

**FEATURE STORY**



# Are you serving the right residential contractor market?

**SINCE 2002, HOMEBUILDERS HAVE REDUCED THEIR RELIANCE ON ELECTRICAL CONTRACTORS BY 17%. GUESS WHO'S PICKED UP MOST OF THOSE ELECTRICAL PROJECTS.**

**BY DAN CARAZO**

**F**aced with a substantial decrease in the total number of new homebuilding starts, contractors involved in the residential construction industry have had to adjust their business strategies in an attempt to continue to maintain or grow their business.

As the pool of residential new construction projects continues to shrink, competition has become inevitable among traditional electrical contractors, low-voltage structured wiring firms, security systems companies, and consumer electronics integrators.

But are any significant shifts occurring in the type of residential projects each contractor group is working on? If so, what does this current market dynamic mean to electrical distributors that are heavily engaged in the residential market?

For some time, industry surveys have indicated certain trends toward the

***In the home pictured left, a wall-mounted flat panel television, built-in audio/video components, and in-wall architectural speakers were installed by S&S Electric. It won the 2005 TechHome Mark of Excellence Award for Production Home of the Year.***

convergence of these disparate types of contractors as a growing percentage of companies within each camp chose to expand their service offerings by diversifying into other allied fields.

According to a June 2006 survey by Renaissance Research & Consulting for *Electrical Contractor Magazine*, more than 70% of electrical contractors doing residential work are involved in communications systems and connectivity, and more than 60% work on residential automation and controls.

This is important for distributors, because electrical contractors reported that, as a group, they derive about 45% of their total revenue from residential projects (combining single family and multifamily). Coupled with the fact that low-voltage systems and entertainment technologies are

delivering the greatest growth in the residential electrical segment, it's clear that distributors can gain from residential sales—but only if they can provide the right product mix to the right contractors.

This was made more evident by a 2006 survey of residential builders by the Consumer Electronics Association (CEA). In CEA's *5th Annual State of the Builder Technology Market Study*, new homebuilders reported increases in offerings for seven categories of residential home technologies, with lighting controls and home automation showing increases of 12% and 9% respectively over 2005.

S&S Electric is an electrical contractor headquartered in Oldsmar, Fla., that specializes in residential new construction, working primarily with larger, high-volume-production homebuilders. "We have always provided our customers with low-voltage services such as telephone, television, and intercom systems," said Shawn Smith, vice president. "For the past 10 years, we have worked to diversify our business and provide customers with

home technology products and services that require cabling within the home. Our expertise is providing the wiring infrastructure for home power, lighting, and other technology systems.

"We also often provide devices like in-ceiling speakers and controls," he continued. "Recently, we started to provide builder customers with complete home theater packages, including surround-sound speakers in walls and ceilings and flat-screen televisions attached to walls with the accompanying AV source equipment mounted in a wall or cabinet."

To determine how to market to the broader residential contractor market, it's critical that distributors understand what types of firms are doing specific types of projects, and what contractor types are growing in influence with builders.

"Builders want to improve cost controls on residential projects," said Steve Koenig, senior manager, industry analysis for CEA. "But based on research, we're not seeing a trend of them using fewer contractors."

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"Many contractors, integrators, and security firms may say, 'There's a lot more business opportunity here,' when they see the additional services they can provide the builder," said Koenig. "This makes perfect sense if these companies wish to grow. Embracing diversification of their service offering can be a critical way to solve the needs of builders and generate growth for the contractor."

The table below from CEA's *Builder Technology Market Study* data compares the types of electrical and electronic residential contractors that builders hired in 2002 with their 2006 choices. By contrasting the 17% reduction in work being done by electrical contractors with the 77% increase in the use of systems integrators, it is clear that this jockeying will impact a number of electrical distributors.

Surprisingly, a study by EH Research and Parks Associates showed the average annual growth rate for systems integrators and custom installers at 8% to 9%, despite the downturn in homebuilding.

Ambiance Systems, a VDV and home electronics systems integrator located in Clifton Park, N.Y., established its growing business specifically in the service areas with reduced competition.

"We saw an opportunity because electrical contractors weren't interested in providing services like residential multizone audio or HVAC control," said Marc Leidig, CEO and president. "We're a CEDIA system integration firm. We could only get product we wanted by becoming a dealer buying directly from the manufacturer."

"Over the years, more contractors in the 110V world have become involved with security installation," said Gene Pecora, general manager for Honeywell Power Products. "They used to sub-out the se-



**Between 2002 and 2006, national residential homebuilders increased their use of systems integrators and custom installers by 77% to install home technology while reducing their reliance on both electrical contractors and security firms. Photo courtesy of CEA**

curity work to a specialist, but now electrical contractors see the skill set is not so different from what they already do.

"We haven't seen a big downturn in our residential security business, compared to what is in the press about new home sales," he continued. "The renovation and retrofit market is also strong."

RIMI Systems Integration, a contractor based in Simi Valley, Calif., derives 80% of its revenue from low-voltage projects and 20% from electrical power work. The firm began as RIMI Security, but after expanding its services from basic security, RIMI now handles many types of residential contractor work, beginning with low-voltage structured network installations.

"Our product and service lines have been diversified to offer complete integration of low- and high-voltage systems, and to simplify builder purchasing requirements into a single trade," said Brian Lipscomb, executive vice president.

Lipscomb said that today RIMI is invited to bid on a broader range of electrical and electronic services, more than it was five years ago. "As technology has

evolved, homeowners are relying on IT services and integrated technology, which has put more demand on the end-user consumer electronics aspect of low-voltage systems. Technology options are fundamentally important to the builder's overall options program," said Lipscomb.

So, has this growing reliance on residential technology add-ons increased the competition between the different contractor types vying for residential electrical, wiring, and electronics business?

"Two years ago the answer would have been no," said Lipscomb. "In a strong sales market, each type of firm was primarily concerned with expanding through their existing product and service lines. But in today's market the answer is yes. There are fewer and fewer projects to work on, and maximizing revenue per open project is a requirement for sustainability."

When asked if his electrical contracting firm is more frequently getting the opportunity to provide a broader range of electrical and electronic services than five years ago, Smith said that the diversity of services has proven central to building solid relationships with homebuilders.

"We have noticed a trend with homebuilders: More and more, they are looking to streamline processes, and are trying to reduce the total number of vendors on projects," said Smith. "In the past they might have had three different vendors wiring one home: electrical, security, and AV. Now, many are looking for one contractor that can provide all of these services, preferably one that can provide them on the same trip, reducing the time it takes to build the home."

**Increased 2006 home technology offerings by new homebuilders**

<b>Structured wiring 87%</b>	(+5% over 2005)
<b>Monitored security 81%</b>	(+1% over 2005)
<b>Multiroom audio 75%</b>	(+1% over 2005)
<b>Home theater 73%</b>	(+4% over 2005)
<b>Lighting controls 57%</b>	(+12% over 2005)
<b>Home automation 51%</b>	(+9% over 2005)
<b>Energy management 52%</b>	(+6% over 2005)

"Customer demand for home technology is increasing, and builders must respond to stay competitive," Smith continued. "Therefore, they are searching to find a reliable contractor they can trust to meet these demands.

"There are several groups competing for business in this space," he added. "Historically, the competition was between the security contractor, the A/V installer, and the electrical contractor. A few years ago, many IT companies began entering into the market: Most recently it has been the big box retailers who are getting into the game."

Traditional distributors can leverage outstanding growth opportunities if they expand their residential product and service offering to meet the needs of systems integrators, security contractors, or home automation and custom electronics firms.

These "other" contractors also require basic electrical knowledge, but of course each requires specialized expertise, product knowledge, and product availability. However, if distributors pass on providing

Contractor types used by residential builders		
Type of residential contractor installing technology	2006 builders survey	2002 builders survey
Security firms	65% (-11%)	73%
Electrical contractors	63% (-17%)	76%
Systems integrators/custom installers	62% (+77%)	35%
Utilities (telecom/cable/Internet)	22% (+83%)	12%
Retailers	17% (+325%)	4%

such support, they could lose sales growth to organizations better positioned to support these integrators and installers.

Organizations such as Anixter International, PSA Security Network, and AVAD have enjoyed robust growth supplying low-voltage, security, and custom electronics products respectively.

After 28% growth in 2006, Anixter has become a \$4.9 billion behemoth serving low-voltage communications and networking markets. PSA Security Network is a buying group whose 200 member firms employ more than 1,000 technicians that buy more

than \$1.4 billion annually in security, fire, and life safety products. AVAD is a leading distributor for residential electronics products with a national network of more than 7,000 dealers doing systems integration and custom home installations.

For those looking to growth in residential, maybe it's time to consider whether their businesses are designed to serve the right mix of residential contractors. ■■■

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