NO TIMEOUT FOR DECLINE

The Unemployment Rate in Rockford, IL, Was the Highest in the Nation and Traditional Industry Moved With No Replacements, But Harry Vernetti Hangs On

It started by accident. He was a lab worker who’d developed an ulcer.

He was also studying mechanical engineering at Rockford College in Illinois when a visit to his doctor produced a no-holds barred admonition, “get into something where you can work with your hands—and you won’t be in here visiting with me.”

Harry Vernetti, chief executive officer of Mid-State Construction Systems, 746 N. Madison St., Rockford, IL, and First Vice President of AWCI, followed his doctor’s advice. He quit college, enrolled in a lathing apprentice program—and today presides over a diversified wall and ceiling industry which performs between $3 and $5 million annually.

Born in Ironwood, MI, son of the late John J. and Mary Miletto Vernetti, Harry has resided in Rockford since he was seven years old. His mother had re-located the family there following the death of his father, a worker in the iron mines, so her sons—Fred, Enzo, Rudy and Harry—could escape the mines.

After graduating from Wert High School where he won a football scholarship as a guard, Harry enlisted in the Air Force, serving as a B-50 flight engineer with the 97th Bomb Group, out of El Paso. Upon his discharge in 1952, he attended Texas Western University then switched back to the Rockford area.

That’s where tense laboratory work produced the stomach ulcer that ultimately led him into construction. He worked for one contractor and then chanced the ulcer route again by opening up his own business, Lathing Engineers, in 1957.

Four years later, he added plastering to his company line and renamed his company, Mid-States Plastering. That was the year, too, when Harry took his company into the old CPLIA—the forerunner organization of AWCI. By 1967 the company had further diversified into acoustical tile and drywall and Mid-States Construction Systems had moved into the multi-million dollar class.

Although his first headquarters was in his home, a beautiful rambling split-level contemporary home that Harry built himself in 1961, Mid-States now operates out of a two-acre complex featuring an exposed aggregate office building of 1,200 square fact and matching warehouse of 12,800 square feet.

The father of three children, Phillip, a company vice president; Linda Dunn, wife of a trucking firm owner, and Diane, a student at Marquette University, Harry is grooming his son for the company take-over—and getting ready, too, to head the Association of Wall and Ceiling Industries-International in another year.

He and his wife, the former Henrietta “Bunnie” Ambrose, have also taken an interest in golf, tennis, and racquetball in addition to a racing horse with fellow AWCI member Vito Arsenio.

In the meantime, Harry Vernetti keeps busy with a company that also offers panelization, Dryvit, moveable partitions and fireproofing. The last few years have been no nicer to Mid-States than it has been to other construction firm, and keeping a company growing in a location like Rockford is a test of determination.
“Any diversification move has to strengthen you and the bottom line. I’ve never been excited about big volume: the measure of yourself as a businessman is the profit figure.”

DIMENSIONS: Recovery from the recession has been spotty around the country, Harry. You mentioned that it’s not been a bed of roses in your marketing areas. What’s the problem here?

VERNETTI: This whole area here was not merely hit by the recession. The industry base was heavily industrial relating to automotive and the housing industries which were both hard hit. At one point, Rockford had the highest unemployment in the nation—and it’s still bad.

You can see that a condition like this isn’t supportive of a lot of construction so we must dig down hard and find the work.—

DIMENSIONS: —and when you do find a job, I suppose the bidding is furious?

VERNETTI: That comment sounds like you’ve been talking to other contractors.

We’ve bid a couple of jobs right at our lowest cost—and the amount left on the table by which we lost was embarrassing. I honestly don’t know where people come up with such figures or how they rationalize what they are doing. They’re giving their own equity away.

We have some old line customers and thank heavens for them. Our reputation is solid and they provide work that makes it possible to at least cover costs.

DIMENSIONS: But why has this particular market gone sour?

VERNETTI: Much of the factory type work has moved south where the cost structure is lower. Then, too, the city’s leadership moved too slowly about bringing in the high technology industries . . . computers . . . electronics . . . that sort of thing.

As a consequence, there’s been a movement out of the city both in industry and population. That sort of thing doesn’t provide the stimulus to building that sustains the industry. We’ve had a few contractors throw in the sponge.

DIMENSIONS: You have a reputation for seeking a diversified base of business. Take curtain walls as an example. You quickly developed a capability and good name in this area. How’d you go about it?

VERNETTI: Any diversification move has to strengthen you and the bottom line. I’ve never been excited about big volume: the measure of yourself as a businessman is the profit figure.

When I thought curtain wall and pre-fabrication might help us, I started looking and talking to experts. Joe Carpenter, in Texas, was nationally known and he invited two of our superintendents and myself down to learn. We developed good insights into the business with Joe’s help and then Bill Carroll, in Albuquerque, and Jim Brueggeman, from Cincinnati, added to our knowledge.

By the time we were ready to commit the funds and talent we were pretty
confident we could make a go of it—and avoid necessary problems.

DIMENSIONS: The industry was ready for that. Now the new insulated exterior systems—the kind developed in Germany—are coming on strong. Do you see a viable market developing nationally?

VERNETTI: No question about it. We’re into Dryvit ourselves and this technology allows us as contractors to accommodate the designers’ desire for greater flexibility.

It’s a perfect product for the current problems. It offers less weight and economy in construction. It’s just right for an accelerated energy efficient system. If you’ll recall the oil energy crunch in the early 70’s gave it greater impetus—and current problems in the Mideast keep its advantages in the forefront.

DIMENSIONS: There’s the additional advantage, too, of being able to build off site, isn’t there? That’s what made curtain wall pre-fabbing the big benefit, too, right?

VERNETTI: No contractor—or buyer of construction services for that matter—should discount the advantages of being able to pre-build panels. You’re not a victim of the weather—the snow, rain, freezing weather—and employees perform better in a controlled environment.

As a contractor, you also have better control of materials and work periods. There’s no forced shutdown or slowdown so your productivity is good.

DIMENSIONS: On the subject of productivity, you’re obviously aware of The Business Roundtable. It’s their
“It’s the lack of productiveness on the part of the mechanical trades especially that’ll slow down a wall and ceiling contractor.”

Veteran estimator Carlo Rossi kept up his estimating skills as swiftly and as surely as Vernetti took the company on a diversification movement.

contention that productivity dropped off 3% annual thru the 60s, then about .9% in the late 70s, and it’s now declining about 1.5% a year. What’s your opinion . . . has productivity in the construction industry really fallen off that much?

VERNETTI: I don’t see anywhere near that decline in my own company. I’m not certain it’s even valid for wall and ceiling construction as a whole. The weather cycle always hurts construction, but our pre-fabbing capability has evened out our work flow.

Certain segments of the industry may be slipping a bit—mechanical and perhaps electrical—but of the CICE (Construction Industry Cost Effectiveness) reports that I’ve read I just don’t agree with what they say as applying to the wall and ceiling industry. It’s the lack of productiveness on the part of the mechanical trades especially that’ll slow down a wall and ceiling contractor.

DIMENSIONS: But there must be some validity for the users claiming that they aren’t getting their money’s worth?

VERNETTI: As I see it, there are two aspects of this problem. The first is the mechanical trades ability to slow a job down, and the second is the type of job. Much of the complaint arises from the big turnkey operators doing power stations, utility plants—that kind of thing.

In this area, the user is just as responsible. They want the job done under a specific deadline and they gear up far in excess sometimes of what’s needed and hang the cost. That’s a 14K gold opportunity to send costs skyrocketing.

There are people falling over each other and the supervision runs from lax to nonexistent. What do you expect under such chaotic conditions?

My son Phil and I handle communications for our company. We keep a close tab on everything. Our computer reports come in weekly and we keep in close touch. You move up the scale of operations and you’ll find waste. That’s the nature of things—and publication of a lot of reports won’t change matters much.

DIMENSIONS: So productivity is a money figure?

VERNETTI: What else can you call it? It’s the only way to measure efficiency. If my company communicates well, if my management team is talented, if we don’t lose control of a job—we show a profit. The alternative is obvious.

DIMENSIONS: How do you keep tight control? Is it a formal process?

VERNETTI: Yes and no. My own management style and that of Phil is to jump on little problems before they become big ones. We have surrounded ourselves with top people—so it’s easier to control our organization. There’s little that’s unique in that approach. Since 1964 we’ve had weekly reports on every job we do and we go over these with the supervision. Every one of us is cost conscious, more so since the recession.

DIMENSIONS: What’s the best way to post a profit?

VERNETTI: Do what every profitable contractor does: work hard, work lean—and keep the overhead down.

DIMENSIONS: A few moments ago you mentioned that you really liked the tough, complex job . . . the one that challenged you. That’s the kind where you can also lose your britches, isn’t it? Do you really like and want that kind of job?

VERNETTI: In one word, “yes.” Everyone likes a challenge, something that’s different or that’s out of the general run of things.

Remember this also about the tough job: it eliminates competitors. The possibility of not being smart enough and showing a loss scares them away.

My whole company works better, performs better when a big disparity on the bids exist. If you know the stages are chancy . . . that perhaps you made a mistake on the job . . . you follow up and work that job more carefully—and skillfully.
DIMENSIONS: Sometimes though, your span of control has little effect. What’s the answer if the general contractor sends over a superintendent and he needs to be told what a trowel is?

VERNETTI: From time to time, we’ve had occasion to shake our heads. It takes a bit more time to communicate successfully with a superintendent like that. But I’ve got people like Carlo Rossi, our estimator, and superintendents like Dick Fisher and Don van de Begert. They’ve been in that kind of situation before and they know how to deal with it.

If worse comes to worse we know how to get together with the other subs and coordinate our efforts to save a bad situation. Often, you just have to go to the general contractor and lay it out for him.

DIMENSIONS: In the past few years, accounts receivables have been getting longer and longer. Sometimes it’s a no-pay condition. How have you managed that end of your business lately?

VERNETTI: I manage it now as I’ve always managed it—personally. Any contractor who neglects his accounts receivables is neglecting the most serious part of his business. I don’t ever want any of my customers to get the idea I’m not interested in money due me. It’s human nature to let a debt slide. By keeping up with receivables I avoid problems. The cost of money today is just too prohibitive to be lazy about collecting. Every sub now knows that if you must borrow, the interest will eat up your profits.

DIMENSIONS: With money as expensive as it is, the matter of subcontract forms comes up. Do you generally sign the contract the general contractor offers or do you have your own?

VERNETTI: My only problem with contracts is with out-of-town general contractors. Most generally we use the AIA Form A401. It’s the agreement that’s in use in this area and it’s fair to everyone concerned.

When we do get a form and find some language that’s unacceptable we cross it out. I can’t think of one instance where this practice has lost us a job.

DIMENSIONS: With a widely diversified company, you must be involved in marketing to a great extent.
years. Our reputation for quick work on time really helps in landing work where there’s little or no bidding.

**DIMENSIONS:** With business conditions depressed in your own area, do you find it necessary to travel?

**VERNETTI:** I’m not against traveling, but in the past I’ve done it usually to follow a customer or some similar situation. If I must go into what I call a foreign area I always make it a habit to call the existing member there and try to work out a joint venture. The local company knows the lay of the land and the ground rules and that understanding or knowledge is vital.

We went to Fort Collins, Colorado, and it was a smooth transition. We joint ventured with Jim Yocum, out of Longmont, Colorado, and the job went like clockwork. We both took out a handsome profit.

**DIMENSIONS:** Where to from here, Harry? You have a big year coming up in 1985 as AWCI President and a hard row to hoe business-wise. What’s your projections?

**VERNETTI:** I’m looking forward to serving as President of AWCI. I personally can’t see how any serious wall and ceiling contractor would remain outside the organization. I’ve served as chairman of the Great Lakes Conference, of the Continuing Study Council and the Bylaws Committee as well as the Plastering Technical Subcommittee.

Every one of those assignments helped make me a better contractor—and to see this industry from a clearer viewpoint. I wouldn’t trade that experience for anything.

As for Mid-States Construction Systems, things have to head up. They can’t get any worse—and it is improving. It’s taking hard work but we’re starting to see more daylight.

Another recession after the elections? I don’t think so. If there is one a lot more contractors will go under. But hopefully we’ll still be around. We’ve been in bad times before and managed our way through.

Keep lean, work tough—that’s the formula. It works. We’ve tested it enough times.