

Lessons Learned in the Housing Market Crash

by Bobby Parks

Business is great. Getting up and going to work every morning is a pleasure. Leads are plentiful, closing ratios are high, and profit margins are good enough to provide the kind of social life, home, and vacations that make being a business owner well worth the effort.

Wouldn't it be nice if that were true? While it may have been accurate prior to 2008, if it applies to you now, you are the exception. The current norm for contracting, at least in my area of the country, is nothing like my lead-in statement. Business has been okay at best for most of us and I'm not sure about the pleasure of getting up every morning. Where growing the business used to be my goal, just maintaining the same volume has become a feat in itself. And even when I manage that much, I make less money because I've had to reduce my margins.

Tight Wallets, Tight Credit

In this struggling economy, customers are not spending as freely as they once did. Because of lower incomes and depreciated home values, budgets for outdoor projects have been scaled back. Fewer people are buying and those that are shop around more and take longer to make a decision — instead of three estimates, they get five or six. It's not that they're tire kickers; it's more that they're afraid to commit under such uncertain economic conditions.

The philosophy of selling value that I've talked about before in these pages still applies, but implementing it has gotten harder. Many prospects acknowledge the value I'm offering but are more likely to stick to their budget cap than in the past. Clients who once would have sprung for a higher-end option simply can't afford

it now or are afraid to spend savings or to borrow. And some who would consider a home-improvement loan can't get one because their home equity is upside down, or they don't qualify for other reasons with today's lending standards.

Tight credit isn't just a problem for customers. Larger deck builders used to have credit lines to ease them through cash-flow crunches. Smaller deck builders might have used a personal home-equity line of credit for similar purposes. But many lenders now consider the construction industry "toxic," and lines of credit have been reduced or taken away altogether, so deck builders have had to operate more efficiently and make the existing cash flow work.

Sharing the Pain

The problem of fewer buyers spending less money has been made worse by an increase in the number of deck builders. When the building markets vaporized, that workforce had no choice but to branch out, and understandably, many became deck contractors. The result of all these factors is that prices have tanked.

With severely reduced margins, it's not easy to keep jobs and crews going, but you don't want to lose key people or your machine won't be ready when the race starts again. My company specializes in higher-end decks. The work is complex and difficult to deliver, and I've assembled a great bunch of subcontractors who can handle my demands. I wouldn't be able to just start over with a new labor force.

While I've become more competitive with my bidding, I can't afford to take work below a certain margin. I could only absorb so much of this double squeeze

myself, so I was forced to implement a shared-pain approach.

I reviewed every aspect of my business. I began by renegotiating my office rent when my lease came up for renewal. As numerous offices in our complex were vacant, my landlord was willing to accept a reduced rent rather than lose me as a tenant. Likewise, I worked out a plan with the owner of one lumberyard: He agreed to reduce his margins on higher-cost options such as synthetic decking, and I agreed to buy everything from him. I reduced across the board what I paid carpenters, painters, roofers, concrete finishers, and electricians. The only thing I didn't change was the quality we deliver.

Everyone understood, and rather than have no work at all, my crews decided to accept the reduced rates.

Other Challenges

Setting the broader economy aside, we would still be faced with significant challenges. Government regulations are on the increase. Code and land-use requirements are becoming more and more complicated. Workman's comp and liability insurance premiums continue to rise.

Even with the good pricing I get from my supplier, the alternative decking products I prefer to use are at a price point that makes it difficult to sell them over wood. Product warranties are better than in the past, but the addition of labor warranties to protect homeowners' investments and contractors' reputations would make higher-priced decking easier to sell.

It seems odd to say but shortages of qualified labor are also a concern and will only get worse; this kind of prolonged



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downturn encourages more people to want out and fewer to want in.

The Positives

Those of us still in the business have learned to operate more efficiently and cut out even fractional waste. Tightening up operations to avoid minor miscalculations was crucial simply to survive, and as a result, we've become better planners, mobilizers, and implementers.

Lumberyard and deck-builder relationships are stronger. Having lost high-volume new-construction customers, local suppliers are paying more attention to our needs and carrying more product lines.

Alternative decking and railing options have significantly improved, with better color retention and durability. And when builders-turned-deck-builders return to home building, they'll have more experience with higher-quality materials and will hopefully see the advantages to investing in them, which could help deck builders by raising the bar overall.

I believe homeowners are becoming more confident about their finances and job stability, and there's a lot of pent-up demand. Because of lower home values, many homeowners are staying put and investing in home improvement rather than selling. As residential building and remodeling picks up and home builders stop building decks and go back to their original field, our margins will creep up.

For me, this summer has provided hope that business will get better and that we will once more have a work backlog. Sales have been strong. Margins are tight but restructuring has taught me to squeeze more out of less and I can live with tighter margins for a while. I feel like I've gotten a second wind.

I don't think any of us will forget what we've been through. And if we're smart, we'll always keep it visible in our rear-view mirrors. ❖

Bobby Parks owns Peachtree Decks and Porches in Alpharetta, Ga.