

## 2.4.4 Conclusion: Summary of Home Performance Contractor Insights

Starting a new business as a dedicated home performance contractor provides several advantages over a business expansion model, although start-up businesses are also riskier. A new business allows a firm to better define its goals, understand its market before entry, determine its key selling points, and undertake training before the launch of the business. The summary below details important observations on home performance contractors and those observations' impact on potential expansion into the residential energy efficiency market. Understanding these impacts can help home performance contractors, program administrators, and other actors create and/or sustain a business that promotes energy efficiency.

Summary of Home Performance Contractor Insights		
	Observations	Impact on Potential Entry into Residential Energy Efficiency Market
<b>Market</b>	<ul style="list-style-type: none"> <li>As the energy efficiency market is relatively new, a large number of home performance contractor firms in the market are small startups, with a few large franchises that expanded into the market from other business types (e.g., remodelers, HVAC contractors).</li> </ul>	<ul style="list-style-type: none"> <li>The potential size of the energy efficiency market is not yet known, but is currently being evaluated by many of the service providers looking to enter the market.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Home performance contractors are typically small, private companies with clear chains of command focused around the owner.</li> <li>In markets where the home performance contractor interacts with an efficiency program, decision-making will be influenced by external reporting regulations associated with the capture of incentives, on behalf of both the firm and the customer.</li> </ul>	<ul style="list-style-type: none"> <li>Home performance contractors can take advantage of lean governance structure to make decisions quickly and adapt to both market and partnership regulations.</li> <li>The ability to navigate the incentive landscape without taking on too much of the administrative burden is critical to keeping overhead costs down and maintaining a sustainable home energy upgrade business.</li> </ul>
<b>Financial Model or Structure</b>	<ul style="list-style-type: none"> <li>Small home performance contractors are primarily funded through personal finance, such as credit card debt or home equity loans. Personal credit cards and home equity loans carry high cost of debt (between 5 and 16 percent) and a high risk due to the use of personal assets as collateral.</li> <li>Home performance contractors may be able to raise funding outside of funds already available to firms in more established markets (e.g., venture capital) due to the potential for future demand for their services.</li> </ul>	<ul style="list-style-type: none"> <li>The high cost of start-up debt lowers profitability of smaller firms. To this end, a business line of credit, which protects small business owners from personal credit risk, may be the best option for financing growth.</li> <li>Many home performance contractors that do not secure external funding to grow or work with an energy efficiency program administrator cannot grow beyond \$1 to \$3 million in revenue per year.</li> <li>Home performance contractors must develop an understanding of market demand and leverage partnership opportunities to reach their target revenue threshold and achieve sustainability for the business.</li> <li>Seeking additional external funding to grow the business is critical. Home performance contractors must develop a sound business plan and demonstrate that there is sufficient market demand for home energy upgrades to secure external financing, establish key partnerships, and become sustainable.</li> </ul>
<b>Assets and Infrastructure</b>	<ul style="list-style-type: none"> <li>The cost of starting up a basic home performance contractor business ranges between \$80,000 and \$100,000, and includes basic remodeling equipment costs as well as specialized equipment and training costs.</li> <li>As a contractor's business enters the growth stage, overhead costs typically increase due to additional administrative staff needed to</li> </ul>	<ul style="list-style-type: none"> <li>A primary asset for overhead cost control is CRM, job tracking, and reporting software.</li> </ul>

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	manage job reporting and tracking, incentive paperwork, staff training, and marketing efforts.	
<b>Service Offering</b>	<ul style="list-style-type: none"> <li>■ Home performance contractors are a one-stop shop for homeowners, providing a variety of home energy upgrade services including energy assessments, customer financing and incentives, installation, and quality assurance.</li> <li>■ Many home performance contractors differentiate themselves from their competition by demonstrating their knowledge of local efficiency rebates and incentives.</li> <li>■ Materials and installation labor amount to approximately 80 percent of the cost of an average home performance job.</li> <li>■ Materials costs are generally set by the market. Contractors attempt to control labor costs by limiting them; however, by trying to streamline installation labor costs, they may inadvertently increase quality assurance costs.</li> </ul>	<ul style="list-style-type: none"> <li>■ Home performance contractors should know the full range of financing, incentives, and reporting options, and communicate these options to consumers to drive home energy upgrade sales.</li> <li>■ While incentives can be helpful in driving demand and closing sales, it is critical that home performance contractors reduce their reliance on them because incentives are not always available.</li> <li>■ Home performance contractors can collaborate with program administrators and implement software solutions to control administrative, marketing, energy assessment, and quality assurance costs. These costs are 20 percent of the cost of an average job.</li> <li>■ As customer referrals are the primary source of new jobs, it is essential that home performance contractors complete home energy upgrades correctly the first time.</li> </ul>
<b>Customers and Customer Acquisition</b>	<ul style="list-style-type: none"> <li>■ The primary drivers of sales for most home performance contractors are referrals from existing customers or repeat business. Building strong customer relationships is critical to developing referrals.</li> <li>■ The home performance contractor's energy assessment process is the best venue for the sale of home energy upgrades, provided the customer is home when the assessment takes place. Engaging the homeowner throughout the process will increase likelihood of a sale.</li> <li>■ While homeowners trust contractors as experts in their field, third-party validation that a contractor is knowledgeable of home energy upgrades is helpful during the sales process.</li> <li>■ Home performance contractors with business and sales training often relate to customers better than those with only technical training.</li> </ul>	<ul style="list-style-type: none"> <li>■ Home performance contractors should coordinate with local efficiency programs as much as possible to benefit from neutral third-party validation and referrals. For example, mass media advertising in time slots adjacent to program-sponsored advertisements has been shown to produce a bump in home energy upgrade sales for home performance contractors that have tried this strategy.</li> <li>■ Home performance contractors should consider involving both a technical and a sales staff member in the assessment to increase understanding of the value of the home energy upgrade and address technical questions.</li> <li>■ Home performance contractors should include options for discounted financing (either bought down by the contractor in conjunction with a private financial institution or arranged through a local efficiency program) in their sales pitches to help with the closing of sales.</li> </ul>