Retrofit Contractor
“Start-Up” Kit

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NAHBRC Business “Start-up” Kit

- **Goal:** Sustainable Energy Retrofit Industry
- **Address:** Business management, deployment, risk management, motivation, potential growth, profit
- **Need:** resources to successfully provide energy upgrades to their customers
Multi-Year Business “Start-Up” Kit
Research

- Residential Remodelers Gaps & Tools
  - Focus Groups – Round 1: General Remodeling Industry
  - Focus Groups – Round 2: Gaps, Barriers, & Tools
  - Quantitative Market Research

- Home Owners Gaps & Tools

- Develop Energy Performance Remodeling Start-Up Guidelines, Tools, and Central Information Resources
Objectives and Methodology

**Focus Groups – Round 1**

- **Specific objectives were to:**
  - Understand how the remodeling business works
  - Assess energy efficiency upgrades/retrofits
  - Identify positioning and selling tools for energy efficient upgrades

- **Discussions among remodelers, general contractors, & custom builders**

- **2011 International Builders Show.**
  - Group 1 = regularly install energy efficient upgrades
  - Group 2 = frequently install energy efficient upgrades
  - Group 3 = occasionally install energy efficient upgrades

Energy efficient upgrades screened for:
- Appliances
- Windows
- Insulation
- HVAC
- Solar panels
- Other
The economy and decline in new home construction have impacted the remodeling business in numerous ways.

Remodelers/builders are faced with a number of challenges and must find ways to differentiate and demonstrate the value they bring to the consumer.
Understanding the Remodeling Business

There are varying degrees of perceived potential, and subsequent emphasis on remodeling among the builders.

Primary focus
- See great business potential in remodeling
- Have had success
- Many tend to position on green building practices

Increased %; may even exceed new construction
- Will do variety of projects - whatever available
- Exploring potential in remodeling; searching for ways to differentiate themselves

Smaller percentage of business
- Have more diverse new construction business mix
- Tend to be more selective in remodel projects
- Apply new construction business philosophy to remodels (e.g. “this is the way we build”)

A larger builder created a whole separate division focused on remodeling, and on doing it from a green or energy efficiency perspective.
Remodelers/builders approach energy efficient upgrades with different philosophies and practices

“**This is the way we build**”
Believe energy efficient upgrades are part of “doing things the right way”; incorporate as part of their business model
Have certain upgrades that include as standard part of process, if warranted
Approach as “this is what we’re going to do” then educate consumer as to why they do it

“**My responsibility to recommend**”
Believe energy efficient upgrades are in customer’s best interest and actively seek opportunities to recommend upgrades
Seek to guide consumers as to benefits; try to drive them toward it
May recommend upfront, but most often wait until have gotten a feel for the house and customer

“**We’ll offer as an option**”
Intellectually know it should be recommended, but don’t have strength of conviction
View more as a consumer driven decision; give them information then let them decide
Anticipate consumer bottom line focus

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Remodeler/builder in control, benefit focus

Tend to be higher end remodeler/custom builders

Consumer in control, cost focus
Remodelers/builders acknowledge that consumers fall into different buckets in respect to energy efficient upgrades

- There were somewhat varying perspectives in terms of how the remodelers/builders bucket the consumers (i.e. benefits sought, lifestyle, mindset regarding remodel, etc.) however, no matter the criteria, consumers generally fall into one of three categories regarding energy efficiency.

**Types of Clues Used to Identify**
- What they do for a living
- Age
- Current lifestyle and habits
- What they are seeking from their home
- How long they intend to stay in the home
- Reason for remodel
Many of the tools for success that remodelers/builders felt were needed centered around consumer education

- Most all agreed that a brief educational piece that educates consumers about how to think about the house and about energy efficiency would be of value
  
  “But it’s a double-edged sword. If the customer goes to a website and gets educated, you start to devalue yourself and what you bring to the table in terms of knowledge and experience, and then it just becomes all about price.” (Remodeler, NJ)

- A few saw value in resource tools that the remodelers/builders could customize for their own use in educating customers

Remodelers/builders consider consumer education to be a key factor in being able to implement more energy efficient upgrades. Education needed:

- What contributes to energy efficiency and to inefficiency
- Benefits that can be gained from the different types of upgrades
- What they should be looking for in a remodeler, and what they should expect from the remodeler
- How to understand the “payback” that can be gained from energy efficiency upgrades
Conclusions

- The slowdown in new construction and economic climate has shifted greater to focus to existing homes and to remodeling.

- Qualified remodelers and builders strive to differentiate themselves based on experience, knowledge and customer service, in addition to quality building practices.

- Information sources that remodelers/builders could use to demonstrate ROI or provide a cost/benefit analysis for energy efficient upgrades would be valued.

- Finally, educating remodelers/builders themselves as to best practices and approaches and help to motivate.
Objectives and Methodology

Focus Groups – Round 1

- **Specific objectives were to:**
  - Build on previous qualitative research
  - Identify tools that could benefit contractors/builders in positioning and selling energy efficient upgrades to homeowner

- **Two focus group discussions were conducted among large/small remodelers (based on # jobs/yr & cost of jobs)**
  - Group 1 = larger remodeling companies
  - Group 2 = smaller remodeling companies
  - Respondents regularly incorporate a variety of energy efficient upgrades
This research confirmed much of what was learned during the Phase I qualitative research conducting in January 2011

Competitive market climate
- Limited dollars for projects; consumers scrutinize dollars carefully; energy efficient upgrades usually not a priority
- Unprofessional individuals muddy the market, undercut on price

Approach to energy efficient upgrades
- Identify opportunities once involved in the project; energy efficient upgrades not the impetus for projects
- Listen for cues from homeowner
- Approaches rooted in overall business philosophy
- Prefer advising/recommending vs. “selling”
- Desire to be perceived as the knowledgeable professional, to build trust and confidence

Perspective of growth opportunity
- Believe there is potential for growth
- Struggle to identify “tools” that could help them
- Major deterrents to growth are: education/perceived value, appraisals, financing
Homeowners must recognize that there is a “problem” before they can see value in the energy efficient upgrade solution

- Asking key questions can identify needs/opportunities and help set up solutions

<table>
<thead>
<tr>
<th>Qualifying Questions</th>
<th>Problem Identification Questions</th>
<th>Solution Set-up Questions</th>
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<tbody>
<tr>
<td>• How old is the house?</td>
<td>• How much are you spending on utilities?</td>
<td>• Did you know that… (explain where inefficiencies are and how efficiency could be improved; make aware of any rebates or incentives)</td>
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<tr>
<td>• How long do you plan to live here?</td>
<td>• Do you notice any hot or cold spots? Do you notice drafts?</td>
<td>• Have you ever considered…</td>
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<tr>
<td>• What are your goals for this project?</td>
<td>• How old is your furnace/air conditioner?</td>
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<tr>
<td>• When was the last time you added blown insulation to your attic?</td>
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- If the homeowner is not planning on staying in the house more than 3-5 years, they typically won’t invest in energy efficient upgrades because they don’t add appraisal value
- Older people are becoming more receptive and recognize benefits (financial, comfort); tend to plan to stay in their homes longer

“If you can get them to recognize a problem, you can sell them a solution. But if they don’t recognize the problem, it’s very difficult because you are not solving any issue they have” – MN Remodeler
Ingredients to successful approaches: establish the need, educate as to solutions

**Incorporate a discovery process**
- Ask questions
- Listen for hot buttons

**Use a consultative/educational approach**
- Provide factual information
- Recommend an energy audit; blower door tests (3rd party legitimizes need, validates)
- Identify problems and solutions

**Connect the dots/translate into something meaningful**
- Position solutions in terms of benefits meaningful to homeowner (e.g. comfort, lower energy bills, more predictable bills, more cost effective to upgrade now, better indoor air quality, etc.)

**Use numbers with caution**
- Use numbers to educate/inform, not promise
- Create realistic expectations; advise as to how to maximize potential

The spray foam and propane industries were cited as having done a good job at educating and connecting the dots.
Challenges

A number of factors make it challenging to implement energy efficient upgrades in more existing homes

**Nature of remodels**
- Every project is different so difficult to implement a standard approach
- Typically focusing on one area of the home, not the whole house; difficult to gain maximum benefit of energy efficiency
- Goal of project is almost always something other than energy efficient upgrades

**Homeowner mindset**
- Often don’t see the need or value
- Focus is on “their project”/why they called the contractor; difficult to get them to think about other areas of the house (not interested, seems like adding on expense)
- Aesthetic upgrades/renovations are exciting and can be shown off, but energy efficient upgrades don’t provide the “wow” factor

**Cost**
- Typically an out-of-pocket expense for homeowner; prefer to allocate budget to “seen” upgrades; energy efficient upgrades often first to get cut from budget
- Many homeowners don’t want to pay for blower door tests
- **Do not get appraisal value for energy efficient upgrades**
- Often can’t get loans or credits to do the upgrades
- Upfront cost can be greater than savings (i.e. no financial ROI)
- If gas/electric prices are inexpensive, homeowners won’t “feel the pain” and be motivated to upgrade

**Lack of education**
- Homeowners often don’t perceive a problem and therefore do not understand benefits
- Homeowners tend to perceive as an expense rather than as an investment
- Appraisers don’t understand how to value upgrades
- Realtors need to be educated to help potential buyers understand the value

Sends a signal that it is not important
Remodelers believe three fundamental things are needed to stimulate widespread growth of energy efficient upgrades:

- The bottom line is that energy efficiency needs to be tied into the perceived “value” of the home so that improved energy efficiency is recognized as a value-add.

**Enable/Equip Homeowners**
- Free energy audit
- Subsidized blower door testing
- Reduced loan rates/mortgage rates

**Appraiser and Realtor Education**
- Establish energy efficiency as adding value to the home
- Educate as to how to interpret and compare energy performance ratings of homes

**Establish an Energy Performance Rating System**
- Standard, quantifiable measurement
- Provides consistent method of evaluation, comparison

**Necessary to create market demand to drive energy efficient upgrades**
Encouragement of energy efficient upgrades is needed at multiple levels from multiple entities.
Tools that would benefit remodelers largely involve homeowner education

- **Homeowners need to be conditioned to think of increasing their home’s energy efficiency as an investment rather than a cost**
  - Simple, straightforward information that enlightens homeowners as to where/how inefficiencies occur, and what the resulting implications are
  - Communicate benefits to homeowner of increasing energy efficiency
  - Perhaps position as “improvements” (implies beneficial gains) rather than “upgrades” (often associated with “more expensive”)

- **Interactive resources such as software or a website that could project potential energy savings based on different types of improvements would be beneficial**
  - While some remodelers would want to use the tool themselves to demonstrate potential to homeowners, others would prefer resources that they could simply recommend to the homeowner to use on their own

- **Providing third party/independent information is considered important in order to add credibility**
  - Articles and information/facts from industry magazines, research institutions, Department of Energy
  - Region-specific information from state or local government, utility companies
  - Website sponsored by a credible, respected entity (e.g. Department of Energy, NAHB, Building Performance Institute)
  - Being able to recommend certified energy auditors
  - Having simple “Did you know?” materials that remodelers could provide to homeowners. Information should come from an independent source. Should be available in a variety of formats – printed, DVD, USB drive
Referral programs would be beneficial to remodelers

- Helping remodelers to establish relationships with energy auditors, utility companies, appraisers, lending institutions and other entities would be beneficial
  - Auditors, lenders, etc. can refer remodelers when upgrades are needed
  - Some remodelers do not want to take the time or do not feel comfortable trying to educate homeowners as to the need; therefore, this scenario enables them to stay focused on executing the solution
  - This will be particularly beneficial if an energy ratings system is implemented and energy audits become standard

  "We’ve partnered with an energy audit company and they’ve printed a tri-fold brochure that our estimators take out, typically to houses built before a certain date….We don’t have anything to do with [the audit], the homeowner calls them directly. We’ve gotten about 5 6 jobs from them. They go out and do the audit, then the people call us to come do the work. The energy audit company goes in and tells the homeowner what they need. I don’t want to go in and tell them they need more insulation because I really don’t know, so this works out well.” IA Remodeler

- However, many of the remodelers were not keen on the idea of having a certified remodeler program for energy efficient upgrades
  - Too many certifications already
  - Do not believe most homeowners understand or really care about certifications
  - A certification program may carry too many regulations/requirements
Most believe in growth potential for energy efficient upgrades; however, long-term success requires market driven upgrades.

Barriers include perceived value, limited scope of the remodeling project, and costs.

Homeowners need to perceive a “reason why” they should invest in the upgrades.

Remodelers don’t want to come across as “selling” but rather as recommending solutions that will benefit the homeowner.

Most remodelers agreed that the most beneficial things for stimulating growth of energy efficient upgrades would include:

- Development of a nationwide rating system for existing homes
- Establishing appraisal value for energy efficient upgrades
- Realtor education as to value energy efficient upgrades bring, and how to sell the features
- Financing of energy efficient upgrades

For remodelers, the following “tools” would be of value:

- Resources to shift consumer thinking, increase understanding of problems, understand benefits, etc.
- Resources to increase awareness and understanding of the value of energy efficient upgrades
- Free/low cost energy audits for homeowners
- Key questions to ask in order to identify opportunities, position benefits to homeowners
- Means of quantifying impact of energy efficient upgrades (e.g. pre/post testing, energy savings calculators, etc.)
- Connecting remodelers with energy auditors so they can develop a referral network
Next Steps

- **2011 Research – Remodelers**
  - First set of remodeler focus groups
  - Second set of remodeler focus groups
  - Qualitative remodeler research from focus groups

- **2012 Research - Homeowners**
  - First set of homeowner focus groups
  - Second set of homeowner focus groups
  - Qualitative homeowner research from focus groups
Questions?
Thank You!

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