Demountable holds steady market share

Movable walls still prove worth in survival, growth, replacement and diversification -- key words in recessed economic conditions

The 1980 business year has been -- at best -- an unusual one for wall and ceiling companies. Profits in several segments of the industry are reported to be up at the same time some areas of work are reportedly down.

Many industry analysts predict the major effects of the 1980 recession won't hit the industry until 1981. Then, profits from 1980 work and sales are expected to take a dip.

Four words seem to crop up in every conversation Construction Dimensions has had with industry experts: survival, growth, replacement and diversification. This quartet of pitchwords is not as unrelated as the first glance might indicate.

Industry predictions indicate more firms will survive this recession than did the 70s. The reason is that since the recovery from the last major building slump, many of these firms have come up with a formula to enable them to grow. By diversifying, they have been able to replace lost markets with new ones. These companies are now in stronger bidding positions in good times, and they have consistently been the firms with the work in hard times.

Webster provides a clue to why these firms are better postured in the market today. He offers definitions of those four pitchwords in very simple language. To survive is to outlive or outlast. To grow is to increase in size, power or maturity. To replace is to put back, restore or substitute for. And, to diversify is to make varied or different.

In 1980, more firms are outlasting (surviving) the recession because they have increased the maturity, size and power of their firms (grown) by diversifying into systems to replace dollars lost to a smaller total dollar market. If they are doing less work in numbers of projects, they are doing more work in
terms of numbers of services. Moves into doors, hardware, retrofit and renovation, floors, exterior finishes and demountable have put these firms into a package bidding posture: one contract, one firm, all services at better economics.

ONE EXAMPLE

Demountable is a prime example of growth and diversification providing a replacement market to help a firm survive the current slump.

The whole field of demountable and open space has enjoyed a steady growth in recent years, and the former ‘fixed wall only’ contractor has been quick to snap up a big share of this new market.

The move was logical for most of these contractors. The ‘automatic’ factors forcing the decision were solidly in place:

* Architects and designers were finding themselves under the hammer from cost-aware owners and developers. They were becoming increasingly interested in flexible interiors that could be changed and adjusted with the needs of the growing businesses of the 70s.

* Manufacturers with solid reputations and the willingness and ability to promote demountable systems were more than happy to see contractors set up shop in the field.

* The 70s’ penchant for the stylish or the unusual fashion made open space plans seem to be the wave of the future. These systems -- good and bad -- were “selling like hotcakes.”

* There were bold predictions that open space would make conventional fixed wall contractors extinct; many people believed these predictions.

Realizing that any partitioned building equated to a loss of revenues to the fixed wall market, smart contractors “saw the handwriting on the wall” -- so to speak -- and jumped right on the opportunities presented by what appeared to be a hot and profitable replacement market.

* Labor was readily available, since contractors were already working with the trade that would install demountable. As a single-trade system, demountable also eliminated some of the labor concerns — and costs — involved in fixed wall.

* And, even with the need for capital outlay to set up the business, contractors were finding that turnaround time on getting the money out of a partitioned job helped make the demountable move affordable.

It doesn’t take much of a history lesson to account for how successfully wall and ceiling contractors made the transition to movable walls.

Half a decade ago, AWCI’s member firms were approaching $1 billion in annual volume. Although fixed wall dominated that market, demountable had claimed a full 10 percent share of that market.

Among all member firm specialties, in fact, demountable’s market share was topped only by drywall (36 percent), lathing and plastering (18 percent) and acoustical systems (13 percent).

Demountable holds a comparable share of a $1.5 billion market divided among AWCI member firms today, with the bonus of helping to spur growth in the acoustical market.

The system has grown to be a very viable recession market strategy for survival, growth, replacement and diversification in the wall and ceiling industry.
How demountable compares with fixed wall

If the payoff is computed on more than initial savings, movable walls may save more than their original cost over the long haul

One of the most-asked questions in building these days is “What will it cost me?” U.S. Gypsum, which manufactures products for both fixed and demountable wall systems, recently came up with a set of comparative costs indicating that up front pricing considerations may be short sighted for a building owner and developer.

U.S.G. ran their conclusions in a recent edition of their magazine Form and Function. Here’s what the firm discovered:

The biggest bargains in construction systems are sometimes hard to find when the payoff is not in initial cost savings, but comes in terms of maintenance savings, tax benefits or durability. These long-term factors can save more money over the life of the system than its original cost.

Although long-term economic factors have the greatest impact on the building owner or tenant, architects and contractors may overlook them in the design and materials selection process. And, if the owner or tenant is unaware of these factors, huge potential cost savings may be missed completely.

An especially good example of this occurs when comparing demountable gypsum partitions with fixed drywall walls. In typical office design situations, some types of demountable partitions prove to be less costly than fixed drywall. The long-term maintenance, replacement and tax savings provided by Ultrawall Movable Partitions, for instance, is saving more than its initial cost in an office facility at the headquarters of Hoffman-LaRoche, Inc. in Nutley, N.J.

The installation of Ultrawall Partitions was completed in 1974 as part of a remodeling program at this large health care company. When the Hoffman-LaRoche architectural department recommended using the same system for remodeling addi-
tional facilities in 1978, management asked them to justify the system from a financial point of view.

"We undertook a thorough analysis of our costs considering every conceivable factor," explained Sergio Z. Robles, manager of the architectural department. "Long-term comparisons of demountable versus conventional (fixed drywall) partitions, carpeting versus vinyl tile, and various new lighting systems gave highly convincing results in financial terms.

"The favorable financial performance of Ultrawall Movable Partitions against fixed drywall partitions was especially satisfying, because demountable partitions are more expensive. Based on our data on negative cash flow over twenty years, however, the Ultrawall Partitions in a 10,500 sq. ft. office were approximately half as costly as fixed drywall partitions," Robles added.

Many factors went into the firm’s financial analysis. The fixed drywall partition used for comparison became less desirable when flexibility, tax, cost and maintenance factors were applied to both systems.

The fixed drywall cost for materials and labor was estimated to be $37,400 for the 10,500 sq. ft. office space, as compared to $54,400 for the Ultrawall Partitions. (Neither cost includes doors and hardware.)

The partitions also compared favorably in maintenance. The cost of repainting the drywall every three years was estimated at $3,000. The cost of cleaning and patching the vinyl wallcovering every two years was estimated at $1,000. An inflation index of six percent annually was included in these computations.

Costs for the replacement of partitions for repairs of damage or for relocation of partitions to accommodate office changes indicated much lower costs for the demountable system, since most of the old components could be used in the remodeling. This comparison was on a materials-only basis, and U.S.G. pointed out the demountable system’s advantage multiplied when labor was added as a factor.

Carpet savings -- often overlooked in direct comparisons -- were indicated for the demountable system, largely because some waste was eliminated because demountable does not require piecemeal carpeting on an office-by-office or section-by-section basis.

The nature of Ultrawall Partitions also included some tax advantages which increased the cost feasibility of the demountable system in comparison to its cheaper fixed wall counterpart. Demountable partitions are not considered to be a part of the structure of a building, and therefore do not have to be depreciated over the same life.

Instead, they can be depreciated over a shorter life span, realizing certain monetary advantages tied to the time value of money. The tax
advantages involved differing depreciation schedules against a textbook model, and U.S.G. pointed out “These tax advantages vary depending on depreciation methods employed by various users.”

The investment tax credit is a saving factor available with demountable partitions, but not with fixed wall. The one-time credit (used in the first year) amounts to 10 percent of the total investment.

The cumulative cash flow comparisons of the two systems compared cost outlays with savings. In the first year of comparison for the two systems, the demountable system cost $4,000 more than fixed wall. By the end of the third year, the demountable system was $10,000 cheaper than fixed wall because of the following conditions:

* Maintenance costs were $4,831 cheaper.
* Replacement costs were $2,572 cheaper.
* A carpet installation savings of $1,500 was noted.
* An income tax savings of $12,855 was realized through depreciation; and
* An investment tax credit saved an additional $1,500.

After the third year, the savings of the demountable partition system continued to grow.

Although U.S.G.’s comparison dealt with its own product in the demountable market, many of the same advantages can be noted for competitive systems.

In wrapping up its research, U.S.G. noted that today’s demountable market has some additional cost advantages. With the growth of the systems and products, today’s market -- depending on local labor costs and the choice of trim components -- can often find vinyl-covered prefinished demountable panels equal in cost to painted drywall. And, when the drywall calls for a vinyl wallcovering application, the demountables may actually be cheaper.

U.S.G. also points to the ease and economy of demountable. Its replacement properties encourage the expansion of spaces as the need arises, while permitting better use of existing space.

And, finally, the firm points up advantages of demountable from a logistics standpoint. Since all of the components are available from a single manufacturer and are installed by a single contractor, the responsibility for materials and installation is simplified. In a fixed wall system, it is not uncommon to find five trades and seven manufacturers involved.

And although U.S.G.’s research certainly contains the elements of selling, it demonstrates one of the most attractive aspects of diversifying into demountable:

The major manufacturers are both willing and able to research, document and subsequently promote the effectiveness of demountable. As a result, the contractor isn’t out there in the wilderness of the market all alone.
Why contractors do demountable

It’s a sellable market, a made-to-order system and it could head off a mass exodus from the area of open space office plans

There are any number of reasons why wall and ceiling contractors have diversified into demountable partitions. These reasons can be counted in dollars, pounds, marks or yen. Demountable has been both a demanded and a marketable system.

Demountable is also a made-to-order system for wall and ceiling contractors. Whether they are fixed or movable, walls are walls. And, in the case of demountable partitions, the interaction of the acoustic properties of walls and ceilings are perhaps more critical than in any building system.

Demountable requires know how, and no other group of contractors has the front end knowledge and experience wall and ceiling contractors bring to the field.

Demountable comes with two ready markets: new construction and remodeling/renovation. The latter market has become more clearly focused recently because of a number of economic factors:

* Government attempts to offset increases in the money supply by tightening credit and increasing interest rates as a tool for fighting inflation.
* Inflation itself driving up the cost of materials, labor and -- generally -- all dimensions of new building costs.
* Increases in the cost of new real estate, coupled with a corresponding reduction in the supply of good development sites.
* An increasing public awareness of aesthetic and historical concerns.
* Shortages of a number of critical building materials.
* Attractive tax incentives for “energy proofing” of existing buildings.
* Awareness that conversion to flexible office partition systems can result in life-of-building savings or

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Why contractors do demountable partition work

cost savings for future renovations or growth.

Demountable is also backed by a solid core of established manufacturers, many of whom have reputable track records in fixed wall products. These manufacturers know the wall and ceiling contractor personally, know almost as much as he does about his company and its needs, and have the delivery systems in place to get him the materials he needs when he needs them.

The largest of these manufacturing firms have allocated resources for advertising demountable systems. They not only push the products in the trade press, they do a lot of the front-end selling of demountable to designers and specifiers.

Demountable comes with a highly flexible product line. Partitions can vary in height from simple landscape partitions to half-and-glass to ceiling high. They can be produced in a wide variety of shapes and curves. They are manufactured with almost as many decorator options as there are individual designers -- and they come in more colors than a rainbow.

Demountable can also include special variations for visibility, lighting options or air conditioning needs.

These design options are particularly important, because they could stave off a mass exodus from the open space design plans that have helped make demountable a growing field. Since the partitions can be customized for size and decor, and since they can be produced with a variety of visual, acoustic and privacy options, demountable can provide the variety of options that can overcome the common complaints about open space office plans.

Demountable also comes with built-in labor advantages. It is a single trade installation. It cuts cleanup costs. Since demountable can be likened to prefabrication -- an interior panelization process, if you will -- it can reduce the requirements for numbers in the labor force, and ultimately sold on the basis of the end use of the product -- that is by performance standards -- a contractor must go beyond the conventional drawings in order to demonstrate demountable's effectiveness. It wasn't uncommon when the systems first hit the market to find a contractor with a mock-up to sell demountable. Today, however, more and more contractors have “living studios” -- areas of their own office operations which showcase demountable. Any prospective customer can be brought to the office and see how the system works in living -- and vivid -- detail.

This in-house example is one phase of hardball selling. This sales approach also includes knocking on doors and selling designers, specifiers and owner/developers that the system will perform vis a vis fixed wall. It means getting demountable’s life-of-building characteristics into the bidding process before specs are written. Selling demountable may require more sophisticated sales personnel. And, at the very least, it requires getting into the sale early.

Inventory’s importance cannot be overstated. One of the major selling points of demountable is its flexibility for future upgrades. A contractor must have sufficient inventory to make periodic repairs or to match particular components when expansion is necessary.

Inventory is increasingly important when rapidity of construction is a factor. The contractor who can get onto the job -- products in hand --has a decided edge in bidding a “quickie” contract.

With all these reasons backing up a move to demountable -- and despite the steady growth of demountable business -- demountable remains pretty much what it first started out to be: a significant opportunity for diversification which provides a wall and ceiling contractor an opportunity to evaluate every job to determine whether fixed or movable walls result in the greatest profitability.