How You Can Stay Profitable in a Changing Market

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Is a Shakeout Ahead for the EIFS Industry?

It is not considered good form to discuss the price of things in public and, in fact, it can often be illegal and get the author in a lot more trouble than simple social ostracism. Given all of that, I am going to try an article on pricing. I feel that price is jeopardizing an industry in which I have worked for 18 years. I have just left the roofing business and have seen the effect that pricing strategies have had on the various players in that industry. With those qualifications (which you can judge for yourselves), I’ll begin with my perception of the recent history of single-ply roofing.

Single-ply roofing is a method of applying a flat roof utilizing a premanufactured, generally synthetic sheet of membrane. The conventional, built-up roof was the established method, and in the mid-1970s single-ply began to be used to the extent that by 1976 it represented about 1 to 2 percent of the 2 BILLION square foot U.S. roofing market. In the last ten years it has grown to represent about 65 percent of that market. The EPDM segment of this business in 1985 was about 700 to 800 MILLION square feet of rubber membrane. The major suppliers are Carlisle SynTec, Firestone, and Goodyear. There have been thirty other suppliers, and today there are still about eight.

Obviously this is a big-time, fast-growth business. What has been the history of prices in this business? In 1979, when I began selling EPDM

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single-ply roofing systems, the cost of the standard .045" membrane was $.55/s.f., and the roof itself was sold at a contract value of $2.50 to $3.50/s.f. In 1981 the two major rubber companies got into the business and decided to market their systems primarily via a pricing strategy. Today the prices are $.22/s.f. for the exact same membrane and $1.25 to $1.50/s.f. to put it down. Less someone think otherwise, there has not been any technological change that accounts for the drop. It is also true that while profits at the old pricing were good, they weren’t that good. Today’s prices result in too low a profit.

EIFS Trends . . .

Enough history about an industry that is not ours! What about the Exterior Insulation and Finish Systems business? It also is an industry that is fast growing. Material sales in 1986 could well break $100 million, and the contract value of these sales is an amazing $400 million. These kinds of dollars makes the health of this golden goose worth considering.

To date, both the material manufacturers and the contractors have found the EIFS business a very profitable undertaking. What reason should there be to expect a change? A similar thing is happening in the EIFS industry as happened in single-ply. The size of the pie is large enough to attract lots of competition and some of the competition will be big and some will be very unlike those we’ve been used to competing with.

Is this crystal ball stuff? Let’s look at the EIFS industry and my perception of the trends, and decide for yourself whether or not I’m right or wrong. There are today approximately 30 companies manufacturing “EIFS” systems. These include the “onecoat” systems which have tried to ride the EIFS bandwagon but which are entirely different wall constructions. The market is for the first time shared by four or five manufacturers. This really was not the case only a couple of years ago. There are at least two manufacturers making systems that are BIG companies with the ability to select price as a strategy and stick to it. The price of the materials is falling due to the entry into the market of the small new manufacturer and the large company seeking a significant market share. Some manufacturers are selling their systems to non-wall and ceiling contractors who, in turn, are com-
“. . . consciously determine to work with and buy from those manufacturers whose (pricing and service) strategies match up with yours.”

Smart Strategy . . .

Do all of these omens decree the end of a profitable EIFS business? I don’t think that such a result is inevitable. In the roofing business, we maintained a selling price of 35 to 45 percent over the competition, and we sold our “equal” material to contractors who were qualified and approved by the competition. It is significant to note that those contractors were about as high a percentage over their competition as we were. So what’s the “secret”? I believe that the smart strategy is summarized in the following three words—Service, Selectivity and Technology.

Let’s look at service first. The first and most important aspect of service is being there. Not too long ago, I was in the office of a large contractor looking to get the order for a very large project. A competitor was quoting a lower price and the contractor was asking me to match it. I told him that I certainly could meet the price, but he would have to ask my distributor to leave because I would have to cut him out of the business. Everyone got the point and it’s the same point I want to make now. Whether it’s the distributor, the tech service man, or the ability to get answers by phone or letter, service will always be important to the contractor, the architect and the owner sooner or later on almost every project. Service costs money and requires commitment. Few manufacturers either can or are interested in offering service, but those that do offer it charge more for their product. My experience is that the contractor who sells the service available from the manufacturer gets more revenue for his product as well.

Selectivity . . .

The U.S. Marines say “a few good men.” That’s what selectivity is all
about. It is naive today to think that any contractor will use only one EIFS product or that any manufacturer will sell to only one or two contractors. Both manufacturer and contractor have to investigate the newcomers on the scene. The point is that while all of us need more than one source of supply the criteria needs to be a lot more than the latest “cheap guy on the block.” Selectivity goes further than the relationship between the supplier and the contractor. It extends to an evaluation of the project—its characteristics and the players involved. It has been my experience that we only make money when we’re qualified and willing to do what it takes to do the particular project. In addition, we usually know when we are or not. The idea is to go after those projects on which we’re most likely to make some money.

**Technology . . .**

Before you quit on this train of thought as so much “pollyanna,” let’s cover technology. A contractor who I respect very much asked me not so long ago what the next product will be. That’s the right question! In order to be able to pull off those extra dollars of profit by being selective and paying for service you have to offer more than the other guy. Most of you know that better than I do, but sometimes we all forget and need to be reminded. It is always easier to do it the same old way. Unfortunately there are more and more people getting into THAT business. Those companies who are offering a full line, new services, better warranty or technical service make more money simply because they’re out front. Does the manufacturer do R&D? Does the contractor send his people for training?

Is this all blue sky, or a strategy for increasing profits in a fast growing EIFS industry? Each of us can come up with exceptions to everything that I’ve said so far. We have our “war stories.” The facts, however, are available by looking at the top contractors and manufacturers. Competition in the roofing business made some very sophisticated, highly profitable contractors. It also put the largest roofing contractor in New England out of business. Some big buys have been
manufacturers of EPDM, including GAF and Manville, who no longer supply single-ply. I predict a similar event in the EIFS industry. These events will remove these comments from the theoretical and cause them to be worthy of your immediate consideration.

Matching Up . . .

The crucial move is to match up! This means consciously determine to work with and buy from those manufacturers whose strategies match up with yours. Price may be your strategy, while service is not important to you. You may not care who a manufacturer sells to. Don’t pay for things you don’t want, but also don’t expect things you haven’t paid for—they aren’t there. Manufacturers also need to court those contractors who match up with their strategies. It amazes me to hear a manufacturer be-moan the poor workmanship of a contractor who was low bidder out of 50 bidders. It bothers me to see the same manufacturer continue to sell him.

The difference today is that these incidents that we used to complain about with little real concern are about to make a difference. Let’s DECIDE to MATCH UP.