5 WAYS TO RECLAIM RESIDENTIAL BUSINESS

DIVERSIFY DURING THIS SLUGGISH ECONOMY

BY MARK STUERTZ

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Public Radio International's weekly radio show *This American Life* recently chronicled the final days of Circuit City, once the largest retailer of consumer electronics, personal computers, and entertainment software. The segment explored the accounts of five employees as the 60-year-old chain struggled to liquidate its entire inventory and close its doors in less than two months.

As the reality of unemployment sinks in, a car-stereo installer decides to go back to school to either become a nurse or an electrician. "People always need nurses and electricity," he insists.

But conventional wisdom affirming the electrician as a recession-resistant tradesman isn't playing out according to script in the current unraveling of global financial markets. The forces at play are too formidable. According to a December 2008 survey by the Independent Electrical Contractors Association, 27 percent of electrical contractors say they have had to radically shift their business focus just to stay in business while 33 percent have experienced significant drops in business and another 27 percent are planning layoffs over the next few months.

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1 Back to basics

While the current recession is expected to last longer than previous downturns, pent-up demand for electrical work is building as the nation's housing stocks age. According to the Electrical Safety Foundation International, half the homes in the United States were built before the advent of drip coffee makers and garage door openers. This means demand for updated wiring and circuitry components will continue to swell as the downturn drags on.

"There's always going to be work in maintenance and repair," says Beth Margulies, spokeswoman for the National Electrical Contractors Association (NECA). "You need to stay in close touch with your customers to make sure you can meet their maintenance and repair needs."

In this economic climate, capturing sales for electricians and electrical contractors can seem like an intractable challenge. For virtually all businesses, the next few years will be a period of "back-to-basics" processes with a greater emphasis on market fundamentals and close scrutiny of expense outflows coupled with disciplined accounting.

Here are five additional ways electricians can beat the recession:

Energy efficiency upgrades

With energy efficiency a top priority among our nation's regulators and elected officials and the expanded tax incentives embedded in the American Recovery and Reinvestment act (stimulus package), signed into law in late February, comprehensive programs to inspect and upgrade residential electrical systems can be a healthy source of revenue. (*See the related story on Page 48.*) "Energy efficiency and energy conservation is probably the biggest market right now," Margulies says. "It saves so much money over the life of the building. The real money, the real opportunities right now are in providing energy efficiency upgrades."

Contractors are exploring numerous ways to tap into this market as consumers search for strategies to cut their energy bills. Tucked into President Obama's stimulus bill is a new household maximum of $1,500 in Residential Energy Efficiency

Proper prevention and regular inspections can help reduce residential problems.

Property Credits. Tax credits equal to 30 percent of cost are available for the following upgrades:

- **Central air conditioning** that achieves efficiency ratings of 13 SEER (Seasonal Energy Efficiency Ratio) or higher for single package systems and 16 SEER or higher for split package systems.
- **Electric air source heat pumps** with a SEER rating of at least 15 and an EER (Energy Efficiency Rating) of at least 12.5.
- **Electric heat pump water heaters** yielding an energy factor of at least 2.0 in the standard U.S. Department of Energy test procedure.
- **Advanced main air-circulating fans** for heating and cooling systems that use no more than 2 percent of total heating/cooling energy use.

In addition, there are tax credits equal to 30 percent of installed system costs that are separate from the $1,500 household tax credit limit. These include:

- **Solar water heating** systems certified by the Solar Rating Certification Corporation (SRCC) that produce at least half the energy used by the system to heat water (excludes pool and spa solar water heating systems).
- **Photovoltaic solar power** generation systems for homes
- **Residential small wind energy** systems.

Inspections

According to the Electrical Safety Foundation International, home electrical problems are the cause of some 53,600 fires in the United States resulting in 500 deaths, 1,400 injuries, and $1.4 billion in property damage. Each day, hundreds of homes in the U.S. will catch fire due to faulty electrical circuitry. Older homes pose an even greater risk. According to the U.S. Census Bureau, half the homes in the United States were built before 1973. With many homes awash in electronic components—including entertainment and security systems, computerized appliances, and modern lighting—power loads are being placed on aging home wiring and circuitry that in many cases surpass what they were originally designed to carry. Surging energy demands can easily overburden the circuitry in an older home, increasing the risks of fires and electrocutions.

A number of retrofit strategies exist for electrical contractors to counteract deficits generated from aging circuitry, from boosting efficiency to adding layers of safety.

Since the introduction of Ground Fault Circuit Interrupters (GFCI) a quarter century ago in kitchens, bathrooms, and in outdoor circuitry, the number of accidental electrocutions in the United States has been cut in half, even though electricity use has doubled. The Electrical Safety Foundation predicts that if GFCIs were installed in all older homes, 70 percent of the approximately 400 annual residential electrocutions in the United States could be prevented.

Such hazard information, coupled with thorough in-home inspections, can help electricians capture sales and drive additional revenue streams. Inspections of outdoor circuitry, including pools and spas as well as the circuitry throughout the entire home, open opportunities to repair faulty wiring, to install GFCIs where needed, and replace standard circuit breakers in the electrical service panel with Arc Fault Circuit Interrupters (AFCIs). AFCIs detect hazardous conditions in a home's circuitry, such as loose connections in outlets or switches, pinched or pierced wire insulation, corroded or overheated wiring, damaged appliances, and frayed appliance and extension cords.

In addition, you can incorporate Tamper Resident Outlets into your inspection program targeting residential customers with small children. According to the Electrical Safety Foundation International, inserting objects such as keys, paperclips, and hairpins into electrical outlets injures nearly 2,400 children annually. While many consumers take measures by covering outlets with plastic caps, research shows that small children easily remove these caps. Tamper-resistant outlets feature an internal shutter mechanism that provides far more effective protection.

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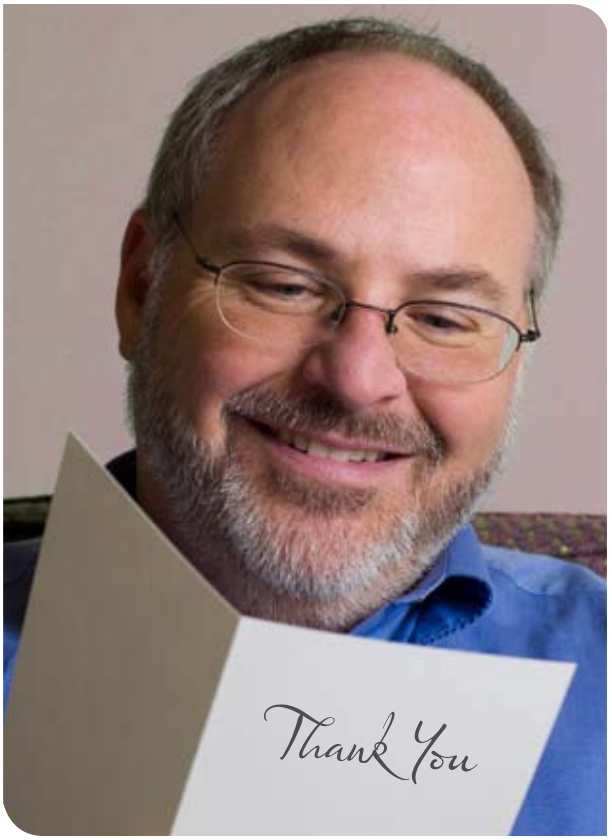
3 Creative marketing and promotion

It's essential that electrical service providers break through home-improvement marketplace noise to stand out as a key supplier of value to customers. To make money, it's necessary to spend money promoting your business. But to maximize these investments, it is imperative to research options and strategize with available tools.

"We are seeking out more cost-effective advertising," says Michael J. Gaffney III, of Gaffney's Electrical Contracting in Dillsburg, Penn. "For example, instead of just giving $600 to sponsor a baseball team, we are donating bottled water [for them] to sell at the games with our logo on it. We have been in business for 18 years and get most of our business through word of mouth." Gaffney adds that he informs new homeowners that his company provided electrical services to the previous owner by giving them coffee mugs and other promotional items stamped with his contact information as a reminder that his company is familiar with their home. "We are starting to send all our customers thank-you cards after we wire their home," he adds.

In these lean times, "outside of the box" marketing tactics are essential. Rethink your media strategies. Would your marketing dollars be better channeled into email newsletters, Web site promotions, and Internet lead generation? Explore social networking campaigns with sites such as LinkedIn, Facebook, and Twitter, as well as discounts for referrals and inspection offers through direct-mail coupon packs. And don't neglect hand-to-hand campaigns. "When you go for an inspection, you need to do a little extra," offers Tammy Church, marketing director of TLC Electrical Contractors in Southlake, Texas. "Pick the newspaper up when you go to the door. Take an extra tool out and check the GFCIs. Put the safety glasses on and check that panel. If the customer knows that you are there for their best interest...that's what's going to help you in this recession."



Putting your customers first will help you stand out in a competitive market.

Re-wiring older homes is necessary to help reduce fire risks and to keep homes up to code.

4 Whole home surge protection

According to the Copper Development Association, the average residence receives 2,000 transient electrical surges annually, generating an estimated $26 billion in losses for North American homes and businesses. "Variances in current can shorten the lifespan of various appliances in your home," says Chris Lindsay of the Electrical Safety Foundation International.

Most home appliances and electronics contain computer chips susceptible to power surges and voltage spikes. Items in the home or office vulnerable to power surges include computers, printers, CD players, DVD players, big screen TVs, cordless phones, kitchen and laundry room appliances, programmable thermostats, and home lighting automation systems.

Surprisingly, lightening isn't the main culprit in power and overvoltage spikes. The most common surges and power fluctuations are caused by electrical switching operations at local utilities, utility work, faulty transformers, and even something as simple as electric motor activity in the home from air conditioners, copiers, printers, and refrigerators. Over time, these fluctuations weaken the structure within microchips, slowly degrading expensive components such as big screen televisions, home theater sound systems, computers, ovens, and dishwashers.

Safeguard your customers against these surges and fluctuations by suggesting a two-tier protection strategy. Installing a main service surge protector next to the home's breaker panel or electric meter will protect against surges from lightening strikes and power spikes from utilities before they enter the home. This should be deployed in tandem with high-quality point-of-use surge protectors, such as plug-in power strips with built-in circuit breakers, to guard against fluctuations generated by electrical equipment in the home. Top off surge protection with an inspection of the home's grounding system to ensure that the home or business is sufficiently grounded. Selling point: comprehensive surge protection strategies extend the life of sensitive and expensive electronic equipment by safeguarding the home from power fluctuations and spikes.

5 Diversification

Electricians and electrical contractors can shift from "survive" to "thrive" by optimizing opportunities in other business segments and markets. Areas to explore include temperature control and lighting retrofits that can save customers on energy costs.

The average North American home will experience a power interruption three to four times annually, resulting in a total of nine powerless hours, according to electrical industry statistics. Severe weather such as high winds, flooding, snowstorms, and blackouts can knock out power for days at a time—a potential disaster for homeowners who depend on consistent power supplies for computers, security systems, and food storage appliances. These accelerating power demands are creating a rapidly growing market for home standby generators to supply reliable, standby power in the event of power outages.

Now that many homes are accessorized with plasma TVs, whole-house audio systems, computer networking, home offices, and automation control, you can add structured wiring systems to your contractor portfolio. Structured wiring distribution panels are to multimedia and computer networking power what panel boxes are to appliances and lighting: it's the connection point between outside resources and the end points within the house where they are put to use. These systems distribute information content such as telephony, music, television, security, and Internet throughout the home through specialized cabling.

"A contractor who wires only new single-family homes, he's probably bankrupt right now," says Mike Kallmeyer of Denier Electric Co., Inc. in Grove City, Ohio. "But that contractor could diversify into remodeling homes, storm damage repair... residential back-up generator installations, or multi-family condo project wiring." Kallmeyer stresses that contractors should select segments and projects that roughly match their skill set and expertise, a strategy he calls "limited diversification." "A guy who does single-residential homes can't do a biodiesel plant—too far off his skill set."

But opportunities abound amongst this sluggishness, from retrofitting homes for energy savings to upgrading and safeguarding the electrical systems in the nation's aging housing stocks, to modifying homes with efficient wiring systems to adequately cope with the explosion of electronic appliances and media systems. "You have to offer them something they are not getting anywhere else," Church says.