

STATE OF THE INDUSTRY REPORT

Economic Uncertainty Intensifies Focus on The Basics

by Chris King

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As part of our State of the Industry Report, *Roofing Contractor* conducts an exclusive annual survey of contractors to get their take on the residential and commercial roofing market. We also ask a variety of industry insiders and other professionals to share their insights on key trends they've identified and important challenges facing the industry. This year we invited them to offer advice to contractors as they prepare for the new busy season ahead.

Of course, when it comes to predicting the future, no one has a crystal ball. Market predictions should always be taken with a grain of salt — or a truckload, if there is a lot of economic uncertainty.

In the end, entrepreneurs and business owners are left with the same difficult task they face every year: gathering enough information to make informed choices about the best path to take in the year ahead. We're thankful that key representatives from organizations including contractors, manufacturers, distributors, and industry associations shared their perspectives with us, and we've compiled some of the highlights here in the State of the Industry Report, sponsored by GAF. The results of our exclusive State of the Industry Survey follow on page 70.

Market Outlook

Industry insiders sharing their outlooks for 2013 with *Roofing Contractor* emphasized that it was a particularly difficult year to forecast, but they pointed out some positive signs for growth along with a host of problems.

"In general, we are beginning to see some optimism in 2013 U.S. GDP assumptions," said Bob Wamboldt, vice president and general manager, Roofing Systems, Johns Manville. "With so many years of residential housing starts being down, the market is beginning to see some recovery. Typically, commercial building starts lag residential, but since housing starts began seeing recovery in early 2012, we are seeing activity that is bringing hope to many in the commercial sector."

Investing For the Upturn *by Robert Tafaro*

2012 began with momentum but lacked the demand to sustain it, and the year brought continued margin pressures through raw material costs. Still, many of us are finding ways to take advantage of these conditions, and there are some interesting trends emerging in the industry.

The year started well — the industry shipped two-thirds of the year's volume in the first half. Affecting demand in the second half, though, were an unusually mild winter, economic uncertainty, and a lack of storm demand. While Hurricane Sandy caused devastation to many millions of people, it isn't expected to generate the kind of demand for roofing products that prior hurricanes have.

In addition to declining demand, manufacturers and distribution met significant margin pressure, primarily from raw material prices that rose in the face of a competitive market. As an industry, we're challenged further since the average national price of asphalt doesn't take into account regional differences in availability, pricing or quality. Declines in the quality of asphalt available in the market have led us to enhance the asphalt delivered to us at an additional cost in order for us to maintain the quality of our product.

However, the good news is that economic challenges have not dampened consumer desire for products that speak to their personal style and match their home's architectural style. In fact, a consumer survey in 2009 reported that 77 percent of homeowners said that the shape or style of their shingle was the most important aspect of their shingle purchase.¹ This has been partly driven by more consumers researching roofing products online; homeowners understand the value of investing in a product that increases the curb appeal of their home and, as a result, its resale value.

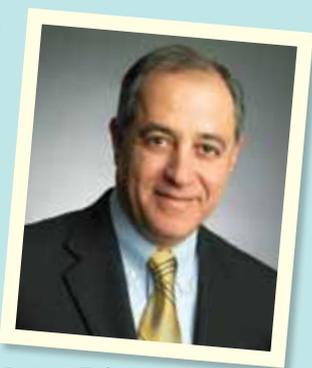
Regardless of the year's market and economic conditions, some manufacturers took the opportunity to grow their businesses with major plant investments in 2012. At GAF, we opened our first ISO plant in Statesboro, Georgia — the first of at least four new roofing plants we have scheduled through 2015. In addition, Carlisle, Johns Manville, and Malarkey all opened plants in 2012.

The year produced some interesting opportunities in diversification. First, there's been strong growth in roof financing, driven both by economic uncertainty and a change in insurance claim terms, such as a movement to percentage deductibles in some states. Such financing contributed to the growth in residential solar, with the most significant solar markets now financed at 70 percent. Despite the controversy surrounding manufacturers such as Solyndra, we know solar is a profitable diversification for contractors in states that are favorable to the technology — and especially with the right financing infrastructure and supply partners.

Second, diversification for roofing contractors also has continued with the growth of the commercial maintenance business. More and more, commercial property managers are becoming educated on maintenance and, as a result, they expect contractors to respond to their needs.

Some Other Trends in Our Industry:

- Building codes continue to become more important to our industry, such as the adoption of IGCC and IECC codes in many local markets. Historically, storms have led to a greater focus on codes and the performance of products that will



Robert Tafaro

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Wamboldt estimates that we could see a return to 2006 levels by 2016. “Nonresidential spending is up, and it is reported that corporate cash balances are well over \$1 trillion, which could be a good thing as property investments and upgrades previously postponed may occur in 2013,” he stated. “Commercial properties and manufacturing are expected to fuel the 2013 growth in nonresidential. The public sector will continue to struggle as fiscal concerns emanate from Washington. The tax law will also strongly influence corporate reinvestment into capital and construction. Many investors wait as Congress navigates these two important issues.”

Sheree Bargabos, president, Owens Corning Roofing and Asphalt, also believes the industry could benefit from pent-up demand in the year ahead. “Owens Corning celebrates its Diamond Anniversary in 2013,” she said. “Our company has witnessed multiple business cycles in the building products industry over the past 75 years. As the housing market continues to re-set after this last recession, the Owens Corning Roofing business is excited about the outlook. We anticipate 2013 to show continued recovery and believe there is pent-up demand that will begin to materialize as homeowners gain more confidence about the economy and the value of their homes. An expected increase in housing activity should help provide that confidence.”

Bargabos also noted that the industry should brace itself for unpredictable weather events. “As always, storm activity is the big unknown for 2013,” she said. “Though there isn’t a way to accurately predict its impact on the industry in any given year, we will be prepared.”

“With the economy in a continued



Bob Wamboldt



Sheree Bargabos

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Investing For the Upturn by Robert Tafaro

only nurture emerging standards, such as ICC’s AC438 acceptance criteria, which is more focused on long-term shingle performance measures than the industry’s current standard ASTM D3462.

- Consumer interest in “green” continues. Our most recent research found that 69 percent of homeowners would pay more for a product that saves energy, and contractors who demonstrate expertise in this area can have an advantage.
- Service enhancement continues to be a source of value across the roofing supply chain, and customers have come to expect it.
- Increasingly, contractors and property owners expect more self-service tools for their productivity or education. Several digital apps were introduced in 2012, and we can expect more in the future.

Looking to 2013, we can be optimistic. We believe that the upturn in new construction, particularly housing starts, will continue to grow. Look at the trend — construction rose 5 percent in the first nine months of 2012 versus the prior year, including a 26 percent increase in residential construction starts (admittedly from a low base). New construction spending is expected to rise by 6 percent in 2013.² Yet, while we are more optimistic about demand, the cost base will continue to be a challenge, and we should expect a continued rise in asphalt and other raw material costs.

Also, in 2013, we expect current trends in the roofing industry to continue. These include the rising importance of roofing design, the adoption of “green” products, the growth in roof financing, diversification for roofing contractors, offering additional service enhancements, and new building code adoption.

Faced with this environment, the strongest industry players and leading contractors will continue to invest in long-term capabilities while carefully monitoring and managing their businesses in the short term. A focus on investment, cost management and value has served the roofing industry well over the uncertain economic environment of the last few years, and can do so again in 2013. Yet to truly succeed, our challenge is not to let the economic environment distract us from staying focused on what matters most — constantly and consistently providing value through products and services to our customers.

Robert Tafaro is president and chief executive officer of GAF.

¹ Consumer Survey, 10/13/2009, Market Decisions

² McGraw Hill

state of volatility and uncertainty, 2013 is a tough year to forecast,” said Daniel Piché, president, Mule-Hide Products Co. Inc. “However, now that the elections are over, businesses and other organizations at least have a better sense of what to expect over the next few years and will be ready to plan building expenditures, including roofing. There is certainly pent-up demand and many businesses and other organizations have funds to spend that they have been holding onto tightly over the past four years.”

He summed up the residential and commercial markets this way: “We expect re-roofing, which historically



Dan Piché



Brian Lambert

has accounted for approximately 80 percent of the low-slope market, to be relatively flat. Damage caused by super-storm Sandy and any future storms could result in some growth for existing roofs. With unemployment rates still high and businesses still reluctant to spend money, we only forecast modest

Low Slope Trends Affected by OTC *by Robert Reale*

Membrane shipments in the first quarter of 2012 were stronger than expected, and weaker than expected thereafter. It is believed that this was due to 2012's mild winter, which allowed a more than typical level of winter installations but which also failed to create demand for the traditional roofing months of the year. In spite of slower second-half sales, 2012 saw TPO market share remain high at approximately 38 percent while PVC's market share grew to an estimated 16 percent. The asphaltic market share continued to decline, down to around 21 percent.

This year was also marked by a decrease in sales of fully adhered roofing systems in the Northeastern and Middle-Atlantic states affected by Ozone Transport Commission (OTC) legislation. These regulations have seemingly pushed contractors to switch some fully adhered work to mechanically fastened thermoplastic membranes. This trend has led to some unintended and undesirable consequences. In particular, through Carlisle's field inspections and Technical Services department, it has been determined that white membranes are more prone to condensation issues in northern climates; when warm, moist air from within the building rises to the roof and meets with the cool underside of the white membrane, moisture can condense and accumulate within the roofing assembly. In November, Carlisle issued a design advisory that addresses this phenomenon and outlines how cool roofs can be used in northern climates with proper design enhancements. This advisory can be found on the Carlisle website.

It is believed that the recent decline in fully adhered systems is due to the increased cost and perceived cold weather application limitations of the new OTC-compliant, low-VOC adhesives that contractors in many Northeastern and Middle-Atlantic states must use. However, it is expected that fully adhered work will rebound in the OTC-regulated states in 2013. One reason for our confidence is the continued improvement of OTC-compliant bonding adhesive products.

Robert Reale is Manager of Marketing Communications for Carlisle Construction Materials.



Robert Reale

will be some additional activity in the Northeast as the damage caused by superstorm Sandy is repaired. As for commercial roofing, there will be some increase in remodeling expenditures due to pent-up demand, but this will be limited due to government budget limitations, new regulations and changes in tax codes."

Earl Ward, president and CEO of Nemeon, Inc., expects to see some overall growth in the residential market this year. "The good indicators are housing starts should continue to be up due to a pent-up need and low interest rates," he said. "I do question how much they will improve. I have seen reports of over a million starts next year and 1.7 million by 2015. This will take a better economy, resolution of the fiscal cliff and banks (or government) loosening up requirements, particularly for first-time buyers."

Reed Hitchcock, executive vice president of the Asphalt Roofing Manufacturers Association (ARMA), believes the decision to go ahead on long-postponed projects will make for a solid 2013. "We are cautiously optimistic for the coming year for the roofing industry in general and asphaltic products in particular," he said. "With the dust settling from the national elections and consumers opening up their wallets a little more, we expect that a lot of people who have put off roofing projects — either repairs or replacements — will make those investments this year."

The Metal Market

Bill Hippard, president of the Metal Roofing Alliance, expects metal roofing to gain market share. "Residential metal roofing is a \$13 billion industry," he said. "Current statistics show that the U.S. has 75 million single-family homes.



Brent Fox



Earl Ward

growth in new construction low-slope roofing. Local, state and federal government money will continue to be very limited due to budget constraints and large government debt."

Brian Lambert, director of Products and Systems for The Garland Company, Inc., projects modest growth for 2013. "The economy is certainly not anywhere near full strength and there is still considerable uncertainty in many

market sectors," he said. "Public funding will continue to be tight with many states and local municipalities citing budget shortfalls. However, there are signs of improvements. Going into 2013, our current backlog is up and many of the architectural firms we work with have similar reports. In addition, there are still opportunities out there to maintain existing roofs rather than simply replace them. Keeping good roofs good during difficult economic times remains a solid business strategy."

"Residential new construction will continue to improve in 2013," said Brent Fox, vice president of National Business Development, ABC Supply Co. Inc. "Remodeling growth will remain slow due to high unemployment and the changing tax situation. There



Reed Hitchcock



Bill Hippard

Do Your Employees Know the Score? *by John DeRosa Jr.*

One of the toughest problems facing contractors in 2013 is the sluggish economy and the impending fallout resulting from the “fiscal cliff” dilemma. One suggestion I can offer business owners is to educate and give your employees an improved understanding of how your business makes money, loses money and keeps score. Sometimes the most conscientious employees have a tough time seeing past their own needs and the factors that motivate them. Even as the country braces itself for the fiscal cliff, many employees fail to look past their own paycheck to consider the bigger picture and the impact it may have on the business that pays them. As a business owner, it should be your goal to engage employees in a way that enables them to take actions that produce the desired financial results.

Years ago, when I was on the millwork side of the industry, I used to do “cost of doing business” workshops for our lumber and building material dealers. I would start the workshop by asking everyone in the organization to write on a three-by-five card the company’s net profit when it made a \$100 sale. It wasn’t uncommon for me to see \$50, \$60 or \$70 written on the cards. We would then use the workshop to provide a very pedestrian view of the income statement. Using either percentages from the business or industry averages, we would define and show how the direct job costs are subtracted from the selling price to arrive at the business’s gross profit – which is used to pay the overhead and (hopefully) leave a profit. Think of their surprise to learn that the perceived 60-70 percent net profit was actually well below 5 percent.

If you had to guess, how much profit do you think your employees think your business is making? The more important factor to consider is how their unrealistic perceptions of profit influence the way they perform their daily job functions.

- Do they take care not to lose or abuse their tools, equipment and the materials left at the end of the project?
- Are they proactively seeking to cut or control costs and minimize overtime?
- Are your salespeople doing their best to influence the prospect to buy at your price - or are they working you for the price the prospect wants to pay?

Involving them in the process will not only give employees an improved understanding of how their decisions and actions affect the overall health of the company — it will also engage them in a way that facilitates smarter decisions that produce better results. Oh, and please make sure you recognize and reward them when they produce those better results.

If you are interested in receiving an outline of the cost of doing business workshop I mentioned, feel free to drop me an e-mail at john.derosa@iko.com.

John DeRosa Jr. is Manager, Sales and Contractor Development for IKO Sales, Inc.



John DeRosa Jr.



Todd Miller



Ray Smith

struction Association (MCA), agreed. “There is a definite trend toward metal. Increasingly, property owners are realizing that their steep slope roofs incorporate a great deal of visual ‘real estate’ when it comes to their structure’s beauty. For that reason, they are investigating a wider variety of looks and products before making decisions. They are also taking a greater look into the energy efficiency of roofing systems.”

“I believe that we will continue to see advances made in the aesthetics of metal roofing, with more textured and multi-hued finishes becoming available,” he continued. “We will also see advances made toward even greater energy efficiency from metal roofing systems.”

Ray Smith, managing director, AppliCad USA Inc., pointed to metal retrofits as a market with a lot of potential. “Instead of building flat roofs, maybe jack up one end and stick a metal roof on it,” he advised. “The benefits are well documented. Flat-to-pitched conversions are a growing sector and metal roofing makes this easy and cost effective,” he said, noting that approximately 95 percent of all commercial buildings in Australia and New Zealand have a low-slope metal roof. “Perhaps it would be a good question to ask why,” he said.

Andy Kireta Jr., vice president of the Copper Development Association (CDA), pointed to the advantages of roofing with copper. “Copper continues to be a popular roofing material with builders, contractors and property owners because it offers a character and durability that no other metal roof can match,” he said. “As we’ve seen for many centuries, copper’s beauty and appearance can complement any style of building, from the traditional to the

On average, about 7 percent re-roof each year. Over 5 million new roofs are installed each year. MRA research and audience segmentation studies demonstrate that 47 percent of all households are ready to consider metal roofing. We can map the densities of metal-friendly households to hyper-target media and drive growth where it must come: in suburban applications.”

“Our data shows there are enough

people similar to existing metal roofing buyers to support 20 percent market share,” he noted. “In short, we don’t need to develop an entirely new target; we just need to get our fair share of the homeowners already in the market. Keeping all of this in mind, I think the residential metal roofing market is poised to do very well in 2013.”

Todd Miller, president of Isaiah Industries, Inc., and chair of the Metal Con-

modern. In recent years, new tools and installation methods have been introduced that aid in the quick and proper installation of copper roofs offering a long-term, economical solution. Its low life cycle costs are attributable to the low maintenance, long life and salvage value of copper.”

He noted the ductility and malleability of copper make it an easy material to form over irregular roof structures. “What also makes copper attractive is that it doesn’t require painting or finishing, unlike many other metal roofing materials,” he said. “It can achieve an elegant green patina finish through its natural weathering process or through a number of methods that can delay or accelerate the aged appearance.

Ray Rosewall, president and CEO of DaVinci Roofscapes, also forecasts further market penetration for synthetic slate and shake shingles. “At DaVinci Roofscapes, we expect to continue to grow our revenue and market share in 2013 by double digits,” he said. “More and more of our customers are opting to create a personal color blend for their projects, which we deliver at no additional cost. Savvy roofing contractors have used this as a differentiator and separate themselves in the market.”

Green Systems

A number of industry experts commented that green products and systems were here to stay and would become increasingly important in all market sectors.

“Architects, designers and homeowners continue to seek energy-saving building materials for renovations and new home construction,” said Bill Hippard of the MRA. “Homeowners are extremely interested in promoting environmental and economic sustainability in the greater community, and they’re searching for products that will provide long-term solutions for the increasing cost of energy bills.”

Advances in technology continue to make solar more promising. “The latest generation of photovoltaic panels look and act like ordinary roofing tiles or shingles,” Hippard said. “New tech-

nological advancements of thin-film solar roofing technology, allow homeowners to install a solar roofing system that doesn’t have to penetrate the roof. The panels literally peel and stick to the metal roofing system. Clean energy and sustainable building are the future.”

Bill Collins, president, William Wallace Collins, LLC, sees a change in attitudes about sustainability in contractor and consumer alike. “Solar systems and vegetative roofs with life cycle cost savings are now being sold as a standard product — not just a luxury item on the coasts where energy costs are high. Ground mount and rooftop residential solar will hit a tipping point by 2014 as the demand for distributed power is seen as essential for premier properties and as it becomes clear that regulatory hurdles, in heavily populated areas, will slow the much talked about hope for a rapid shift to fracked natural gas for many years.”

He points to other opportunities. “I see ‘low hanging fruit’ in quick pay-



Andy Kireta Jr.



Ray Rosewall

back LED lighting projects and in two hundred plus RoofPoint projects showcased by CEIR (Center for Environmental Innovation in Roofing) that demonstrate smart, durable, solar-ready roof projects.”

Brian Lambert of The Garland Company noted that the focus on energy efficiency continues to increase. “We continue to see a focus on cool roofs and energy efficiency with low slope commercial roofs. Owners are better educated today and understand the energy and environmental benefits of a properly designed cool roofing system. Industry wide, there is some pushback relative to optimum system design — relative to R-value and reflectivity based on specific geographic location. LEED

has typically taken the one-size-fits-all mentality relative to cool roofs. As the market matures, designers are more focused on real practical solutions rather than policy driven solutions. Additionally, designers are now more interested in full disclosure and transparency of what raw materials are used in various products, where are they manufactured and requiring independent data to verify environment performance claims.”

It’s the Economy

The elephant in the room is the relatively weak overall economy, which many believe will continue to hold back contractors — and force them to adapt.

“Many of the problems that contractors have wrestled with for the past several years will persist in 2013,” said Jay Bowman, senior research director, FMI Corporation. “Perhaps the most discouraging will be the stubbornly weak recovery (or lack thereof) in the U.S. economy. Exceptions will exist, although often limited to concentrated bursts of investment activity. Construction spending will mirror this pattern as well. Yet the imbalance within our industry will increasingly become its defining characteristic. The volume of mega projects (i.e., construction value greater than \$1 billion) has steadily increased over the past decade. As such, opportunities will migrate to the extremes at an accelerated rate. The ability to segment markets and identify the best clients, customers and projects to pursue will be a requirement for those contractors with visions beyond 2013.”

“Low-end markets will be soft and high-end markets robust but more competitive,” predicted Bill Collins of William Wallace Collins, LLC. “Net product volume will be up 5-7 percent in residential driven by a new construction boost, but up only 2-3 percent nationally in commercial, helped by work in the Northeast in areas hit with storms. Year-over-year-pricing looks to be flat in both arenas as new capacity is added and contemplated in insulation and shingles. Contractors: buy smart, sell hard.”

“Calendar year 2013 will be challenging based on an uncertain economy,”



Bill Collins



Tom Gernetzke

said Timothy M. Dunlap, president and COO of CentiMark Corporation, headquartered in Canonsburg, Pa.

“Changes in the tax codes, increased healthcare costs and the fiscal cliff will impact not only our business but also our customers’ businesses as well. Hurricane Sandy has created an increased demand for roofing materials. Furthermore, the roofing industry will face unique challenges associated with additional factors such as material price increases and uncertain labor costs. For CentiMark, our customer base and our market share are increasing; we are cautiously optimistic with respect to 2013.”

Tom Gernetzke, project manager with Facility Engineering, Inc. and first vice president of RCI, Inc., sees the coming year as mixed bag, much as 2012 was. “I believe first and second quarter will be slow as clients figure out what expenditures they are forced to make in 2013 and what can be deferred until 2014 or later,” he said. “I do believe there is re-roofing demand that has been accumulating for several years, but owners are in no hurry to spend money. I think new construction will improve slightly in 2013. I expect our firm to have a good year, not a great year, in 2013.”

Dr. Jim Hoff, vice president of Research for the Center for Environmental Innovation in Roofing (CEIR), pointed out that the market will continue to force contractors to adapt. “Traditionally, the roofing business has been demand-driven rather than marketing-driven,” he stated. “The majority of individuals and companies who have done well over the years in roofing rode the construction booms to success. However in 2013 we face what may be the fifth consecutive year without a major expansion in either commercial or residential construction. That means the successful roofing contractors in 2013

will have to market their way to business success and profitability once again. If I were running a contracting business in 2013, I’d be looking for ways to add new value, especially in re-roofing. I think products that offer a fairly rapid return on investment offer the best opportunities. A few winners for 2013 could be skylights, which offer a very rapid ROI especially if tied into the building lighting system. Solar thermal is also attractive, especially for commercial facilities where a relatively small solar thermal array could provide all hot water needs. In many parts of the country rainwater collection systems could also provide a solid investment opportunity.”

Chris Barrow, chief executive officer of



Dr. Jim Hoff



Chris Barrow

EagleView, pointed to diversification and increased efficiencies as keys for contractors going forward. “The trend tends to be that the contractors who are willing to focus on their core competency yet be willing to diversify within that strength are making strides in this recovery,” he said. “EagleView is also actively working with contractors who have embraced technology and have been able to create efficiencies that are driving revenue and profit. With these two trends in mind, we see a stronger 2013, especially for progressive roofing companies. The overall market continues to see construction and home remodeling rebound and the combination of new opportunity and overall improvement in



Ken Kelly



Steve Little



Dean Logan



Kent Tolley

contractors’ efficiencies, scalability and resource control lead to the potential for a very good year for the industry as a whole.”

Rick Pogue, owner and sales manager of Arrowhead Building Supply, believes the remodeling segment will see growth in 2013. “The fear and/or inability to build a brand-new home may cause a spike in remodeling activity. Homeowners who desire to do something new will probably decide to invest in their current homes via remodeling projects. Roofers should consider targeting these homeowners very heavily through well-planned marketing strategies.”

Randy Adams, president of R. Adams Roofing, Inc., assumes different regions of the country could see varying results; the one constant will be hard work. “From the perspective of the economy, I tend to believe there will be ‘regional’ success stories for roofing contractors in 2013,” he said. “The ‘recession’ experience has caused many of us to reassess our core business practices, based upon the principles of good corporate leadership, sound financial practices, and customer satisfaction. Bringing these principle centered practices together will help create opportunity in 2013. All of us will continue to work very hard in 2013 to create opportunity.”

Bob Wamboldt of Johns Manville referred to a comment by Warren Buffet during a recent interview with Matt Lauer on the “Today” show to highlight the resilience of the U.S. economy. “Matt asked about the uncertainty around investments, jobs and the outlook for 2013, and Warren stated, ‘I’m confident about the American economy over the decades to come and we’ll have ups and downs. I can’t really predict them, but one thing I’m sure of is that America is the winner.’ Let’s start 2013 on that inspiring, positive and upbeat note!”

The Defining Challenges of 2013

There is no shortage of challenges facing the roofing industry. We asked industry experts to single out key obstacles in 2013 and share their advice on surmounting them. They focused on increased competition, labor, and government regulations as the most important issues to keep an eye on this year, along with the overall economy.

“With fewer new construction projects being done, more roofing contractors are entering into the re-roofing market,” said Timothy M. Dunlap, president and COO of CentiMark Corporation. “With more contractors in the market, margins are being compressed. Today’s market requires all contractors to think in a more analytical and objective manner. We bring value to our customers by determining the remaining useful life of a roof and exploring all the ways to extend the life of the roof. Sharing this information with our customers in an easy-to-understand but thorough manner via our online proprietary applications has allowed us to separate ourselves from the competition.”

Daniel Piché, president of Mule-Hide Products Co. Inc., pointed to an upside of increased competition: “The good news is that contractors now have the ability to negotiate and sell based on value, rather than strictly on price. It will be crucial for contractors to realize this and adjust their selling tactics to this new environment.”

Piché offered this advice: “Contractors should strive to offer roofing solutions that differentiate their business.”

Sheree Bargabos, president of Owens Corning Roofing and Asphalt, agreed that differentiation was critical and pledged to help contractors succeed. “Thanks to the access to information on the Internet, homeowners are more educated than ever. The ability of contractors’ to stand apart from other contractors is critical. The leads they generate, the training they receive, the products they sell and the roofing system they install all make a difference in making more money.”

Jay Bowman, senior research director, FMI Corporation, asserted changes in the market have put added importance on business basics, often a weakness for contractors. “In my experience, easily nine out of 10 contractors do not have a value proposition or can easily articulate how they benefit their clients and customers and should therefore be selected. The most successful contractors in 2013 will be those with an accurate understanding of their clients’ and customers’ perceptions of the market and preferences.”

It’s the Economy

Most commentators acknowledged the elephant in the room: the anemic economy.

“Uncertainty is the biggest problem,” said Tom Gernetzke, project manager with Facility Engineering, Inc. and first vice president of RCI, Inc. “Until the economy as a whole regains some confidence, I don’t see much improvement. Contractors that have survived the last 4-5 years are probably already doing what they need to do. Contractors must maximize value with minimum investment by their clients and be willing to stick with them for a little

UASRC Founded to Address Concerns About Storm Work

Bill Combes is director of marketing and membership for the United Association of Storm Restoration Contractors (UASRC), a non-profit organization whose member companies provide contracting services in areas impacted by extreme weather events. According to Combes, the UASRC was founded last year in response to increased dishonesty



Bill Combes

in the storm restoration industry. The founders of the organization wanted to create a way to easily identify a quality storm restoration professional.

“The association was formed after several national storm restoration contractors came together and decided there was a need for an association that was solely focused on storm restoration and the restoration contractor,” Combes said. “Our membership consists of national, regional and state-based contractors. Most members work hail, wind and hurricanes and will travel to specific regions affected by large storms. They help homeowners affected by storms when local contractors are not fully prepared to deal with a very large increase in work in a short period of time.”

Combes noted the UASRC has several goals. “The purpose of the UASRC is to serve the common interests of storm restoration contractors in the United States; to cooperate with regulatory authorities and other interested agencies in the development of an understanding of the storm restoration industry; to improve friendly business relationships between members of the association and to promote the legitimate interests of storm restoration contractors. We help contractors create a brand whose membership is synonymous with doing the right thing. We also create a platform that quality contractors can use to help preserve our business model. We use the combined influence of our members to create positive change on the local and state regulatory stage. In addition, contractor members can differentiate themselves from the standard roof contractor and traveling contractors that do not have the same set of ethical standards.”

For those looking for more information about the UASRC, Combes pointed to several sources. “Our consumer facing website is located at www.uasrc.org. We also have a Facebook presence at www.facebook.com/uasrc Companies that are interested in membership information can contact us at 888-988-2772 or info@uasrc.org.”



Timothy M. Dunlap



Rick Pogue

while longer. I also believe the typical marketing cycle for many projects will need to be extended from a period of months to a period of years.”

He noted that one way contractors could distinguish themselves — and obtain more business — was by earning a Registered Roof Observer designation from RCI. “More specifications are requiring more detailed, documented contractor quality control programs. Preparing for the RRO examination can give contractors more tools to develop and implement these programs,” he said.

John McLaughlin, president of Exterior Products, Allied Building Products, urged contractors to brace for inflation. “The challenges I foresee are managing bidding in the face of probable product inflation and planning properly to handle tighter supplies,” he said. “A proactive approach will be crucial to success in 2013. The industry will undoubtedly face inflation and based on the recent demand, we could see it across all product groups. The aftermath of Hurricane Sandy combined with an upswing in demand could create a tighter supply.”

Anthony Botiglione, owner and president, Anthony’s Roofing Corp in Bohemia, N.Y., pointed to cost increases as his top concern. “The failed economy has not halted the continuing rise of material costs, making it more difficult to sign jobs as people just can’t afford the prices,” he said. “Most of us contractors (even with our awards and affiliations) have had to reduce labor costs to compensate.”

“With the U.S. entering a period of resource scarcity from energy to raw materials, to qualified labor to credit, assured availability of high-quality supply will trump higher costs for growing companies,” said Bill Collins, president of William Wallace Collins, LLC. “Contractors need alliances that give them both assurance of timely resources and early insight to anticipate choke points.”

Rick Davis, president of Building Leaders, Inc. cautioned contractors to watch spending. “I expect that cash flow is going to be the main problem,” he said. “If demand swings wildly, then managing labor and money will be critical to the success of any roofing contractor. I recommend diversification. If you’re a residential roofer, get into other products (siding, windows) or other markets (i.e., low slope).”

Labor Force

“As an industry our toughest problem is recruiting qualified people, particularly field workers,” said Randy Adams, president, R. Adams Roofing, Inc. “Our work is conducted outside, through all the seasonal changes and temperature extremes, making it difficult to attract younger work-



Jay Bowman



John McLaughlin

ers entering the workforce. Although our industry uses some sophisticated technologies applying single-ply membranes, we are perceived as a lower skilled segment of the construction workforce. As an industry, we need to get the word out through trade schools, engineering programs, business schools, and our local communities about the opportunity that is available for individuals entering the roofing field.”

Monroe Porter, president of PROOF Management Consultants and the founder of PROSULT Networking Groups, pointed to other key labor concerns. “Immigrant and subcontractor legality issues have made labor issues even more of a quagmire for many roofing contractors,” he said. “In the residential marketplace, more and more contractors are using 1099 sub crews which are in reality employees according to the IRS rules and regulations. Such practices seem to vary state by state, but contractors who face audits and fail to comply can find themselves fined out of business. We are also seeing a number of states aggressively

pursue subcontractor, wage and hour guidelines and workers compensation infractions as a way to generate revenue. Our advice is to cross your t’s and dot your i’s to ensure you have an appropriate paperwork trail.”

A company’s success hinges on the quality of its employees, noted Aaron Beiler, president and owner of New Heights LLC, manufacturer of the Equipter. “Homeowners are becoming more aware of the necessity and the benefits of seeking out a company that is trustworthy,” he said. “The companies that will succeed will be those that are able to build their company around a team of employees that are known for their integrity, honesty, and willingness to put in a hard day’s work.”

Chris Barrow, chief executive officer of EagleView, urged contractors to take advantage of new technology to increase efficiencies. “Finding ways to attract a good labor force can be influenced through the use of technical tools that make their jobs easier while providing the ability to get more done with fewer employees,” he said. “We continue to see new innovations in project management, customer portals and improved estimating platforms that are providing the necessary differentiation for the contractors.”

Dean Logan, CEO of Labor Sync, also sounded the theme of using technology to streamline processes and procedures, including monitoring, payroll and billing. “Most roofing contractors use some version of time sheets or punch clocks at the jobsite. We then pay another employee to gather that information, make the proper calculations and cut the checks. It’s a system fraught with errors and misrepresentation from the punch clock not working, improper coding, typos, etc. It’s a risky system and needs a better solution.”



Anthony Botiglione



Rick Davis

2013 Roofing Industry – Trending Steady *by Timothy Worms*

The purpose of this article is to summarize my view of the state of the roofing industry in 2013 through a focus on challenges, positives and, most importantly, how to “win” in the expected tough environment. Clearly, many factors affect annual roofing demand, admittedly most of which are not within our control. While housing in general is making a welcome comeback, I believe the roofing industry will continue along in a lackluster fashion.

There are four overarching challenges for the roofing industry in 2013:

1. Taxes are going to increase for individuals and businesses. Absent substantive spending cuts and entitlement reform, the increased revenues will do nothing to address the burgeoning debt.
2. The U.S. Bureau of Economic Analysis forecasts GDP growth in the United States at a meager 1.7 percent; Western Europe will be flat; Asia 4 percent and globally 2.2 percent.
3. Consumer spending will increase by less than 2 percent, according to the U.S. Bureau of Economic Analysis, not even offsetting the 2 percent CPI increase anticipated for next year.
4. New home construction is expected to represent a mere 12 percent of the roofing segment, leaving 88 percent to re-roofing. Single family housing starts peaked in 2005 at 1.7 million units and troughed at 431,000 in 2011, according to the U.S. Bureau of the Census. The segment is in the midst of an upturn, and I estimate it will reach an estimated 530,000 units in 2012 and 640,000 in 2013. Total single family and multi-family starts will exceed one million units for the first time since 2007. Every 100,000 housing starts equates to approximately three million new squares of roofing. A directional positive no doubt, but not the ultimate growth engine desired by the industry.

There are some meaningful and clear positives looking forward from which we can take heart. One deals with a more favorable home inventory level and strengthening pricing. Single family starts and home price increases are being assisted by the lowest single family new and existing home inventory level in over 30 years. As a result of the tighter inventory, new construction is taking share from existing home inventory for the first time since 2005. REO for sale existing home listings are only 7 percent of all listings. Although there will always be distressed homes for sale, the inventory of such homes is on the decrease. Furthermore, the rate at which the distressed homes are coming available has been artificially delayed by the prolonged foreclosure process in the “judicial states,” where 70 percent of the distressed homes are located. This has the negative impact of prolonging the inevitable foreclosure, but it also minimizes price erosion for non-distressed homes.

Another positive for the roofing industry is that residential investment in 2012 increased by 15 percent (U.S. Bureau of the Census). This is expected to continue through 2015 as homeowners complete long overdue improvements and upgrades. Good news for our industry. New residential investment is generally considered a solid leading indicator for non-residential building construction.

There is always the weather factor. Weather played a tremendous role in the demand for 2011. Not so much in 2012. Certainly Hurricane Sandy will have some impact, but most likely relatively minor. Weather events as measured by the NOAA are down 33 percent from 2011. Recent history shows extraordinary weather events could have no impact on industry incremental demand to as much as 30 million squares. In light of the relatively low level of overall industry demand, it would appear the industry is certainly capable of servicing even an extreme level of weather related demand.

Absent extraordinary weather, I expect flat year-over-year revenues for 2013. This means individual shingle producers will be working to increase market share in a no- or at best slow-growth environment. Winners will need to employ true customer-based marketing and product innovations as never before. Relying on expanded warranties or marketing sleight of hand will not suffice. I believe that stronger OEMs will need both to leverage and strengthen their brands to capture market share. Why? Brands drive differentiation. Brands are an asset and have equity. Brand strategy managed in tandem with sound business strategy and superior customer service signals success.

Timothy Worms is National Accounts & Marketing Manager for 3M Industrial Mineral Products Division.



Timothy Worms

Regulation and Legislation

“With the 2012 elections over, be aware of the next wave of codes, regulations, rules and taxes that will impact all businesses,” said Kent Tolley, vice president of Quality Tile Roofing. “Many of the Federal Agencies for political reasons have waited to publish and implement new regulations. The International Green code is completed and has been adopted by many cities and states. The Occupational Safety and Health Administration (OSHA) on March 15, 2013 will begin enforcement of the new residential Fall Protection rules. The Department of Labor has several proposed rules that would impact an employer’s ability to communicate with their employees. There will be new regulations impacting employers Health Care decisions as the new Affordable Care Act (ACA) moves forward to implement the new law.”

The key to overcoming these challenges is education, noted Tolley. “Get training, find good consultants and the best advice available to you,” he advised. “Once informed, train your



Randy Adams



Monroe Porter



Aaron Beiler

employees. I am positive there will be a return of prosperous times for the roofing industry. Look for ways to increase the professionalism of your business, be fair to your employees and prepare for the good times when they do return.”

Dr. Jim Hoff, vice president of Research for the Center for Environmental Innovation in Roofing (CEIR), also emphasized the importance of keeping up to date with changes. “Fortunately, a number of groups have stepped up to the plate, especially as new code changes are proliferating so rapidly. Mark Graham of NRCA has done a good job of relaying critical information about the new International Green Construction

Code (IgCC) to industry stakeholders, and Reed Hitchcock of ARMA has worked very hard to build an industry-wide coalition to engage in the always-changing California Energy Code process. Hopefully, the Center has also made a contribution in keeping the industry informed about new provisions in LEED and other green rating systems in addition to building a strong case for the industry’s own RoofPoint program.”

“The industry will become further divided by those companies that follow the new regulations and those that don’t,” said Ken Kelly, president of Kelly Roofing. “The disparity of costs between the two groups will result in a wide range of pricing to the consumer, driving the higher-cost companies out of business. The only way to compete is to drive overall costs down through efficiency — labor efficiency being the number one area to concentrate on. Running a smaller, leaner company with less than 50 employees and a ratio of one office, sales, manager or administrator to every seven field workers is key to survival.”

Steve Little, president of KPost Company, summed up the general frustration with government this way: “Workforce availability, Obamacare and immigration — pray to a greater being, as the politicians having proven that are incapable of resolving anything that doesn’t affect them personally.”

Monroe Porter of PROOF Management Consultants urged contractors to look internally at what they could control rather than focusing on outside factors beyond their control. “You must focus on your business and what you can do to be successful,” he concluded. “The roaring boom of the 90s and the early 2000s is over, but you can do just fine if you put your mind to it. Owning and running a small business is one of the few economic opportunities you can control.” 

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