



Business Mentors

The Evolution of the Restoration Industry

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I find it absolutely amazing that a person can place a piece of paper into a facsimile machine and the information from that machine is sent to another, anywhere in the world, within seconds. The paper that I was holding in my hand can now, in a sense, be thousands of miles away! I can also turn on my computer and have immediate access to more information in seconds than past generations encountered in their entire lifetime. Sometimes change is dramatic and immediately evident, and other times it occurs incrementally and it is not noticed. Many restoration owners and managers are so busy in their daily operations that they fail to notice and react properly to changes taking place around them.

It is an exciting time to be a restorer with the industry currently experiencing so many dramatic changes. Your realization and subsequent reaction to these changes could determine the success or even the survival of your company. However, the restoration industry continues to provide incredible opportunities to those that seize them and create proactive plans for success.

There are several factors affecting these changes. The primary changes are being driven by shifts in the restoration and insurance business cycles. Most of the other changes are the derivatives of these shifts. All industries follow similar growth patterns and the changes that occur industry-wide are quite predictable.

Industry growth cycles have four major components: emerging, growing, maturing and declining markets. Restoration just started a dramatic shift into the maturing phase. This trend began nearly five years ago and was preceded several years by the insurance industry shifting to a maturing phase.

Emerging markets are characterized by high prices, minimal recognition of the industry and little competition. According to Martin King, CR, AM, the NIDR technical advisor, expanded homeowner's coverage in the 1950s allowed homeowner's to retain professional assistance in restoring their homes and personal property; thus the emergence of the restoration industry. The industry remained in this phase for many years.

Through education, marketing and increased awareness, the industry entered the growth stage. This phase is characterized by higher prices and higher profit margins, emergence of many new companies, dramatically increasing volumes of work and the introduction of niche markets. It was a good time to be involved in restoration. With plenty of work to go around, fairly



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incompetent companies could look quite successful. Creative billing and inconsistent pricing allowed for high profit margins, coupled with plenty of available work growth. It was easy to differentiate your company from your competition with the introduction of new technology and equipment. Success could be assured by simply being in business for an extended period of time. New competition was not that much of a threat due to the increasing work volume. A few larger and more professional companies began to emerge towards the end of this stage of the business cycle. Yet for some, taking a serious business approach to your restoration company was not necessary to maintain your position in the market.

Recently, the restoration industry has shifted to a maturing market. This began five to 10 years ago with the effects of the shift clearly evident today. Mature markets are characterized by several factors. The first is the increasing professionalism of your competition. The next trend is that fewer new companies are entering the industry and those companies are frequently exploiting a niche position. Major consolidation and the emergence of a few very large players is the defining factor of maturing markets. These trends usually have the effect of lower prices and lower profit margins. This brings about a need to focus on efficiencies and cost savings. The consolidation is exemplified by the two publicly traded corporations currently on a buying spree, purchasing small and large, local and regional companies across the United States and Canada. That this trend will continue with perhaps several other larger companies entering the industry. Pricing variances are being minimized with the widespread use of only a few different pricing databases. Price competition is surely to follow. Insurance companies are starting to ask for volume discounts and several are purchasing materials directly from your suppliers. These trends will surely lead to the demise of some fairly prominent players in both local and major markets. The weaker companies are being forced to downsize or are being taken over by stronger competitors. Regional contractors are looking for new markets with weak competition and many of the original players in the industry are retiring or selling out. Professional businessmen and women are the new players in the market rather than carpet cleaners or contractors expanding their business. Restoration owners and managers who fail to notice and react to the changes in the industry are sure to pay the price. Those who understand the changes currently taking place and creating a proactive plan have the opportunity to become market leaders.

Declining markets follow the mature market phase. Large companies dominate the industry with small companies entering primarily through niche markets. Profit margins continue to decline as these larger companies fight over the majority of the market share. It is uncertain when the declining market phase will occur: it could be in the near future or decades away with hindsight being the only predictor of when this phase began. The only certainty is that the industry growth cycle will continue.

In addition to the industry changes, your client's expectations are also changing dramatically. The popular media, the Internet and access to information, as well as increasing litigious pressures are influencing these changes. Everyday, television, magazine and newspaper articles



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tell the story of residences and businesses that are contaminated with toxic mold or other contaminants. The wealth of information on the Internet can possibly give our clients more information than our technicians. Finally, the past 15 years have seen an explosion of lawsuits in the restoration industry. This is evident by the presence of an attorney at most every ASCR event discussing how to protect your business in an increasingly litigious society.

As mentioned previously, the insurance industry is also changing. This is exemplified by agency and company consolidation, price cutting in the non-revenue areas of the business, competition from banks, direct sellers and the Internet, as well as claims management programs. These changes are dramatic and will affect restoration companies in remarkable ways. Restoration settlements will be lowered, a phone adjuster in a different area of the country may replace your favorite local adjuster and contractor selection may not be controlled by your local claims office. Pricing issues will become more common and the larger regional contractors will handle major losses in your area. The demands of the industry will require that you become more efficient, provide better customer service and be more flexible with your production options.

How can a restoration company survive and thrive in the new millennium? The realization that you are in a dynamic marketplace is the first step. The next step is to embrace change. Professor Oren Harari, Ph.D. of the University of San Francisco Business School recommends that we "eat change for breakfast." Never assume that the current way of doing business will be successful in the future. Tomorrow's restoration market will be driven by information, technology, professionalism and business savvy. Create a strong business foundation rather than operating on "gut reactions." Learn to run your company on lower profit margins. Constantly look at the production process and overhead, become lean and mean. Understand that a 5 percent increase in production efficiency or a 5 percent decrease in overhead can double net profit. Create a solid business plan and put it in writing, realizing that this is the difference between something said and done. Create your business plan around realistic assumptions and sound business principles. Every business plan should include a written marketing plan. For an example of how to write a professional marketing plan, refer to Sid Lunday's article in the September 2000, issue of *Cleaning & Restoration* magazine. Involve your entire management and production team in decision making, realizing that in effective organizations the majority of employees have input into daily operations. Continue to invest in training, realizing that education is the key to your future. Learn to manage your business by managing job costs and analyzing your financial statements. Create budgets that allow you to plan major capital purchases. Manage your accounts receivable, realizing that there is a major difference between making profits and generating cash — cash is the lifeblood of any business. Look for niche markets that you can exploit, yet at the same time maintain focus on your primary business opportunities. Most importantly, set your business up for sale, even if you have no intentions to sell. This focus will assist in "cleaning house" by organizing your business both in administrative terms and aesthetics. When you create a saleable business, you create a successful business that is easier to manage, more profitable and more fun.



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Computers and facsimile machines can be seen as gradual or dramatic changes based on your perspective. Either way, they have impacted the world in which we live in remarkable ways. In the same manner, the changes in the restoration industry can be seen as dramatic or gradual, depending on your perspective. In any case, you have the option to voluntarily accept change and create a proactive plan that places your company in a position of strength or you can have change imposed on your company, which results in a reactive plan that places your company in a position of weakness. It may be helpful to organize a business retreat with your key management team to discuss the future of your company. This will allow for focused time away from your daily distractions in which to create a solid plan for success. Keep in mind that success doesn't mean that you have to be the biggest, only that you have a solid and profitable company that will withstand the changing market. Once the plan is created, focus on the results. If it can be imagined, it can be achieved!

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