the way it's supposed to. Four years ago Jason Larson saw an opportunity to break into the window replacement market in San Diego. With his full-service business thriving, he had everything he needed to launch a single-line business: references, contacts, proven systems, and access to capital. He set up a showroom, hired an entire staff, came up with a logo, incorporated, and opened his doors.

For a time, Larson's window business was the sure thing he'd envisioned. The company hit the ground running, working on up to 40 jobs at a time and earning about \$2.2 million a year.

"We got things running so smoothly there for a while that I would brag that it was like making free money," Larson says. But then he began work on a new house for his family. Around the same time, he lost key employees who left to start their own company. Suddenly Larson had more headaches than he could handle.

"Something like that can't run on autopilot forever," he says. "I woke up one day and realized that I had to go back to work to earn that extra money."

Though he enjoyed the extra earnings, Larson says he didn't relish the extra aggravation. He's not averse to working hard, he says, but he wasn't interested in trading away his family life. "I want to keep a balance between my work and my life, and running two companies, you just can't."

When a local lumberyard approached him with an offer to buy the window operation, Larson jumped at the chance. Last year, with his attention turned back to remodeling, he grew Lars Construction's revenue by \$3 million.

"Remodeling is really my passion, so it has been nice to redirect my focus toward this company," Larson says.

VINCE BUTLER

Butler Brothers, Clifton, Va.

At Butler Brothers, Vince Butler is taking a less-is-more approach, refining his company's focus rather than broadening it. For 44 years the company has done a range of construction work, including commercial remodeling, custom home building, and, most recently, full-service remodeling. Now, though, Butler is narrowing his target, reshaping Butler Brothers as a high-end kitchen and bath specialist.

Butler says the decision was based on regular analysis of the



company's performance on jobs — job autopsies showed that the company consistently performed best on kitchen and bath jobs.

"The goal is to maximize profitability and keep the risk as low as possible," Butler says. "We're better on those focused jobs than on large-scale jobs that have a thousand-and-one loose ends. When we can get a limited area of focus and reduce the variables, we seem to do much better."

Butler Brothers made the transition gradually, beginning by first hiring kitchen and bath specialists, then refining supply chains, and going straight to manufacturers to cut better deals and gain more control over product delivery.

"The idea is to, as much as possible, cut out the middleman," Butler says, "so there's less chance for mistakes ... We know there's no one in between who's going to screw up an order; we know what the availability is; what the true strengths and weaknesses of the product are. We can also get guaranteed delivery dates so we have things when we need them and don't have to stockpile."

Butler also expects his employees to become increasingly familiar not just with products and materials but with all the components of kitchen and bath projects. "We can systematize the jobs: Even though each one is unique, the components are the same. By working with the same products, our workers are better versed in how to install them, how they work, and what the nomenclature is."

Another advantage of a fixed focus, Butler says, is that the company draws from a smaller pool of subs, leading to better relationships. "We had any number of subs, but we only had a few we regularly used," he says. "If you're not one of their regulars, you don't have a lot of leverage. By working in a niche, we tend to work with the same subs on a regular basis every week."

Most important to the transition, but initially overlooked, was an amped-up marketing effort that grew the company's marketing budget from a negligible few thousand dollars to more than \$40,000 this year. Part of the initiative is focused on re-branding the company as a kitchen and bath specialist. Butler says he should have made that effort earlier in the process to make up for leads that dropped off when the company began turning down regular jobs.

"You must be prepared to spend a significant sum on marketing," Butler says. "You can't just go and turn away the generic leads without something to replace them with." ■

David Zuckerman writes frequently on construction topics from his home in Brooklyn, N.Y.