

# New Image Painting

## A Decision For Independent Painting and Decorating Contractors

**PDCA is a trade association** established in 1884. It continues to be the sole trade association that exclusively represents painting and decorating contractors. As a result, PDCA is both inclusive and exclusive. In other words, PDCA encompasses *all* painting and decorating contractors, but *only* painting and decorating contractors. Consequently, PDCA is very clear and focused on who it represents, and is therefore enabled to devote all of its resources toward advocacy representation of a clearly identified group. As one of the oldest trade associations in America, PDCA has consistently represented the *independent* contractor. The vast majority of PDCA members are independent small businesses. In fact, painting and decorating contractors are by and in large community based, closely held sole proprietorships. In many cases, PDCA member businesses are family owned. However, the foregoing should not be taken to mean that some painting companies are not multi-million dollar enterprises. To the contrary, a substantial number of PDCA member companies are hugely successful. PDCA is imminently qualified to comment about the marketplace of painting and decorating.

Typically, highly fragmented, small family owned and operated businesses are ripe for what is called in the financial industry, "a roll-up." Essentially, this is a financial model where a very large corporation steps into an industry with the sole purpose of accumulating market share. This approach is similar to a corporate takeover, but instead of buying another corporation, the financial model attempts to take over an industry. This model was used to "roll up" the funeral industry (as little as 15 years ago, all funeral homes were completely independently owned; today over 4,000 are owned by three companies).

Interestingly, two approaches are used to "roll up" entire industries. One model is the straightforward buyout of existing businesses. For example, this approach was used in the funeral service and prosthetics industries. The other model is to reorient the businesses of existing independents and turn them into sub-businesses, or in some cases, sub sub-businesses. In the second model the business approach is aimed at changing the marketplace, not just how businesses are structured.

Just how well either model will perform in the painting industry, or impact the marketplace, is a matter of perspective. Let's take a look at the record. Sears and Lowe's have already attempted to "roll-up" the residential paint sector by using the independent sub-contractor model. Neither of these huge companies has met with much success. Home Depot has recently launched a much more aggressive painting program through their highly successful Installation Services Division. Home Depot has introduced a twist to the model, however. They have given over the management of their internal Paint Install Program to a company called New Image Painting (NIP). They, in turn, enter into agreements with "independent" contractors. Any independent painting company that works with Home Depot in the vast majority of circumstances does so as a sub-subcontractor. NIP is not a painting company. They have contracted with Home Depot to manage the paint services for a huge number of Home Depot Stores. NIP actually is the company

with whom paint contractors would be doing business. Hence, paint contractors are ***sub-contractors***.

There are other significant differences in the Home Depot model. The recruitment literature for New Image Painting (NIP) suggests that independent contractors would continue to be independent. Yet, a painting contractor would be a ***licensee*** of NIP, and act as an "authorized Service Provider" for Home Depot. A licensee must represent him/herself as a ***New Image Painting Contractor*** on all Home Depot projects. A licensee may not promote any other services of their "independent" company. The contractor must wear ***New Image Painting*** identified clothing, with Home Depot insignias. It is not clear what identifying insignias may be required on trucks and equipment. A contractor must also apply for and receive a Home Depot Credit Card. The licensee must provide an "employee" to be present in the Home Depot Store to which they have been assigned for a "minimum" of eight (8) hours a week. This employee must represent New Image Painting and Home Depot.

Certain support services are provided by NIP. The following is taken directly from NIP literature:

*National Support Manager (NSM): Our highly trained and experienced team of support managers works with licensees across the country. They invest time with you and your company to share best practices, new concepts, corporate initiatives and solutions to your ultimate goal of higher revenues and profits. Our NSMs create and model a plan for you to take to the field after your training and help solve any roadblocks that may arrive in either your existing business or your Home Depot divisions. Our NSMs view this relationship as a partnership and are available and eager to help in any way they can to ensure the success of your organization.*

*New Image Phone Lines: This answering service (Toll Free #) ensures that existing and potential customers can easily access New Image Painting across North America. Printed on every contract, it builds national recognition. Local and national marketing initiatives will bring inquiries to this line – leads will be forwarded to the appropriate licensee.*

*My New Image: This is the Home Depot/New Image Database from which licensees download their leads. Home Depot also operates an in-store hotline where leads are registered by the licensee or their store representative instantly. These two services ensure that all leads are recorded and efficiently accessible to the licensee.*

*Button Program: Home Depot sales associates are a natural resource for leads. We have an awareness campaign to inform them of our service so that they can promote it to customers. Associates can help customers register for an estimate on the hotline. For their knowledge of our service they receive a Home Depot Paints button. Licensees can purchase these buttons in desired quantities.*

Licensees will be required to pay \$3,000 annually to "secure" a store location. There is also a two-day training program in Atlanta, Georgia. Licensees are on their own for transportation and accommodations. The training package a licensee receives consists of lawn signs, various shirts, business cards, Home Depot promotional material, and a client manual.

New Image Painting also provides a business example in their literature. According to NIP, the average profit analysis per project (\$3,000 painting project) looks like this:

Revenues	\$3,000
Home Depot Fee	- 390 (13%)
NIP	- 330 (11%)
Paint, Materials, Labor	- 1,500
<u>In-store marketing cost</u>	<u>- 80 (8 hours at \$10/hr.)</u>
Net Profit	\$700

NIP also notes, "Many licensees use their current estimating methods and then add 10% onto the price." Presumably, this is done to partially pay for the referral and management fees.

Finally, NIP requires all paint and sundries be purchased through Home Depot.

The NIP proposal represents business management at its worst. The "partnership" proposal completely misunderstands the nature of painting company operations and financial structure. Furthermore, the "profit analysis" is flawed and inaccurate.

The NIP partnership agreement begins by suggesting that contractors will remain "independent." This is a misrepresentation and misleading. NIP has structured the proposition so that "independence" is a "one-way street." NIP has gone to great lengths to protect themselves while in essence taking over contractor businesses. NIP has insulated itself from the employer-employee relationship, thereby passing on the burdens of all liability, taxes, safety, training and much more to the sub-subcontractor. If New Image Painting delivers on its promise for a lot of business, and your employees are wearing New Image Painting Clothing, then a contractor is not "in business" any longer...New Image Painting is!

In their introduction to "profit analysis", NIP suggests that the contractor has already absorbed certain fixed costs such as a telephone, shop, equipment, etc., so there is no need to account for overhead in the profit analysis. This approach to profit analysis is violative of major concepts of business finance. More specifically, consider these points:

- The cost of overhead is an integral part of business analysis. Without considering overhead, an accurate analysis of the profitability of any segment of a business is impossible.
- Certain overhead costs are variable. For example, the cost of gasoline is not considered in the NIP "profit analysis." Other significant costs such as insurance, tax liability, on-going training, safety related costs and project management are not included in any part of the analysis...including paying owners for their knowledge, expertise or even time.
- NIP specifically states that 100% customer satisfaction and a one-year warranty is included in every sale. To suggest these guarantees have no cost is at best foolhardy and at worst a very poor financial analysis.
- In the NIP calculation of profitability is \$10/hour for the required eight (8) hours for in-store promotion. The wage rate of \$10 for a "sales" and "promotion" function is woefully

inadequate. There is a clear misunderstanding within NIP about wage rates in the painting field. NIP suggests the owners may want to perform this function. This suggestion misunderstands the effective use of owner time, as well.

- Curiously, there is no provision in the calculation to recapture the initial fees or yearly per store fees to NIP. These fees are significant.
- There is a conspicuous absence of any provisions for the use of advanced cost and estimating technology and/or the use of equipment, other than brushes, rollers and ladders. There is no provision for the cost of replacement for major equipment. Here again, NIP clearly misunderstands the industry.
- In the example used, wherein Home Depot takes 13% and NIP takes another 11% from the gross estimate, and where overhead costs are properly calculated, the NIP example results in a net loss. The profit analysis created by NIP completely misrepresents the cost of doing business in the painting industry. Curiously, NIP suggests many of their partners add 10% to a customary cost estimate. In a highly competitive marketplace, which is the situation in painting, this is not feasible for all the obvious reasons. This suggestion is yet another example of NIP's lack of understanding of the painting market. No amount of mass marketing, absentee management or name recognition can overcome "net loss" or "overpricing."

The proposed business model suggests that a painting company divert 24% of the gross cost estimate to marketing and general management. If a truly independent contractor were to divert such a percentage to individual marketing and management, he/she would have absolutely no need for Home Depot and NIP.

This model cannot produce a reasonable profit for any legitimate and qualified contractor. In fact, the model works only if a contractor works out of the trunk of a "car," has no place of business and pays painters minimum wage.

Some focus on contractor "independence" is warranted. If a contractor is obligated to represent only NIP and Home Depot, wear clothing only identifying NIP and Home Depot, restrict the customer contact exclusively to work identified by NIP and Home Depot, buy all paint and materials from Home Depot, then such a contractor could hardly be referred to as *independent*.

The obligation to purchase Home Depot supplies exclusively, presents a significant challenge. All qualified contractors are well aware of the fact that certain manufacturers produce paint that is superior to all others in certain types of applications. Since, Home Depot offers for sale only limited brands from a limited number of manufacturers, product performance can become a serious issue.

Another major flaw in this model is that NIP does not require any affiliation with an appropriate trade association, or any requirement for continuing professional or business education. This is a serious shortcoming, as it is a well-established business principle that information exchange and continuing education are both integral to top business performance. In fact, there is a significant correlation between business performance and quality service delivery, and active involvement in an applicable trade organization. Obviously, NIP and Home Depot are content to let the other contractors pick up the tab to represent the profession and industry, since NIP and Home Depot are not members of PDCA, nor do they compel their sub-subcontractors to be members.

Among the most difficult aspects of this model to overcome is the complete lack of understanding by both Home Depot and NIP of the painting contracting business. Unlike every other Install service provided by Home Depot, paint contracting requires complex estimating, and the cost of products and materials is a small percentage of the price of the total project. For all the other segments of Home Depot's Install Program, it is the other way around.

Clearly, the NIP initiative is a thinly disguised attempt to "roll-up" an industry. This particular "roll-up" is attempting to create an imbalance in the marketplace, as opposed to the model wherein contractor's independent companies are purchased.

Perhaps the most interesting question is whether the organized profession and industry wishes this to happen. If the answer is "yes," then going to work for Home Depot and NIP makes sense. If the answer is "no," then independent contractors should not enter into any agreements like the one proposed by NIP and Home Depot. Let's take a look at the business math. NIP is seeking \$3,000 each year for each store. That is \$1.5 million for the 500 stores given them. They are seeking 11% from every dollar earned by contractors. Based on their math, that is another \$1.65 million. NIP would accumulate over \$3 million to manage a portion of Home Depot's paint services and give few services back to the contractors who *earned* the money!

It is hard to imagine that Home Depot would put its reputation on the line using a very dubious business model with myriad shortcomings, but apparently, Home Depot management has a different view.

Another troubling aspect of the NIP proposal has to do with quality performance and execution. The NIP financial proposal almost begs for corners to be "cut", questionable estimating, and sloppy work. No consideration at all is given to craftsmanship, safety, continuing education, expertise and experience. NIP makes no mention of how low-end, low-margin contractors will deal with mold, mildew and lead paint when encountered; not to mention VOC's and paint disposal issues. Perhaps the two-day course in Atlanta will cover all these questions and issues. Or, perhaps NIP expects the contractors they "partner" with to be top quality companies and work for a *net loss*.

Home Depot guarantees all the work and warranties the product. While it is true that these guarantees are the ultimate responsibility of the contractor and manufacturer does anyone believe that the inevitable failures under this model won't tarnish Home Depot too? On the face of the proposition, this model will fail and drag down Home Depot's Install Program and NIP with that failure. That brings us to PDCA. PDCA is the only organization that represents the independent contractor and is the only organization that will fight back in the marketplace and reveal the shortcomings to homeowners. This requires a strong PDCA . . . one that will maintain the industry's consumer orientation of craftsmanship and quality. There has never been a more important reason to be a PDCA member!

PDCA was in discussions with Home Depot for a year on how Home Depot's Install Program may be best served by using the PDCA Accreditation program to assure quality services to consumers. PDCA was in those discussions in a good faith effort to represent *independent* contractors and the interests of consumers. There was never any mention of third party management, and certainly not anything like what is proposed by NIP. PDCA has withdrawn from the discussions based upon the un-workability of the proposed business model. PDCA

continues to believe that a properly structured program, using the PDCA Accreditation Program as the foundation, can best serve both consumers and business interests.

The choice is entirely up to legitimate and qualified contractors on how they wish to approach this market challenge.

Now that you have all the facts, what do you want to do?