

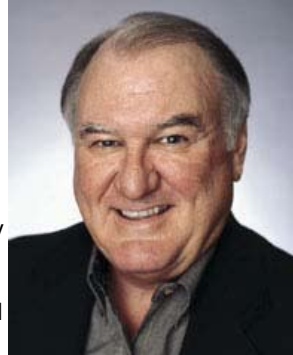
Selling Green Remodeling

Tom Swartz, Contributing Editor -- 9/1/2007

In these days of energy-efficiency and sustainability, what does it take to sell green to an uninformed customer?

Tom: Tom, tell me, when I talk about green building and remodeling, how would you define or describe green remodeling?

Tom K.: I would describe that as simply incorporating into our design and construction processes an emphasis on sustainability and thinking about the environment in every choice that we make. It starts with when we're designing an addition on someone's house — considering how that relates to the sun, and how we design the windows to provide daylighting design, and how we choose all the materials for their energy efficiency. This includes how we design the HVAC system and how we look at each selection of materials to try to provide the most environmentally sensitive products.



Tom Swartz
Contributing Editor

Tom: Michael, tell us about how you look at green remodeling.

Michael:

We look at the use of products, materials, construction methodologies and design considerations that produce a healthy home that requires lower maintenance, less operating costs, is more energy-efficient and has a reduced impact on the environment.

Tom: A healthy home: you're saying it's more maintenance-free?

Michael: Yes.

Tom: Why?

Michael:

Depending on the products and materials in your design considerations. For example, down here in the South we're in a hot, humid climate. We get in excess of 70 inches of rain a year. A home that has properly designed overhangs or soffits on the outside of the house — 12 inches or larger — is going to require less maintenance than a home that has no soffits at all, and you just have a brick frieze on it. I tell people that if I ever get reincarnated, I don't want to be reincarnated on a contemporary home in Houston as a brick because you're just going to get beat up. Those homes just get beat up when they don't have the appropriate design features that protect them from rain. We see it all the time on homes where the soffits are too shallow and the siding rots out. More maintenance is required because the water splashes up against it. That's one design detail that can make a difference in lowering the maintenance requirements over the life of a home.

Tom:

OK. Michael, do you actively pursue green remodeling projects through your marketing and, if so, are most of your customers in Houston aware of what green means?



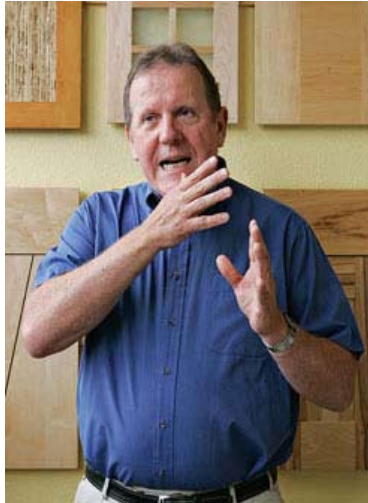
Michael: Yes. We actively pursue them through our remodeling. We do that in two ways. We do it through our professional partners' database and the communication plan we have with them. Those professional partners include fellow remodelers and builders. Most of the remodelers and builders down here don't want to touch it with a 10-foot pole. So, if they've got someone reliable that they can pass a perspective client off to, we want them to know we'd be more than happy to take that off their hands. We also spend a great deal of time networking with architects and interior designers. We find that the design community, as a whole, and in particular the

interior designers and architects, are way out in front of the builders on this stuff. We let them know as well that we do green and we've got green credentials. And, through active involvement in our local USGBC chapter — that's how we reach our professional partners down here. The only direct marketing that we do to consumers in regard to green is our existing client database. We're trying to get out there through our circle of influence and get them to influence other people. The market, at least here in Houston from a consumer's perspective, is still completely dominated by "tire kickers." There is an awareness of green, but most people don't have a very good understanding of the fundamental options, opportunities, challenges and costs. You're not getting a very qualified database if you just run the flag up the pole and say, "We do green! Are you inter-ested?" Most people say, "Sure."

Tom:

The concept isn't there. Tom, how about in Portland, which they say is the cleanest place in the world. Do you actively pursue green remodeling projects? And how do you do it?

Tom K.: In our market, sustainability, green and environmental consciousness is at a higher level in the consumer community than you'd find in other parts of the country. We've been involved for a long time; we actually did a solar demonstration house back in 1979! We didn't call it sustainability or green in those days. We really started focusing on these issues about 10 years ago in the mid-90s. We kind of approach it on a branding basis. When we talk about green construction, we're also looking at how we operate our business, in all of the things we do. We have a delivery truck that runs on bio-diesel. We try to have every decision we make about how we run our business take into consideration environmental issues. In the '90s our cabinet manufacturing company developed the first Forest Stewardship Council-certified cabinet product in the country. A new showroom that we built in 2000 was the first LEED-certified commercial building on the west coast. We built the first LEED-certified single-family residence on the West Coast. We've been sort of pioneers in the green-thing for a long time.



Tom Kelly
Neil Kelly Company

Tom: What about the consumers, Tom, in Portland? Do you make your customers aware, or do they call?

Tom K.:

Both. By osmosis. When you come into our showrooms; you're going to see a lot of green products. There is a high level of consciousness in the company. People who don't care about green are going to get some green influences on their project. At the same time, because we're known as a company that has been building green for a long time, we get a fair amount of people who come to us specifically because of that reputation. It's not like every customer we get comes to us because of that. I would say a person to whom that's a high priority is maybe 1 in 10. Not everyone in Portland is coming to us because we're a green remodeler. But with those where green is really important, we're getting that piece of the market.

Tom: Ten years ago you would have 1 in 50 or 1 in 100.

Tom K.: Yes, 10 years ago, 1 in 50 might be accurate. We haven't done any surveys.

Tom:

Let me follow up on that. Do you use the word green when selling green attributes on the job? Or do you use words like energy-efficient, environmentally friendly or sustainability. I would say some people around here, if we used green, they wouldn't even have a concept. So it's not an easy thing to grab.

Tom K.:

We use all those words and phrases. Probably the one that we use the most is simply "environmental efforts" and that sort of thing. We're working on developing a sub-brand for our green efforts. It's going to be something like, "Neil Kelly Eco-Efforts," something along those lines. We haven't quite crystallized that yet.

Tom:

Michael, in Houston, do you point out the green attributes of the job? Or do you use

different names?

Michael:

Since the summer of last year, we've had 11 people call us and say they wanted to do a green remodel.

Tom: Eleven — you tracked that?

Michael:

Yes. That's huge, we've never had that before. It's huge because this is not the cleanest city in America; this is the oil capital of the world! When it happens here, it's happening. When we get a client that is open-minded, wants to do a green remodel and heard we're the company to call, the first thing we ask is "What do you mean by green?" We get their definition of green, and then we look at that view from 30,000 feet, talk about different aspects of it, whether it's sustainable remodeling, high-performance, low-maintenance, energy-efficient, etc. If we bring the subject of green up, we have to approach it very carefully. We've found that people get very defensive, both consumers as well as our competitors. You say you're green down here and it gives people a reason to kick you in the shins! They almost feel guilty because they don't know about it or because they haven't been concerned about it. It's like the person who doesn't do recycling. They know in the back of their head that they should have been doing this all along. They feel kind of resentful that you put your recycling can out there every week. If we're introducing green for the first time, we don't throw that term out there. We mention, "We've noticed you've got kids in the home and don't know if you're aware of this, but we use Sherwin Williams Harmony paint. It's a paint that doesn't have volatile organic compounds in it." We mention the reason we use the paint. We try to introduce the baseline specifications one at a time — let them know what they're getting with us. People are smart down here; this is a business town. People will say, "Oh, I've heard something about that on the news. Is that green?" That opens the discussion. We walk pretty softly.

Tom: That's great: this is good stuff.

Michael:

In the sales process, you want to ask a client whether or not they want help with financing. It's another question in the initial visit with the client. "Do you happen to be interested in green construction?" If they say no, you move on. If they express an interest, you explore that.

Tom:

Me responding with "I'm not exactly sure what green is," even though most people don't want to admit that. You're saying that's when you take it and move that on to where they do understand. To some people it's like you're a sissy if you do this stuff.

Michael: Like if you show up in a Prius instead of a pickup truck!

Tom:

Yes, interesting. Tom, when you sell green projects, which green "element" I'm going to call them — in other words energy-efficient, sustainability, etc. — is the easiest to sell?

Tom K.:

The easiest to sell are the greener things where you can clearly articulate a financial rationalization and pay back.

Tom: Like what?

Tom K.:

If you're involved in putting in a complete new HVAC system in a house, you can show a reasonable payback on their investment. Let's say it's a seven or eight-year payback on their investment in a highly efficient heating system, that's probably where you're going to find the most receptivity. You mentioned low-VOC paints. Almost all consumers will respond positively to that, as long as they're comfortable that the paints are going to be durable, etc. It ends up being a point-by-point. Is a countertop with more green aspects to it going to be something you'd be excited about?

Tom: What's the easiest sell for you, Michael?

Michael:

The easiest sell for me are things which require no sacrifice on behalf of the consumer. If you try to sell someone on a water-efficient shower and they're dropping \$60,000 on their master bathroom remodel, you're going to be out on the street before you can say, "thank you for your

time." We've learned a long time ago that people are willing to make sacrifices for healthy items like improve their infiltration and HVAC system, a quality VOC-free paint, formaldehyde-free plywood, etc. But, if they have to make a sacrifice that includes reduced water pressure in the master shower, they're not going to do that. We've found that's where you separate the wheat from the chaff.

Tom: They will not make that sacrifice.

Michael:

They will not. They will do everything else but give up that rain shower and the shower jets coming out of the wall. They will not give up the "status" of granite in the kitchen in Houston, Texas. That stuff could be toxic and they want it! There are just certain things. They are putting that sub-zero refrigerator in if it uses more gas than the Hummer that they're driving. There's an ego sacrifice involved, and you just don't go there!

Tom:

You're saying that the easiest sell is one that requires no sacrifice by the consumer. That's a great way of saying it. What's the toughest?

Michael:

The toughest one to sell? I would say anything that would involve "project-creep" outside the immediate scope of work is the challenge when you're doing green remodeling. It's really difficult when you've got a client with a good budget and realistic time frame. They want to do some cool things. Let's say you've got someone who's going to gut their kitchen and, notwithstanding the cost of their appliances, they have a budget of \$125,000. Down here in Houston that's a lot of money, and you can get a lot for that. You're excited about that project but you want to say, "Can't we go up in the attic? You don't have a radium barrier in your attic, your ventilation ratios aren't appropriate, you need more insulation." They think you're talking about project creep, and you're trying to get into them for more than the \$125,000 and you're not. Get this kitchen back to \$115,000 and spend the \$10,000 on a very efficient healthy attic system for yourself. You can tell I get real excited about this stuff, but the client will say, "Let's stay in the kitchen." It's really tough when you're suggesting something that involves a project-creep beyond that immediate geographic scope of work. You've got to be delicate in introducing anything like changing the windows in the house or water delivery system, water heating system. People think you're doing the salesman routine and that you're just trying to jack up the scope of work. You want to tell someone, "Let's get your priorities straight. Let's work on the fundamentals and come back next year and do the kitchen." They don't want to go there.

the discussion continues...

Tom:

Tom, is there anything that sticks in your mind that might be the toughest sales for your salespeople when it comes to green and selling of green remodeling?

Tom K.:

Anything that costs a lot more. A good example is sometimes when you're trying to include Forest Stewardship Council-certified hardwood in the cabinets, and the premium for that is 20 percent. Sometimes it's a real volatile marketplace, so the premiums vary. But when the premium is high, even the greenest folks start to back off. That's probably the largest objection we've run into in green, cost. I want to really be clear on that. So many things can be done that are green that cost, in some cases, less, in others, about the same. The low-VOC paints are a good example because they cost a bit more but, in the scheme of a project, it's a real nominal amount. In a kitchen remodel, you might be spending \$75 extra to have a really good quality low-VOC, no-VOC paint. Does that make sense?

Tom: Yes, it sure does. What's your sales approach regarding these difficult-to-sell green elements?

Tom K.:

Our approach to those things is that we like to provide our clients options and let them decide. That's important. We believe that providing options is going to eliminate the need for a client to be pursuing options with others. In all facets of selling remodeling, you want to be able to provide the greatest amount of choices which will satisfy what they want so they don't have to go elsewhere.

Tom:

Michael, can you add to that? What do you do when you know heart-of-heart that it's the right thing to do, but your client says, "Nobody's worried about the environment;

I'm not either!" and you just go on. How do you get into the sales approach for green elements?

Michael:

I hate to copy Tom, but he's right on. You've got to provide options. If there's anything about this environment and remodeling green, it's not saying, "OK, here's your kitchen remodel, these are the specs and it's \$150,000." Those days are gone in remodeling. Today's homeowners want to be part of the decision-making process on how the money is going to be spent. You've got to be objective. In Tom's market for Neil Kelly, they can talk about the great cabinets they've got. Down here, there isn't that awareness, and there isn't the availability. We've got to talk to the client about the pros and cons of whatever decision they're making. We show them our expertise, give them our recommendations and sit back. It's their money, they've got to figure out how they want to spend it.

Tom:

Let's talk about costs for just a minute. Michael, my perception when talking to both of you — I have to say that I admire both of you — is that I've got to put green remodeling on our agenda, and start paying a little more attention to it. We are, but we don't say we are. Let's talk about cost. My perception also is that the elements of energy-efficient and sustainable-energy environment and things of that nature would cost more than "just a little bit more." Michael, talk about the cost as far as what you're experiencing from a consumer standpoint when you say, "Does it cost more?"

Michael:

I don't think there is a more frustrating question to deal with than, "How much more does green remodeling and green construction cost?" It's like we all drove cars without seatbelts and air conditioning. Now, people want to know how much a safer, more comfortable car costs. We look at the people like that's really not the question. How can you drive a car without a seatbelt or air conditioning? Compared to what? There is no comparison. How could anyone be satisfied with a 13-SEER air conditioning system that has a 99-cent filter in it? In that respect, the option of upgrading to a 16-SEER and putting a 5-inch filter is probably going to set them back another \$4,000. But, everyone still wants to go back to, "How much more does it cost?" I don't have an answer to that because, compared to what? There are so many shades of green, that's the thing. The beauty and the beast of green is that people get to define how dark a green they want to go. I would say that, all things being equal, I would say the lighter shade of green can cost you as little as 15 percent extra. We'd prefer to go a lot greener than that. The sky is the limit for the upper end and the deeper shades of green. That's the answer nobody wants to hear.

Tom: Tom, talk about cost.

Tom K.:

I'd probably say a really light shade of green would be just a few percentages more. It's like saying, "How much does quality cost?" We all know that you can do a set of kitchen cabinets for \$15,000 or you can do a set for \$50,000. In some ways, green is like that. It's just how extreme to you want to get? Does it get beyond just the financial paybacks and health paybacks? Does it get into a values-based emotional decision to offset some of what we as a society and as a country have done to our environment? People are becoming much more conscious because of global warming. We see folks who are getting pretty extreme for reasons that you can't always bring back to just practical common sense. That's just part of the marketplace. One really important point I want to make that I think the readers will appreciate is that there is a "see/change" going on in the marketplace. The Boomers don't really care about green. The folks in their 30's and early 40's care a lot more about this stuff than we Boomers.

Michael:

I completely agree. If you look at the demographics of our green buyers, the exception is the Baby Boomers. They don't care.

Tom K.: Well, a good percentage of them don't care.

Tom:

You're saying a good 30 percent don't care, and you're not counting the ones that say they do. I'd be the one who says, "I do care, kind of, until it hurts my pocketbook." Let's talk about how it affects you as a business remodeling person. Tom, does producing the green project affect your markups or gross profit in any way — good or bad?

Tom K.:

I can't tell you that I have any reason to think it affects our mark-ups or margins in any way.

We're not a company that is going to provide a green product for a lower markup that we do for anything else.

Tom:

Or, conversely, you don't up-charge just because it's green. So, they're about the same.

Tom K.: That's right.

Tom: You approach green projects with the same discipline that you would approach a regular remodeling job that comes in where the client says, "I appreciate this green and what it means, but don't want to talk about green."

Tom K.: Yes. It's the same.

Tom: Michael, what about you?

Michael:

Same mark-ups, same margins. However, it has presented the opportunity for us to develop, however small, an additional revenue stream in the form of consulting opportunities to other builders or homeowners that may have already engaged a builder. We may get a builder, architect or homeowner who calls us and they've already got the plans done or are in the process of putting the plans together. They've already got a builder, and hoping it's not too late, hope we could get together and do a plan review with the builder or the client or architect.

Tom: In that case you say, "Sure we can, for this consulting fee."

Michael: Exactly, right.

Tom:

You would do that by the hour or estimate how much it will be. When that's up you say you'd need more money if you need more time?

Michael: Right.

Tom:

Michael, when you say from GreenHaus Builders, is the mark-up any different for using environmentally sensitive products and things like that than it would be for a regular house or a regular remodeling job?

Michael:

It shouldn't be. But, for us, GreenHaus started in 2005. We've got a 20-year-old company, Brothers Strong, that's able to keep the lights on and pay the bills. We have the luxury of being able to do this the way we want to do it without the financial pressures imposing restraints on us that would otherwise exist if we didn't have an ongoing concern to pay the bills. What we decided is that we don't have to build a lot of houses. We can spoil ourselves and have it our way, or we won't have it any way at all. There were two decisions that we made. One was that we only build LEED houses. We built the first LEED pilot home in the city of Houston. The second thing was that if we couldn't get a 25 percent gross profit on the job, we don't want it. You only get that one time to make that first impression. The 25 percent in and of itself is a high amount in this marketplace.

Tom: It's a high amount in almost any new home market. Right now, especially.

Michael: Right. We're attaching that premium to our costs.

Tom: Good, I'm proud of you. You talked about LEED. Tell me again what that is.

Michael: Tom, you're the dean here. I'm going to defer to you!

Tom:

Tom, are there organizations that recognize or promote energy-efficiency, perhaps indoor air quality, perhaps environmental responsibility and recognize the efficiencies?

Tom K.:

It sounds like Michael and I are both involved in building LEED homes. That's a certification program that has been developed by the [U.S. Green Building Council](http://www.usgbc.org).

Michael:

LEED stands for Leadership in Energy and Environmental Design. You can access information at www.usgbc.org.

Tom K.:

LEED has been around for commercial buildings since about 2000. In the last year, they've had a pilot program for LEED for single-family homes, which Michael and I have both participated in and built some of the first houses in that program. There are other programs. In the Northwest. In the Portland region, we have Earth Advantage, which has a remodeling program. It's similar to LEED but is a regional program. There are programs like that all over the country.

Tom:

In Usgbc.org that Michael referred to, if someone said, "I'd better look into it," you'd say it's a good place to start getting information concerning sustainable environmental practices?

Tom K.:

That's right. They have an annual trade show. And, the trade show that the home builders put on are two good sources to learn about it. We need to be clear that there is not currently a LEED for existing homes program. There probably won't be for a while. There isn't a national program for certification, at least that I'm aware of, that includes remodeling.

Tom: LEED doesn't include remodeling.

Tom K.: Not for residential. There is a LEED program for existing commercial buildings.

Michael: [NAHB](#)

has an AMSI task force right now that's submitting remodeling specifications for certification by the AMSI standards committee.

Tom: It's the AMSI guidelines, then?

Michael: Correct.

Tom:

I'll summarize what we've talked about here. Then, Michael and Tom, I'll go to you for the "what's missing?" part of our discussion. The question is: If you were going to give some advice to a remodeling contractor, whether starting out or in business, what advice would you give concerning green sustainable environmental practices?

If we first of all define green, we would want to incorporate into design and construction the emphasis and focus on the environment using products, material and construction methods for a healthier home and a better maintenance-free house when completed.

We talked about marketing for green. What came out of this, as was clear to me, is that you just can't bold ahead and say, "It's the green highway or it's no highway." You've got to take it a little step at a time. Many consumers today don't have a total concept, but the environment is getting a higher profile today than it has in the past. Tom, in your case, your company goes as far as almost every decision in your company is based on how it affects the environment in some way.

We talked about how today there's a higher level of consciousness. Michael, you can define that 11 people came there because of your reputation of doing green. Tom, for you going way back even to your father's era and then with you, have done environmental efforts to the point where you're thinking about sub-branding a name that will recognize the green efforts, environmental efforts: "Eco-Efforts" is what you threw out. We talked about that in marketing you've got to be very careful. Michael, I think you said it was similar to recycling. You don't want to throw the terms around at first because you want to introduce it as a baseline and go one step at a time. It was mentioned that it's just another question like "do you want financing?" and you talk about the green efforts.

We talked about the "easiest to sell." It's one that requires no sacrifices by the consumer. I thought that was great. When they have to make sacrifices, then the whole thing comes up. The easiest sell also is to show them a payback on their investment, and they might do it. The safe paint, free from VOC element, is pretty easy to sell, especially if they have kids. The toughest one, and it became clear: anything that costs a lot more may be, the environment can wait for the next guy to do it. The toughest thing is to avoid looking like you are "project-creeping" and getting the project up in price.

Michael:

Tom, I'd like to be clear that when I said "costs more" I wasn't necessarily looking at that from a financial point of view. I used the example of the shower jets; people have the money for that. But, if you want to take that away from them, it's because of the comfort, they know they want the shower jets. They want the granite for the ego. I wasn't talking financial sacrifices; it was more ego sacrifices or comfort sacrifices. You're not going to get people to save money by turning the air conditioner in the summer to 80; they're not going to go for that either.

Tom:

Good point! We hit upon the one I couldn't wait to get to, and then couldn't wait to get off of it. That's what the costs were. It's no different in a sense, but it's a very frustrating question. We had similarities to "do you want a car without seat belts and air conditioning?" Tom, I think you said, "How much does quality cost?"

Tom K.:

Taking the seat belt and air conditioning analogy with cars — I really believe that, in the not too distant future, that's going to be the reality of green construction. Every consumer is going to expect it to a certain level. It will be like the seat belts and the air conditioning are going to be part of what we do. We're in a transformation of the marketplace.

Tom:

Tom, you made a very important point with the changing of the marketplace. Thirty percent of baby boomers that are 55 years old today really don't care about the green case. But to the next generation, it will be important to all of them as they move forward.

We talked about gross profits being almost not a consideration. You mark it up or approach it very similar to what you do whether it's green or not green. The mark-ups don't change. I found that interesting.

We talked about LEED and the www.usgbc.org as the place to go for guidelines on the green, sustainable, environmental practices. Interestingly, LEED doesn't cover existing houses right now. It does commercial but not houses. Remodeling is not there. Tom, you had to turn to a regional area, Earth Advantage, that did include remodeling. You mentioned that AMSI and NAHB, with their guidelines, is putting together a task force or committee to try to take this to the next step as it gets to be part of our business in a bigger way than we ever thought it would.

Michael, if you're going to give someone advice when it comes to green remodeling practices, what would you tell them?

Michael:

I'd say the first thing they've got to do is recognize that we're not sliding down the curve, we're not going backward. One, five, 10 years from now we'll be greener than we are today. The sooner they get on board and educate themselves about this, the sooner they'll be able to take advantage of the obvious benefits such as market differentiation, business diversification and doing the right thing. It's not if, it's when.

Tom K.:

It's a little hard to measure the impact of something like green on a remodeler's brand. There are numerous market studies out there that say consumers will buy from companies that they believe have a level of corporate responsibility in general — environmental consciousness, green or whatever we want to call it, is one aspect of that. I believe we've had some pretty incredible growth in the last 3 years. Our involvement in green is one of the drivers, not the only one, that has allowed our business to grow a lot and improve our brand. I know our cabinet company now has dealers all over the West Coast. If we had not incorporated green into that product, we'd still be a Portland region manufacturer. It's clear to me that really getting into green seriously is a brand building, business building, and therefore profit building adventure.

Tom:

Gentlemen, you've enlightened me! You actually have brought in some points that have made me think. Usually, when that happens it can make a lot of people think and stand up and say, "Maybe it is time that I quit putting my head in the sand and really start learning."



Michael Strong, Vice President, Brothers Strong

Houston-based Brothers Strong has been in the remodeling business since 1990. The company has two part-time salespeople and expects to do about \$1.7 million this year in remodeling. Michael is also vice president of [GreenHaus Builders](#) and has been building custom LEED homes since 2005. This year, GreenHaus hopes to complete two homes, each around \$450,000.

www.brothersstrong.com

Tom Kelly, President, Neil Kelly Company

Located in Portland, Ore., Neil Kelly Co. celebrates its 60th anniversary this year. The company has three showrooms, two in Portland and another in Eugene. It employs 150 people across four divisions — design/build remodeling, handyman home repair, custom homes and custom cabinets — with 30 of the employees in sales. The volume this year will be around \$27 million.

www.neilkelly.com



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