

REMODELING INDUSTRY INFORMATION SUMMIT

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PROCEEDINGS

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IMPROVING REMODELING INFORMATION: FOLLOW-UP FROM THE SUMMIT

Participant Suggestions

As part of the Information Summit, participants were asked to complete a short evaluation form. The following issues were addressed:

- **The most important issues raised at the conference**
The key issue raised was the serious deficiency in hard data necessary to develop a comprehensive picture of the total industry. In particular, many participants noted the lack of information on the geographical dimensions of remodeling, as well as poor data on the financing of remodeling projects. Many related the specific information deficiencies to the general need for the industry to be recognized independently in the government's data infrastructure.
- **Issues that should have been included in the summit agenda**
Suggestions of other topics that should have been covered included many key issues that were discussed at the summit, though not as part of the agenda. Participants focused on two main issues: how the remodeling industry can work together to garner support for its information needs; and how the industry can partner with government to make more information available.
- **The most important information needs in the remodeling industry**
Given the diverse background of those in attendance, the suggestions here were varied. Opinions were typically oriented toward the participant's current responsibilities within the industry. The specific information need most commonly mentioned was greater geographic detail in remodeling activity.
- **Possible future actions for summit participants**
Finally, there were several ideas for future activities for the remodeling industry. Most participants felt that the group should meet again and several noted that there needs to be a core team to plan future activities. One possible future action suggested was creating an RIIS annual event at the Remodelers' Show.

Steering Committee Actions

The Steering Committee for the Remodeling Industry Information Summit has met intermittently since the summit to discuss future activities. It has taken the lead in following up on participant suggestions.

- **Remodeling permits**
A letter from the Remodeling Industry Information Summit steering committee was sent to Frederick Knickerbocker of the U.S. Census Bureau in early May, 2000 requesting the reinstatement of the collection of permit data for residential additions,

alterations, and conversions. The letter requested the opportunity to meet with Dr. Knickerbocker to discuss the feasibility of this request.

- **Ongoing work**

Additionally, the organizations represented by the steering committee members continue to be active in promoting the agenda of the remodeling industry. The National Association of Home Builders and the NAHB Research Center continue to field surveys covering this industry. Remodeling Magazine is involved in tradeshow and in hosting other industry events. The Commerce Department is reviewing its data collection and processing procedures for residential improvements and repairs data. The Joint Center for Housing Studies' Remodeling Futures Program has announced a new round of research activities beginning in January 2001.

Developments

One key development has occurred since the Information Summit pertaining to issues raised at the event.

- **NAICS revisions**

There is a proposal that the North American Industrial Classification System be modified to add a unique category for residential remodelers within the residential building construction category. The addition was formally announced in the Federal Register on April 20, 2000 and comments were accepted regarding this change through June 19, 2000. The proposal is likely to be successful. If so, the new classification will be effective January 1, 2002. Its first application will be in the 2002 industry censuses. The steering committee submitted a letter in support of this modification.

INTRODUCTION

Nicolas Retsinas

Nicolas Retsinas, Director of the Joint Center for Housing Studies of Harvard University, opened the session. He noted that one of the least studied aspects of housing was home improvement. Although many companies were involved in home improvement, there was still no comprehensive understanding of developments and patterns within the industry. This information gap motivated the Joint Center to add research on home improvement to its central agenda. Kermit Baker has directed this research.

Mr. Retsinas then introduced the next speaker, Susan Watcher, Assistant Secretary for Policy Development and Research at the U.S. Department of Housing and Urban Development (HUD). He described her distinguished academic career at the University of Pennsylvania, which enabled her to add substantially to the policy agenda at HUD.

Susan Watcher

Susan Wachter noted that HUD has enjoyed long-term relationships with the Joint Center for Housing Studies and the National Association of Home Builders (NAHB). She added that it was wonderful to have another opportunity to collaborate with these groups, particularly on such an important issue.

Dr. Watcher stated that housing rehabilitation is very important to HUD and noted that HUD is one of the biggest supporters of rehab and renovation in the country, particularly in affordable housing sectors. HUD's core programs include fha203(k), Title 1 and insurance programs supporting rehab. Hundreds of millions of dollars annually are used for rehab supported by HUD through HOME, Hope VI, CDGB, and specialized housing assistance programs, such as those for seniors. In addition, though not as a part of HUD, up to 40% of the low-income tax credit is used for rehab. Furthermore, HUD is a primary contributor to the collection of data on renovation and rehabilitation. It continues to strongly support efforts to improve this data. HUD's maintenance and analysis of the American Housing Survey is a fundamental component of the housing improvement industry's information infrastructure.

HUD, especially the Policy Development and Research Office, is strongly committed to the ongoing national battle for preservation, rehabilitation and renovation. The research of the Policy Development and Research Office is concerned with regulatory barriers, dissemination of information and development of new technologies.

Dr. Watcher then began to discuss policy initiatives, especially the One Million Homes Initiative recently announced by Vice President Gore. The Initiative is a partnership between HUD, the U.S. Conference of Mayors and the NAHB. Its goal is to produce 100,000 new housing units per year for the next decade. These new units will either be multifamily, single-family, or substantial rehab. She noted, however, the current limitations in measuring substantial rehab.

The purpose of the Initiative is not simply to increase building and rehab in the centers of existing cores but also to learn what programs do and do not work. To researchers and practitioners, it is clear that this question cannot be assessed without data.

Today, Dr. Watcher said, participants were attending the Remodeling Industry Information Summit in order to begin to strategize an information infrastructure which will adequately serve the home improvement industry. She concluded that in an era of cost-cutting, collection of data on the home improvement industry remains an important government concern and one that deserves increased support. She would be interested to learn the outcomes from the summit discussions.

Kermit Baker

Kermit Baker provided an overview of the day's goals and stressed the importance of the meeting. He stated that after years of studying the remodeling industry, he had come to three “unmistakable” conclusions.

- 1) For a sector of commerce of its size, there is very little information available on the home improvement industry in a few very important areas.
- 2) The home improvement industry is unusually fragmented with precious little leadership, direction or ongoing internal discussion about its problems.
- 3) Condition two has created condition one. Because it is fragmented and does not speak with a unified voice, the home improvement industry has had difficulty accomplishing goals expected of an industry of such size.

Dr. Baker stated that there is a general self-awareness within the industry of its own importance. The Remodeling Futures Program has estimated that home improvement spending accounts for at least \$150 billion a year, almost 2% of the national economy's total output. Almost as much is spent per year on rehab in the United States as on the construction of new homes.

At \$150 billion, the home improvement industry is larger than numerous other better known industries. For example, it is larger than the legal services and the arts /entertainment/recreation industries. In the area of construction, it is larger than the entire heavy construction industry, which encompasses roads, bridges, water and sewer, airports, telecommunications, and other utilities. Yet these smaller industries not only garner more attention but have better data on themselves.

Furthermore, the \$150 billion spent annually on home improvement is only “the tip of the iceberg” in terms of economic activity generated by the industry. Those engaged in home improvement spend another \$75 to \$100 billion on home decor, furnishings, major appliances, lawn and garden products, and other products and services.

Dr. Baker expected everyone present would agree that the industry could be even larger if industry businesses pursued appropriate opportunities. Home improvement and modification have become favorite activities of Americans, particularly as aging baby boomers become more home focused. Dr. Baker then gave evidence of this trend, citing in particular the increase in cable television home improvement shows and home-oriented consumer publications.

He noted that each year almost half of all homeowners report undertaking a home improvement project. This means that 25-30 million individual homeowners make decisions that will shape the future of one of the country's most important assets -- the stock of homes that will house its population for centuries to come.

Aside from the economic benefits of home improvement, Dr. Baker noted an important social role for the industry. Home improvement enhances the quality of life for citizens. Furthermore, preserving and enhancing the stock of existing homes is the principle means by which sound and affordable housing is provided to the moderate- and low- income households in this country. The cost of preserving and adapting homes to meet the needs of new households is small compared to cost of building new ones.

The Joint Center has studied the home improvement industry intensely for about five years. In the course of this research, several myths about this industry have been identified. Clearly, the biggest myth is that remodeling is not a separate industry from home building. A common misperception is that remodeling contractors are just unemployed homebuilders. Homebuilding and remodeling are very separate industries and they are moving even further apart.

Dealing with homebuilders today feels distinctly like dealing with a producer or manufacturer. The discussion is laced with terms like "cycle time to completion", "unsold inventories", "worker productivity" and "just-in-time delivery of products from suppliers". However, dealing with remodelers feels like dealing with a service industry. Concepts include communication with the customer, weekly progress meetings with the homeowners and the idea that no two jobs are exactly alike.

Because it is a loose collection of very different sub-industries, it has been difficult for remodeling to emerge as a distinct industry. A kitchen remodeler may in fact have very little in common with a roofing subcontractor or an electrician who performs system upgrades. This fragmentation may partly explain why the industry has not yet developed a uniform vocabulary. Dr. Baker stated that he had yet to meet anyone who could adequately explain the differences between remodeling, renovations and repairs, rehabilitation, preservation, restoration, and retrofitting -- all terms that are used broadly to describe the home improvement industry.

Dr. Baker then described the goals for the day. He stated that it was necessary to develop an information infrastructure that could support an industry like remodeling. The first step was to bring together the diverse parts of the industry to discuss how to move forward in a unified manner. He described the audience as a select group of leaders,

representing a broad cross-section of the home improvement industry. The three panels of experts were there to share ideas and start the discussions, not to teach or lecture. He said that the role of other summit participants was to share their thoughts and ideas.

CONSUMER PANEL

Introduction: Liza K. Bowles

Liza K. Bowles, President of the National Association of Home Builders (NAHB) Research Center, introduced the first panel. The panel's focus was on major sources of information on home improvement consumers: the C50 Expenditures for Residential Improvements and Repairs, the American Housing Survey (AHS) and the NAHB Survey of Consumer Expenditures. It is the consumer, she argued, who decides what kind of repairs and remodeling will be done. He is the one who often selects and buys the material, and sometimes does the job. It is the consumer who usually pays for the work.

Ms. Bowles then described the data needs of companies for the purposes of business planning. Specifically, they need to know the most common home improvement activities, the average annual household spending for upkeep and improvements, and the relationship between those spending habits and household characteristics, such as age of the home, region, and household type.

Panelist # 1: Frederick Knickerbocker

The C50 Expenditures for Residential Improvements and Repairs

Frederick Knickerbocker, Associate Director for Economics Programs at the Bureau of the Census, described the Census Bureau's job as measuring the entire economy. The Bureau gives special attention to the construction sector because of its intimate connection with other trends in the economy. Within limits set by Congressional funding as well as by the patience of individuals to answer questions, the Census Bureau attempts to track all major components of construction activity. These include remodeling, maintenance and repairs.

The Census Bureau appreciates the importance of remodeling data, especially given the large size of the numbers. Also, the data could easily be lost due to the fragmented, dispersed nature of home improvement work. The Bureau of the Census produces three sources of data on home improvement: the C50, American Housing Survey and Census of Construction. Mr. Knickerbocker briefly described all three sources, but focused on the C50.

C50 General description:

The C50 reports expenditures on residential improvements and repairs. The Bureau of Economic Analysis uses the C50 for quarterly GDP estimates. Residential

improvements are a large component of GDP, accounting for about 15% of private fixed investment in structures. Private companies use these data for forecasts, marketing studies and general assessments of construction activity. Data are collected quarterly and are normally released about six months after collection.

Mr. Knickerbocker said that the Bureau of the Census was aware of many criticisms of this report and was trying to improve it.

- Data Collection

The main source of C50 data is the Consumer Expenditure Survey, conducted by the Census Bureau for the Bureau of Labor Statistics (BLS). Currently, this survey costs the BLS about \$23 million annually.

Through 1998, the C50 component of the Consumer Expenditure Survey had a sample of 5000 households. (It increased to 6,300 households in 1999). Data are collected each quarter through personal interviews. There are five panels. The baseline interview is retrospective over the past month. Subsequent interviews are retrospective over three months. The entire Consumer Expenditure Survey requires two to three hours to complete (which tries the patience of respondents). Residential repairs and renovations are one component of the full survey.

If the sample housing unit is owner-occupied, the Consumer Expenditure Survey is administered and becomes the source for data. If the sample housing unit is renter-occupied or vacant, the interviewer additionally determines the name and address of the unit's owner and sends that information to the Census Bureau. The Census Bureau then mails a follow-on survey, the Survey of Residential Alterations and Repairs, to the owner. These data are also collected quarterly.

The data from both the Consumer Expenditure Survey and the Survey of Residential Alterations and Repairs are combined to produce the final C50.

- Data Description

Handouts of selected reports from the C50 were available. Reports include quarterly data for all housing units, with categories for repairs and improvements (including additions, alterations, outdoor work and major replacements). Both seasonally adjusted and non-adjusted rates are available. The data are also separated for detail by tenure, census region and the year the unit was built. Annual supplements, released in the fourth quarter, offer additional data for more detailed job types and region. For owner-occupied units, there are also data on expenditures by selected household and property characteristics.

Main Criticisms and Planned Responses

- Timing

The Census Bureau would like to release C50 reports five to six months after the quarter in question. Lately, this has been a problem. This should change soon for two reasons:

First, it is the BLS which dictates the pace of data turnout and its needs will soon change. The BLS uses Data from the Consumer Expenditure Survey in calculating the Consumer Price Index. Currently the BLS plans to update the Consumer Price Index more frequently, which would necessitate a faster release of the Consumer Expenditure Survey data.

Second, although the computer processing of the Consumer Expenditure Survey recently shifted from the Census Bureau to the BLS, the Construction Division at the Census now has an agreement with the BLS ensuring immediate access to the processed Survey. This agreement should speed data release by a few weeks.

- Volatility
Critics claim that the sizes of the C50's quarterly changes are too large to be plausible. However, some level of volatility is inevitable. The C50 is based on small sample and only a small proportion of households has any improvement activity in a given quarter. This volatility should improve soon, however, because the sample size of the Consumer Expenditure Survey expanded from 5,000 to 6,300 in 1999.
- Underestimation
Many believe that the C50 underestimates true levels of remodeling expenditure. Comparisons to the AHS in 1995 and 1997 support this concern. The Census Bureau has reviewed the C50 methodology and consequently has planned two modifications. First, fewer cases will be identified as outliers, so fewer high-end cases will have their weights reduced. Second, more will be imputed for nonresponses. These two changes should raise the estimates by 10-20%. These higher levels will first be reflected in the report for the fourth quarter of 1999.

The Census Bureau continues to look into other ways to make the C50 and AHS comparable. One disparity is in the length of the recall period for respondents. C50 is three months while AHS is two years. Another disparity may be in the question phrasing.

- Insufficient detail
The Census Bureau understands the general desire for more geographic and job detail in the C50. Such detail, however, will probably not be collected. The sample size is too small and it would be very expensive to change this. Funding for many Census programs, including the C50, has been shrinking while the Census 2000 remains the focus.
- Building permits

The Census formerly collected data on residential improvements from local permit agencies. Budget cutbacks forced the elimination of these collections and no funding has since been allocated for their resumption. There was some discussion of using private sector funding but nothing came of it. In addition to funding problems, there were concerns over the quality of the data collected from permit issuing agencies. These concerns were discussed later in the session.

Panelist # 2: Frederick J. Eggers

The American Housing Survey

Frederick J. Eggers, Deputy Assistant Secretary for Economic Affairs at HUD, described the methodology, strengths and weaknesses of the American Housing Survey. Since 1973, the AHS has been produced through a joint effort of the Census Bureau and HUD. Home improvement is important to the Survey because it affects the costs, characteristics and quality of housing units.

- AHS Methodology

Most remodeling and repair data are available through a biannual national survey. It has a large sample of 60,000 housing units. The survey is longitudinal by housing unit: that is, the same set of dwellings is visited at each survey and the occupants are interviewed. Data are collected on the unit and structure (size, equipment, amenities), occupants (demographic characteristics), costs and neighborhood. There are often supplemental surveys.

Questions on home improvement have varied over time. The number of categories of jobs has fluctuated, as has the minimum job cost recorded. Currently, there are eleven categories of jobs with numerous sub-questions.

Recently, surveying has become computer-assisted. The interviewer uses a laptop to direct questions. Consequently, there is no hard copy of the questionnaire. The laptop has previous survey answers. Therefore, if a respondent indicates that a home improvement job has been performed, for example, the interviewer is able to check if this job has already been reported.

- Strengths and Weaknesses

The AHS is performed regularly every two years and benefits from a large sample size. Its questions are highly detailed enabling information on remodeling to be linked to characteristics of the household and housing unit. A final strength is that the data are longitudinal. The same housing units can be followed over time.

However, the AHS has a number of weaknesses. The survey is conducted only every two years and there are typically long delays before the data is released. Furthermore, geographic detail is limited and remodeling information is collected only for owner-occupied units.

Finally, the data is not easily accessible. No tabulations or reports have been published on this supplement. To use the available data, it is necessary to use the micro-level data or use Ferret (on the Census Bureau website) which can be difficult. Ferret allows users to make their own tables from unpublished data. Mr. Eggers strongly recommended that anyone using the data join the AHS list-serve. Lastly, because the Census Bureau has not yet performed tabulations, the quirks and quality of the data have not been assessed.

Frederick Eggers described one other survey, which looked at rental properties, the Property Owner and Managers Survey. Unfortunately, it was only conducted once. In 1994, interviewers went to every 1993 AHS sample unit reported as rental, then sent a questionnaire to the owner and manager. Questions asked about the unit, property, owner / manager himself, attitudes and plans. It included questions on renovations to the unit and property, cost of maintenance, plans for maintenance and current maintenance strategies.

Panelist #3: Ed Hudson

The Consumer Practices Survey

Ed Hudson of the NAHB Research Center described their Consumer Practices Survey. The Consumer Expenditure Survey is one of a number of private-sector efforts to collect data on remodeling. Ed Hudson said that many companies consider it cost-effective to collectively commission their own survey.

- Consumer Practices Survey: General Description

The Consumer Practices Survey measures remodeling both by expenditures and by products. Data collected include quantities of products, units purchased, types of products, styles and sizes. Furthermore, motivations of purchasers are also recorded, with questions such as, "Why did you buy this? Did the last one break or tarnish, or was it out of date?"

The Consumer Practices Survey was launched in 1997 as a companion survey to the annual Builder Practices Survey also conducted by the NAHB Research Center. The two surveys have similar structures. Therefore, estimates for national spending can easily include both remodeling and new construction. The NAHB Research Center uses the C50 as a benchmark.

Ed Hudson stressed that the Consumer Practices Survey is highly adaptable and changes every year based on consumer needs. Custom reports are available. The NAHB works aggressively to improve the survey and increase its value to users. Key issues include timeliness, quick customized reports, new media for availability of reports and making both reports and data adaptable.

- Survey Methodology

The survey is conducted in two stages. The first questionnaire is brief and includes questions on classes and levels of remodeling expenditures, household characteristics and demographics. This survey is mailed to 16,000 owner-occupied households. Generally, about 11,500 households respond. This first survey offers high-quality data on incidences of remodeling purchases. These data are then scaled to match the national levels from the C50.

In the second stage, a longer (about 16 page) survey is mailed to those households that had reported remodeling expenditures in the first survey. Generally, 6,500 are mailed out and 4,700 are returned. There is a high level of detail available. Questions address kinds of new products and materials installed, styles and sizes, quantities, reason for replacement, identity of product's purchaser and installer.

From this longer survey, a profile is developed for household characteristics associated with purchases. The survey offers geographic detail down to 32 market areas, which are about state-sized. The profile is then applied to the number of purchasing households in each area to estimate the total quantity of product purchased.

Comments

Commentator: Michael Carliner

Liza Bowles introduced Michael Carliner, Staff Vice President for Economics at NAHB, whose role was to stimulate dialogue with the audience on existing data. He described three main criteria for a proper data source -- that it be timely, accurate and relevant. He stated that remodeling data had deficiencies in all three areas, some of which could be remedied. In particular, he believed that the C50 could be more timely and that the corrections for outliers did not adequately improve accuracy. Regarding relevance, he argued that the biggest deficiency was lack of geographic detail and detail concerning types of work being done. He established that the remodeling and building materials businesses did not cater to a national market but rather responded to local needs and conditions. He stated that good steps had recently been taken towards improving the data but only after about 20 years of deteriorating quality. For example, the AHS used to be an annual survey and the C50 has scaled back its questions.

Mr. Carliner then cited a number of reasons why these data are important: The home improvement industry constitutes a large part of GDP and it is important to be able to estimate the size of the national economy. In addition, the data are necessary to answer many questions concerning how government policies are set and how businesses are managed.

Better information, he said, is important for efficiency and making the economy more productive. It should be a primary function of government, particularly the Commerce

Department, to provide the information infrastructure which will enable businesses to run better. Greater efficiency within home improvement industry requires better information.

He stated that several categories of information should be added to data collection. These include data on financing, insurance repairs, handicapped accessibility, conversions of nonresidential spaces, demolition, resource use and mobile homes. He also suggested that reports be adjusted for inflation.

Mr. Carliner then explored ways to get such information and presented the following:

- 1) Ask consumers. This is how many surveys are conducted. However, there is a limitation. According to JCHS tabulations, 2% of homeowners, spending more than \$25,000 each, account for 25% of remodeling spending. It would be useful to oversample these consumers or find a different approach to measuring them.
- 2) Ask producers. Another approach is to ask producers how much remodeling work they do. The Census of Construction attempts to do this. However, their efforts are not complete because remodeling contractors are difficult to track.
- 3) Administrative records. Collection of permit data for remodeling was ended in the 1990s. Michael Carliner argued for a resumption of its collection. Despite its defects, it was the only available source with both sufficient geographic detail and a large sample. Permits could also be used as a sample for follow-up surveys. Even permits from a sample of collecting agencies would be useful.

Discussion

- Funding Constraints
Frederick Knickerbocker responded to Michael Carliner's criticisms. He described the current difficulties regarding funding. The Census Bureau was aware of their potential to produce data more useful to the industry. However, on repeated occasions, the appropriations chairman had said that he would not spend "one cent of taxpayer money" to help the Bureau become a market research firm for private industry.

Funding directly affects the quantity of data collected, such as geographic detail. As an example of the cost of a survey which allows for research of geographic units smaller than large metropolitan areas or counties, Mr. Knickerbocker discussed the American Community Survey, currently awaiting congressional approval. With a sample of about three million households, it will cost 100 to 110 million dollars a year. (It is hoped that the ACS will replace the long-form of the decennial census by 2010).

- Internet Data Collection

Jeff Peskowitz of Alcoa Building Products asked whether the government had any plans to begin data collection over the internet. Frederick Knickerbocker stated that the Census Bureau was committed to collecting data over the internet and planned to do so for economic censuses in 2002.

Frederick Eggers said that there were currently no plans to move to internet data collection for the AHS. He stated that one reason was because the questionnaire was long and complicated and that a skilled interviewer was required to guide the respondent.

Ed Hudson stated that researchers at the NAHB Research Center were still discussing the possibility. They are particularly concerned about data reliability and confidentiality issues.

- Permit Data Collection

Concerns were raised about the quality of permit data. Peter Bell noted that much home improvement work was done without permits. This is especially true for D-I-Y or one-person firms whose efforts account for a significant percentage of all home improvement. He also noted that in states without contractor licensing programs, work was less likely to be done under permit.

Rick Grossberg of U.S. Structures described a survey his company had conducted which examined how much remodeling work was done under permits. They compared numbers from suppliers of products sold to the numbers recorded in permits. By their estimates, only 5% of projects built were done so with permits.

There was some discussion about the quality of estimates of interior work, (such as surfacing, tiling, cabinetry, and bookcasing) derived from permit data. The problem of intentional underestimation of permit values by owners to avoid taxes was also noted.

Michael Carliner agreed that concerns about the varying quality of estimates based on job type were quite valid and had partially motivated ending data collection. However, he stated, some job types such as additions could have decent data quality. Furthermore, he noted that the undercounts for any specific job type would be consistent from year to year, so data would be still useful for analysis over time.

- Sampling Frame

It was noted that both the C50 and the AHS are general household surveys. There is no precondition for a household to be in the survey according to construction or permits. Every household in the country has an equal probability of being selected. Therefore, estimates are complete and unbiased and unrelated to whether a permit was issued.

Michael Carliner stressed that surveys must have respondents who are randomly chosen from a representative sample. A survey of self-selected respondents is only relevant to the type of respondents likely to volunteer.

- Interchange with Data Users

Michael Carliner suggested that government agencies contemplating changes in surveys should publicize such changes and allow for a public comment period. He argued that it was very easy to make mistakes if people were unaware of the changes.

Frederick Eggers agreed that this was a good criticism. There would be an increased effort to announce proposed changes on the AHS list-serve.

- Financing

Darryl Hicks with Home Improvement Lenders Association asked about adding questions on financing home improvement work.

Frederick Eggers stated that the AHS asked no specific questions on how any piece of work was financed. However, there were extensive questions about financing on the housing unit overall. Since these data were available over time for any one unit, he expected that researchers could examine changes to financing in order to estimate home improvement finances. However, he had not heard from any users on whether this worked.

Michael Carliner said that NAHB had tried this method and found that it did not work.

Ed Hudson stated that the Consumer Practices Survey had asked that question a couple years ago, but without much detail.

- Rental Units

Bob Sheehan noted the lack of research on rental units. He believed that the AHS underestimated numbers of larger units. Furthermore, he criticized the C50 for not collecting data on improvements related to rental units such as carpet installation.

- Installation

Wyatt Kash of National Home Center News noted that more information needed to be collected on who performed installations. He said that products appeared to be increasingly installed by retailers. This change would not be captured in the current data collection.

- Consumer Opinions

Kermit Baker raised the issue of collecting data on consumer experience. Anecdotally, it seems that many homeowners expect little satisfaction and much frustration from doing a job. Such low expectations could negatively affect the industry's ability to expand. Although not an appropriate question for government

data collection, Kermit Baker asked if NAHB or any other group had plans to research it.

Ed Hudson stated that the NAHB Research Center had looked at the topic of consumer experience but only through qualitative work. This was problematic, because their data users tended to prefer hard numbers to opinion-related research.

Michael Carliner said that NAHB was about to do a survey related to consumer experience.

CONTRACTOR PANEL

Panelist #1: Eric Belsky

Overview of Remodeling Contractor Data

Paul Deffenbaugh, Editor-in-Chief of Remodeling magazine, introduced the panel. Eric Belsky, Executive Director of the Joint Center for Housing Studies of Harvard University, began by acknowledging those who were important in helping the Joint Center for Housing Studies gain access to data on remodeling contractors. Fred Knickerbocker had been instrumental in providing access to remodeling contractor and many other sets of information at the Census Bureau. This includes the Census of the Construction Industry which is the only complete set of information on contractors with payrolls. Dr. Belsky then thanked Barry Rappaport for his support of the Joint Center for Housing Studies and Mark Calabria who had done most of the hands-on work with the data. Lastly, he noted, it was remarkable how hard the government was working to be responsive to industry needs, despite numerous constraints.

Why Study Residential Remodeling Contractors

- High spending by consumers

According to analysis of the AHS, consumers spend between \$120 - 130 billion a year on professional remodeling contractors. The C50 suggests this number is closer to \$65 billion even though the level of spending is generally expected to be at least \$100 billion. In both the AHS and the C50, "consumer" refers only to homeowners, thereby excluding renters and owners of rental properties.

Dr. Belsky stated that more than 20 million homeowners annually hire remodeling contractors, which is an incredible number of individuals whose lives are affected every year by the industry. This number is only expected to grow, especially with the aging of the baby boomer population. D-I-Y work decreases with age, so aging consumers are more likely to hire contractors.

- High numbers of workers employed

Though difficult to estimate, it seems that 750,000 people are employed as or by remodeling contractors. These numbers do not include self-employed workers who were estimated at 1.7 million in the total construction industry by the 1997 Census of Construction. Although breakdowns were not available in the data, Dr. Belsky believes a large proportion of this 1.7 million probably worked in residential remodeling since it is difficult to work free-lance in commercial construction.

It appears that the number of remodeling firms with payrolls is increasing. Dr. Belsky defined a remodeling firm as a firm in which at least 50% of its total income was generated through residential remodeling. Between 1992 and 1997, the number of remodeling firms increased from 117,000 to 192,000, providing evidence of how large the remodeling industry actually is.

Problems Studying Remodeling Contractors

- Industry characteristics

First, the remodeling industry is highly fragmented and generally small-scale. About one-third of the 172,000 firms with payroll have annual receipts of less than \$100,000. Estimates from the 1997 Census of the Construction Industry indicate that the top 100 remodeling contractors account for only 5% of the total industry receipts.

Second, there is a very high failure rate among remodeling businesses. Estimates from the Census of the Construction Industry linked with IRS data suggest that 50% of remodeling firms fail within their first 5 years. Since the Census of the Construction Industry is currently conducted only once every five years, information on remodeling businesses is often outdated by the time it becomes available.

- Data problems

There is a difficult problem with classification. Residential remodeling has never been separated from homebuilding. Thus, remodeling is not currently recognized under the North American Industry Classification System (NAICS). Currently the government is trying to solve this problem. The Census Bureau has tried to reopen definitions, arguing that the two industries have very different production processes and activities. The NAICS codes do not affect the Census of the Construction Industry, but they have an impact on most other government sources of data including the BLS Establishment and Employment Survey and any current occupation and wage surveys.

Existing Information Sources

- The Census of the Construction Industries is conducted once every 5 years. It usually takes a couple years to be released. Though it contains much useful information, there are some notable gaps. It focuses on receipts, employment and some aggregated costs but does not include data on detailed product usage, financial characteristics of firms or age of firms.
- The Home Improvement Research Institute conducts a survey of remodeling contractors every other year which will be described later in the panel. This survey is the only other regular survey of the remodeling industry of which Eric Belsky knew. All the others were sporadic, occasional studies done by the industry. Some are quite good, but one never knows when they will be conducted again.

Potential New Information Sources

- Internet contractor referral sites and business to business sites are potential new information sources. However, it is unlikely that they will be useful in the near

future. These data are likely to have many quality problems. Furthermore, it is unclear which firms would be most likely to include themselves in the survey. However, if the focus of a study were businesses 8-10 years old, which are the businesses driving the market, this data source could be more useful.

- In addition, the Census of the Construction Industry could be used in more ways. First, the Census Bureau could release more detailed tabulations and breakdowns in the publications. Eric Belsky described this as a technical possibility, but one with strong resource constraint. Second, there is the possibility that the Census of the Construction Industry sampling frame could be used for industry surveys. It may be useful for businesses to be able to request that the Census Bureau perform specific tabulations or reports. For privacy reasons, it is clearly not feasible to give businesses access to the raw data.
- Point of service information could be collected from professional and retail distributors. Retail distributors have not been active in gathering information on their customers. Because of this, manufacturers have little idea of which products go to which markets.
- Finally, consumers could be surveyed about the characteristics of their remodelers. This would be useful for attitude-related questions and information provided by the remodeler on things such as financing options. However, such surveys are unlikely to provide useful data on the remodeler's business like the receipts, age and employment of the firm.

Panelist #2: Rich Strachan

Home Improvement Research Institute's Remodeler Survey

Paul Deffenbaugh introduced Rick Strachan. Mr. Strachan discussed the 1999 Home Improvement Research Institute (HIRI) Remodeler Survey. HIRI is an organization comprised of just over 50 member companies including manufacturers, suppliers to industry retailers and publishing companies. Companies pay annual dues which fund research which individual organizations could not typically afford alone.

The HIRI Remodeler Survey is biannual and has been conducted since 1989. A telemarketing research firm conducted this year's survey. HIRI decided that this was an improvement over the former method of a mail survey because its high complexity and length had resulted in low response rates. The telemarketing firm used computer-assisted questionnaires to interview 600 remodelers. Each telephone interview averaged 20 minutes. The sample was nationally representative, covering everything from large companies down to individual handymen. However, due to the problems described by Eric Belsky, HIRI did not have a complete listing of all firms in the industry and thus the sample is likely to be skewed.

The main objective was to create a business profile of current remodelers. Important questions included what each remodeler bought and where, what were the factors in his

decision to buy, what factors are important in choosing an outlet, and how satisfied the remodeler was with each of the individual outlets at which he shopped. Other objectives included gathering information at specific product levels, looking at information sources used by contractors to learn about products and services, and understanding contractor involvement and outlook on D-I-Y.

The sample was broken into three primary segments: full-time generalists, full-time specialists and part-time workers. Rick Strachan interpreted detailed slides summarizing the report. [These slides are available in the appendix.] Information was shown on the distribution of firms by sales volume, number of employees, type of work and role in projects. The survey looked into sources that remodelers used most often for tools, supplies and building materials for numerous purchase categories. Most of these categories of information were broken down for detail by firm size and type. Other topics included remodelers' involvement in retail installed sales and sources of product information.

Detailed information was collected about purchases in specific product categories such as roofing, siding and insulation. Within each of the nine broad categories, data were collected for about a dozen sub-categories.

The Remodeler Survey also investigated a number of topics related to opinions and preferences. One section looked at factors in brand selection. Another looked at characteristics affecting the selection of a supply source. The survey also asked about the opportunities and problems remodelers felt they were likely face in the year ahead.

Panelist #3: Mark Richardson

Example from the Field: Case Design / Remodeling

Paul Deffenbaugh described the flow of the panel as going from the general to the specific. The next speaker, Mark Richardson of Case Design, was to give insight on what really happens within a remodeling company. However, Paul Deffenbaugh noted, because Case Design is large, it is not a typical remodeling company. However, it was typical in the sense that it was generally these larger firms which used much of the information available on the remodeling industry.

Mark Richardson structured his discussion around the idea that the industry was unhealthy. The failure rate of remodeling firms is very high and only 4% belong to a national association. Information collected on these unhealthy businesses, a large portion of the firms, would not lead to useful information concerning how to make good decisions for the entire industry. In other words, Mr. Richardson did not see how the quality of the industry could be improved by studying failures. He recommended creating health in the community as a necessary first step. Otherwise, data will be only collected on failures.

Mr. Richardson described Case Design and its use of remodeling data. Case Design is primarily a large local business which this year would do about \$20 million in local

remodeling. Presently they have offices in 30 other cities. By the end of 2000, they expect to have branches in 60-65 cities. Most of their business decisions have stemmed from consumer-based information. In the early 1970s, they understood clients' desire to have one firm both design and execute renovations. This information, he stressed, came straight from the client and not from a source such as the Census Bureau. In the 1980s, Case Design also noted a certain level of client interest in small projects. They investigated by gathering research from within the industry, particularly by hiring consultants and using information from sources such as Remodeling Magazine. In 1992, they launched their handyman division, now the largest division in the company, projected to have \$10 million in receipts this year.

Discussion

- NAICS
Bill Bostic of the Census Bureau began by announcing that Canada, Mexico and the U.S. had agreed to recognize remodeling as its own industry in the NAICS. He believed that there would be a 60-day comment period before the changes were finalized. The new classification would be introduced in the 2002 Economic Census of the Census Bureau.
- Suggestions for Improving Research
Paul Deffenbaugh questioned Eric Belsky's classification of remodeling firms. They both agreed that some very large homebuilding companies could have remodeling components that would be a small in terms of the company but large in terms of companies working exclusively in remodeling.

There was also a suggestion that hazard analysis be performed on the failure rates for firms to see which factors were important at which stages for success. Eric Belsky noted that he was currently doing research which suggested failures were uncommon after a firm became about seven years old.

- Licensing
Peter Bell of the Home Improvement Lenders Association asked if there was any evidence that licensing had a positive effect on firm stability. Eric Belsky replied that NAHB had done a study showing there was little affect, most probably because licensing rules were so loose in many areas. However, he expected these rules to become increasingly restrictive. Dr. Belsky also noted that although the industry wants to become more professional, many within it resist the idea of effecting professionalization through regulation.

- Consolidation
Kermit Baker asked about consolidation. He noted that it was common in most every sector of the economy. Yet, the evidence for the home improvement industry suggests that anti-consolidation activity is rising, despite the fragmentation of the industry. He pointed to Eric Belsky's report of a 50% rise in the number of contractors between 1992 and 1997. Dr. Baker asked what should be done to reverse that trend, to increase the number of professional firms, and to develop larger, better-capitalized companies that are really the “point of sale” for this industry.
- Professionalism, Community and Who Will Change the Industry
Participants discussed how the industry, if it were indeed sickly, could be made healthy. Mark Richardson identified candidates likely to lead correction of industry problems. First, the government was responsible for compiling information. Second, manufacturers, those most likely to profit from such corrections, should take steps to effect it. Third, he discussed the necessity of building a community for remodelers in order to pool resources, information and strength.

John Quaregna, Past President of the National Association of the Remodeling Industry, discussed the issue of professionalism. Although only 4% of remodelers belong to a national association, a larger portion can be considered professional. Many of these are already successful and anticipate no benefits from a national network. However, many remodelers do need professionalization. These individuals are often too busy working to invest in business education.

Case Design's success was attributed to the fact that they were a professional business.

Peter Bell noted that Randall Scott proposed using the demand side to empower consumers so that they can discern quality in contractors. In other words, the industry could educate consumers in shopping for a competent contractor. Consumer decisions would then weed out bad contractors and reward good ones.

Walt Stoeppelworth stated that he believed manufacturers and retailers were not as involved as they should be and their increased involvement was the next step. In response, Paul Deffenbaugh noted complaints he had heard from manufacturers and distributors concerning the difficulty of reaching remodeling contractors. He inquired about the kinds of information which would help link these groups, enabling them to work together to increase products and services. Eric Belsky thought that distributors were in the best position to start tracking remodelers because they had direct contact with them.

Some participants argued that it was difficult for manufacturers to contact remodeling contractors. Most were not members of national associations, the manufacturers' main link to the remodeling contractors.

Jan Williams, Chairman of the Remodeler's Council of the NAHB, replied that manufacturers and distributors were generally uninterested in contacting remodelers since most firms were so small and so likely to fail. She pointed to Rick Strachan's statistic that 50% of remodelers had businesses smaller than \$100,000.

She continued that remodelers would be better able to talk to manufacturers if they joined the national associations. This would also likely decrease failure rates.

Walt Stoeppelworth described the profits likely generated in the industry through e-commerce. Successful e-commerce would bring to industry to the attention of venture capitalists as a "plum ready to be plucked". Once involved, investment bankers would force better management and professionalization of the industry as they have in most other industries. Thus, changes in the industry would be driven both internally and externally. This process has already occurred somewhat with internet referral services.

Paul Deffenbaugh described the high level of interest among well-educated people in tapping this \$140 billion industry. They are not interested, he said, in creating a \$500,000 business, but one that is worth \$10-20 million. He commented that it is these people who will take advantage of data.

John Quaregna also described the interest of college-educated people in profiting from this large industry. It was important to note, he argued, that such people went directly into positions in marketing or sales, as opposed to "hands-on" positions. In other words, they are interested in profits and successful business ventures.

MANUFACTURER / DISTRIBUTOR PANEL

Kermit Baker introduced the Manufacturer and Distributor panel. The panel focused on the future impact of the internet on the home improvement industry. Dr. Baker described the internet as an important tool with tremendous potential as of yet unrealized in the home improvement industry. One of the greatest changes wrought by the internet is the increasing accessibility of data. Since the present meeting was an “information summit,” internet usage was a facet of the industry that could not be ignored. Experts Richard Kaverman and Greg Brooks were then asked to address two specific questions: the impact of the internet on information needs for the home improvement industry and its impact on fundamentals of the industry.

Panelist #1: Richard Kaverman Stories from the Road to E-topia

Richard Kaverman began by describing the importance of the home improvement industry to Owens Corning. About 70% of the company's \$5 billion in annual sales is in products purchased by the home construction industry. Although the company began with fiberglass insulation, it has since expanded to manufacture components for most any system in the home.

He cited numerous examples of the general importance of e-business. In the remodeling industry, there has been a number of remodeling focused start-ups on-line. Most of these have services for the homeowner. Manufacturer and retailer websites have also become more interactive, attempting to contact the consumer directly thereby “pinching remodeling contractor in the middle”. Also, the remodeling industry is being held up to the standards of other industries and realizes that it is coming up short.

Richard Kaverman expects large changes in industry dynamics. In the past, he thought, manufacturers had the most control and drove it through the channel. More recently, their control has been moderated by distributors, remodelers and big box chains. Mr. Kaverman expects the next power shift to be towards the consumer. Consumers will become experts, he stated, and highly knowledgeable about remodeling. This will force a shift such that everyone essentially will have the same power. However, there will also be a potential to create value and increase productivity through the elimination of redundancies in the supply chain.

Owens Corning is working as quickly as possible to take advantage of these changes. They are beginning to focus some efforts on the remodeler/builder. They are also embracing the power of the consumer, using it to their own and the advantage of the channel.

One project is to build a customer marketing database. It will include data on homeowners, professionals and even dwelling units. It will record all contact with the

customer for later analysis. Furthermore, Owens Corning plans to expand their website to allow interactive communication in real time. Unlike the Census Bureau, Owens Corning believes that high quality data can be taken from on-line sources. It also thinks it is possible to interactively guide a consumer through a questionnaire on-line.

Mr. Kaverman argued that the internet would also lead to greater standardization in the industry thereby improving data, communications and operations. He anticipates that the e-consumer will be able to investigate projects on-line and demand quotes. This data could then be forwarded, as a lead, to local contractors. Automation would ensure that the information would immediately become part of the order management process. This is a remarkable supply chain management exercise which could create value at each step in the chain. Standardization of the data collection would eliminate redundancy in the work process. Inventory control could improve and overall productivity would increase. The contractor could then focus on installation and building, rather than on administrative paper work. The net result would be increased profit.

Furthermore, the internet will allow manufacturers quicker access to the trends in the marketplace. In response, they would be able to change more quickly to match those demands.

Mr. Kaverman stated that it was difficult to predict the impact of the internet on the industry in the next 5-10 years because the change has been so remarkably swift. No one in 1996 would have predicted where things are now. However, he argued, a number of things will happen. Information flows will get larger and individuals will have increasing access to them.

In the remodeling industry, increased information flows will inevitably cause both consolidation and stratification of firms. Job components and local rates will have to be standardized. Manufacturers, distributors and remodelers will become collaborators rather than adversaries. There is also the potential for a national brand remodeling company.

Mr. Kaverman concluded that there is no reason now for anyone in this business not to be on-line. It is affordable and assistance is available. At the very least, remodelers need to take advantage of matching services.

Panelist #2: Greg Brooks

Ten Years After: Building Product Distribution in 2010

The Construction Supply Group is a consortium of dealers and distributors who give web-based training for the home improvement industry. Greg Brooks began by describing why using of retailers to track remodeling contractors was a bad idea. Because of the size of the economy, most retailers and suppliers favored homebuilders over remodelers. Therefore, from the perspective of dealers, homebuilders drive the industry and the size of the supply channel. However, Mr. Brooks expects that the internet will benefit remodelers most.

He described a 1998 study investigating dynamics that drove professional channels. It was apparent that business-to-business (B2B) channels serving builders and remodelers were very different from those of retail. The study started with known trends in the housing industry and then interviewed back up the channel from builders/remodelers to manufacturers in order to discover what was being done to meet these challenges. They found not only that the industry was behind but that there was an ignorance of what was going on in home improvement and other industries. Mostly, there was a lack of cooperation as well as extreme channel conflict at all levels.

It is now nine years into largest economic boom of history. The industry has undergone remarkable and sustained growth. Everything should be perfect. However, it is not. No one is making any money. Most companies in this industry would have done better had they sold themselves at the beginning of this boom and invested their money even in the worst possible investments of the 1990s.

The industry is consolidating and vertically integrating the supply chain. In other words, it is taking steps to try to cut out the middleman. It is becoming a one-step industry. Two-thirds of wholesalers claim that contractors are their primary customers.

Homebuilders are now looking for services designed to simplify, centralize, speed and give them overall control over the construction process, trends that are occurring in the manufacturing sector overall. For example, General Electric is now in "just-in-time" operations. Examples of modular manufacturing, such as that taking place at General Motors, are pre-fab components, trusses and wall panels. Installed sales demonstrate the trend toward OEM manufacturing, a trend at companies like Cisco and Hewlett Packard which are outsourcing the entire manufacturing process.

The home improvement industry has followed every major trend in manufacturing except the launch into e-commerce. Many critics focus simply on the retail side of e-commerce and say it cannot work in this industry because it is impossible to Fed-Ex a framing package to a site. This is a misplaced focus because the real action in e-commerce is behind the scenes in supply chain integration. Growth of B2B is outpacing retail side by a factor of 10 to one.

B2B e-commerce outpaces retail because it addresses consolidation, vertical integration and redundancy in channels; issues businesses are addressing in the home improvement industry. Redundancies exist at most every step. Every time somebody buys something at one end, that transaction must be repeated on all levels all the way back up the chain. At every level, there is a sales force, trucks, inventory and forklifts. Many estimate that redundancies in the channel add 30% to the retail price users pay for the product.

Other industries are trying to fix this by breaking down those functions into separate entities, a process which has led to the evolution of OEM suppliers. OEM suppliers only build products behind the scenes for various industries.

Dell Computers is an excellent example. They are not manufacturers. Instead, they have a supply chain with prefabricators, subcontractors and wholesale distributors. Dell is unique. They pioneered logistics software to link every member of the channel. When a customer clicks on the Dell website to order a computer, his demand automatically generates all the orders necessary back up the chain. Thus, costs are reduced and Dell can build computers to order, the result of which is that they have no inventory.

Greg Brooks noted the similarities in the structures between Dell and the remodeling industry. If businesses in this industry followed Dell's example and formed long-term contractual relationships with other businesses in the channel, transaction costs would be remarkably reduced. This more efficient process would also reduce standing inventory.

The main reason that this has not happened, he said, in remodeling industry is that partnerships within the channel have not yet been formed. He thought that it would have to happen soon due to the rising power of the consumer. By definition, as consumers gain influence, suppliers lose power. Mr. Brooks expects that the internet will fuel this power shift.

The entire channel should benefit from big builders who will most probably drive change. Their needs will likely lead to the development of an infrastructure that will eventually make small remodelers cost-effective customers.

Greg Brooks also thinks achieving these changes requires several small mental shifts. The necessary technology is already available. The first mental shift involves understanding that B2B is not a mall. Benefits will not come from allowing remodelers to compare prices. Rather they will come from automated takeoffs, quotes and scheduling. The second shift involves the understanding that businesses must form partnerships with businesses downstream in the supply chain. Finally, the focus should be on eliminating redundancies not businesses. He cited examples of vertical integration and consolidation in the industry that have not succeeded because the same tasks were only shifted within the new company and not eliminated.

Discussion

- Pros and Cons of Standardization and Business Alliances
Paul Deffenbaugh gave an example of a highly efficient but poor system. He described the process of insurance repair. Once a consumer calls the insurance company, a set process goes into motion which arranges and completes all facets of the repair. The process is often so standardized through company alliances that the consumer had no choice whatsoever in the work and was consequently left unsatisfied.

Greg Brooks agreed that systematization and standardization reduced choice, a potential problem given increasing consumer desire for greater choice. However, consolidation and alliances have the value that they increase control over consumers.

Jan Williams offered that although consumers want choice, they have fairly consistent desires for the level of professionalism and quality of their contractors.

Dick Kaverman argued that the most successful internet companies were those which made on-line alliances and linked people who came to the site to other sites and companies

Greg Brooks noted that many independent remodelers are independent by choice. They are generally more responsive to long term working relationships and are more likely to prefer working with the smaller businesses, both known and trusted by them, rather than large corporations.

Mr. Brooks also described the benefits of brand identity. Generally, remodelers were too small to have much brand equity in the marketplace, a fact which hurt them. The problem could be improved, he argued, through alliances with companies such as BMC West or Builders Firstsource. Dick Kaverman agreed that there was a real opportunity for a national-branded or franchised presence to develop. This would be the best in competing against installed sales.

- Installed Sales

Francis Giknis suggested that the biggest threat to the remodeling industry was installed sales through big boxes. The internet seemed likely to accelerate that process.

Greg Brooks said that in a survey, 100% of remodelers recognized that consumers wanted to buy products installed from a dealer or retailer. A smaller 81% of the whole channel said that they thought remodelers faced competition from the big box installed sales programs. However, only 33% of remodelers thought this competition would hurt them. Remodelers justified their positions by arguing that they provided higher quality workmanship.

Dick Kaverman replied that he thought the jury was still out on installed sales. He thought it was more likely to affect some job types more than others. For example, he expected that installed sales were likely to be unsuccessful with larger jobs such as complete kitchen remodels or additions.

- Service versus Product

Walt Stoepelworth described American industry as very efficient at manufacturing products. However, he said, no one knows how to popularize service. Only recently, have companies like Home Depot realized they could make more money from their services than their products. Greg Brooks cited the example of the Expo Design Center. Its success will come from the fact that it sold a package; labor and materials were tied together.

Greg Brooks said that many dealers and distributors were unhappy about the current number of manufacturer-builder direct deals. However, he said, this was unwarranted because dealers and distributors were really not cut out of the loop. Although the builder and manufacturer may come to an agreement, they still require the services of a dealer or distributor. Dealers and distributors are reluctant to embrace the idea that they will hold no inventory and not sell product. This is because traditionally they have sold products and given away services.

Mr. Brooks continued that as more big builders made deals with manufacturers, there would be more sophisticated measures to quantify the value of service which would eventually benefit small remodelers.

- What Kinds of Businesses Will Succeed?

Paul Deffenbaugh asked what kinds of businesses would end up serving builders and what kinds would end up serving remodelers. Greg Brooks predicted that a very small segment would serve the few largest builders and all others would have to go a whole different direction.

He also speculated that businesses might not divide by builders and remodelers but by production-minded contractors and high-end contractors. Greg Brooks noted that high end custom homebuilder had been virtually unaffected by the consolidation in the homebuilder industry. He expected that a similar high-end class of remodelers would not be hurt by installed sales.

SUMMARY

Kermit Baker summarized the summit. He began by reiterating the steering committee's original purpose. They thought the home improvement industry was highly fragmented and that this fragmentation was the source of many of its problems. One problem in particular was the lack of opportunities for the various industry segment leaders to discuss common problems or find collective solutions.

Working on the problem of information needs was a good point on which the whole industry could meet and lay out some of the infrastructure requirements. The industry needs to develop an information infrastructure. This summit would be a good place to start discussing problems and strategies as a unified industry. It was clear that there were common interests.

The day began with the Consumer Panel. It discussed strengths and weaknesses of major government data collection -- C50 and AHS. It described limitations and discussed realistic expectations for the government. The NAHB Research Center described its Consumer Practices Survey. They invited participants to tell them how their efforts could better serve the industry. They had typically taken a product-oriented approach but were willing to consider other aspects.

In the discussion, Michael Carliner addressed the big data gaps. One concern was the lack of information on homeowner motivation: did they do the work to remedy structural deficiencies, increase accessibility, or simply to change design and aesthetics? He addressed the lack of geographic detail necessary to support the industry. Strengths and weaknesses of the permit database formerly collected by the Commerce Department were discussed and it was questioned whether the Commerce Department should resume it. Other topics were suggested for data collection: how consumers view the industry, financing data, installed sales and multi-family structures. HUD also made a genuine request for comments on the data they collect.

The Contractor Panel followed. All agreed that this is a very fragmented industry and that the fragmentation makes it difficult for other industry segments such as consumers, distributors and manufacturers to track contractors. Many contractors are very small-scale operations. Data sources include the Census of Construction Industry done every five years, Home Improvements Research Institute Study done every other year and some special and industry studies that may suffer in terms of representativeness. Labor shortages repeatedly came up as a large problem in industry. However, this was not a problem for Mark Richardson at Case Design. He suggested that it might be an issue of using existing labor more productively. The notion of whether the contractor industry is really "unhealthy" was discussed, as was the idea that it could be strengthened through the development of a greater sense of community within the industry as a whole. Central problems and ways in which other industry segments could help to develop professionalism among contractors were identified.

In the discussion, Bill Bostic made a major announcement that remodeling contractors will be recognized as a separate industry with its own code in the NAICS. That was seen as a very important first step towards developing more awareness of remodeling as an industry. In particular, it will give increased recognition as well as provide information on contractors as an independent industry. In addition, the role that manufacturers and distributors should play in developing a contractor sense of community was questioned.

Kermit Baker then reviewed the Manufacturer/Distributor Panel. Many ideas were brought up that paralleled those in the Contractor Panel. With the internet, the industry will grow to be a more consumer-focused market. Consumers will have more access to information and therefore more of an impact on how the industry develops. The general impact of e-commerce on the distributor was discussed. Other consumer-related topics discussed included the digital divide and the power of the more e-savvy consumer. Richard Kaverman spoke persuasively about the need for greater standardization in the industry, a process which would possibly reduce redundancies and increase consolidation. Greg Brooks spoke about the increased pressure the internet put on distributors. He also spoke about internet use and greater integration in the supply chain, reduction by distributors and increased efficiency.

Following the summary, there was discussion as to how the group could best send a message to the government. The participants wished to support government efforts to collect information. They also wished to pressure appropriators to expand available data.