

**Stone fabricators offer
REAL insight on today's
business climate**

*moderated by Michael Reis,
Editor*

Q: What is the REAL situation out there for stone fabricators? I visit some shops that tell me they're as busy as can be, and yet there seems to be very little work going on. Others tell me they're "dead," and the shop seems to be bustling. I guess this is a two-part question:



A. How has the housing slowdown affected your business? Has it affected volume? Or have you simply leveled off?

B. How are you responding to the current business climate? Has it made you change your pricing? Are you still making machinery investments? Are you scaling back? Have you had to lay anyone off?

Mark Meriaux, The Granite Shop, Smyrna, GA: Our 2007 business was "off" 12% from 2006. We are in a major suburban market that is saturated with stone fabricators. Although we don't primarily target the new home construction market, when that market started slipping, those fabricators began looking for other areas to fill their business. One area where we have grown is in commercial construction. I hope that the overall market has leveled off, and we can begin to see some growth again soon. We have diligently stepped up our sales efforts, and closely monitor our internal expenses. We "dug in" to withstand this temporary downturn. We haven't directly laid off any folks, but positions left open from attrition have not been filled. We have not lowered our pricing, mostly due to other factors like the rising costs of stone and fuel. We have suspended looking at any additional major machinery until we begin to grow again.

Paul Evans, ECC Granite, Inc., Pilot Point, TX: We have seen a small slowdown here -- probably less than 5%. We primarily focus on new high-end homes and remodels. One thing we have noticed is a lot of basic stones are being used again versus the expensive exotics to keep the prices down. A lot of the volume fabricators around here are dropping prices to stay busy, but I just can't see that lasting long. Our market has been very competitive, and prices are already too low. We have done just the opposite and raised our prices to keep up with the rising fuel and stone. There have been a lot of people from volume fabricators here looking for jobs, though. The last one here said they were being sent home at 12:00 every day for the last week. I guess, in a nutshell, that true custom

homes are still doing well, but the smaller volume homes are lacking. 2008 will be interesting to say the least.

Ronald Hannah, Cadenza Granite & Marble, Concord, NC: We have seen a huge slowdown in new construction, with an offsetting increase in remodel. It's not an equal offset, but an offset just the same. Typically, when new housing starts are slow or the real estate market gets risky, homeowners tend to invest in improving what they already have. Remodels are also typically more profitable, despite the potential of being more problematic.

The advice I give all business owners is this: Ensure that you have a good blend. That is to say: "Do not put all your eggs in one basket." Spread your workload over various aspects of the market. One example would be 30% commercial contractors, 30% high-end new builders, 20% remodel and 20% tract entry-level homes or condos. Different aspects of the market are affected by different economic events. For example, we find that when the stock market goes flat, the market for homes ranging from \$500,000 to \$1 million literally comes to a stop. Why? Because homeowners in this price point typically have a large chunk of their personal wealth invested in stocks and bonds. The starter homes continue to be built because these customers do not have the financial wherewithal to dabble in the market, and the ultra high-end customer will carry on with their plans because only a low percentage of their great wealth is exposed to the stock market. Keep in mind that your "blend" is not fixed. Manipulate or massage it depending on what is going on in the industry (add more remodels, reduce commercial percentage, etc.)

Are we busy? Sure, we're busy. But it is a much different "busy" than one year ago. We are busy helping our existing customers market their inventory homes. We are busy chasing new markets, and we are busy developing new marketing strategies. We are busy chasing new leads, and we are busy trying to find innovative ways to continue to produce perfect countertops, but at a lower cost because we, too, are facing tremendous price-driven competition.

Slowdowns are not fun but they do tend to weed out the sick and the weak. Be good at what you do, charge a fair price and service your customer to death.

Kevin Padden, AZ Stone Consulting, Pinal County, AZ: Here in Phoenix, the lower-end market has slowed down, but the upper-end market is still going well. I'd say that there is a slowdown here, but it has not affected us as much as the folks that depend on "commodity" work.

As far as training goes, we're seeing a big increase in enrollments -- mainly from people who are new to the industry, but we are also getting our share of folks that want to learn new skills and work on the equipment that we use on the fabrication side -- like the waterjet and laser templating system.

All in all, it is pretty basic common sense. The more things you can do to maintain a profitable revenue stream, the better you can weather tough times.

Kent Potter, TK Custom Stone, Inc., St. Marys, GA: Our sales are down 14% from the year previous, which for our area reflects more of an average market. Business has been stable for the last eight months, with slight growth (2%) from November 1, 2007 thru 2008 year to date [mid-January as of press time].

We have actually raised prices rather than chase after the lower-end customers. There are far too many companies lowering prices to bring in more business (i.e. chasing the dollar). We expect to increase prices by as much as 15% for some services offered during the first quarter of 2008.

Expenses are obviously climbing due to oil prices and a weak dollar, but have held only marginal increases thus far. We expect to see further increases in the cost of dimensional stone materials due to these same pressures. We reduced our workforce by 30% over the course of 2007, but this was principally due to the transition from a manual processing center to 100% digital. After purchasing a CNC saw, two CNC profilers, software and miscellaneous machinery in 2007, we are not planning any machine purchases this year. We are planning on limiting our growth to only 15% during 2008 so that we can finalize procedures and policies as well as concentrate more on quality and service improvements. Increased importing of dimensional stone will also be a priority this year to reduce our number one business expense, since we feel we have our number two business expense (labor) resolved through automation.

Scott Weinbrecht, Stone Age Fabrication, Inc., Vero Beach, FL: The market here has certainly slowed down. Our business is off almost 30% from 2006. New construction has almost come to a halt. Remodels are up. We are researching all aspects of commercial and residential markets.

Our pricing has not changed. Fair price and service has always been our way of life. Machinery purchases have been put on hold. We planned on buying a bridge saw/waterjet, an in-line polisher and digital templating equipment (we are going all-digital). Maybe it will happen next year.

We have done some layoffs; some were "trimming fat", but others we hated to see go.

Travis Johnson, Syverson Tile & Stone, Sioux Falls, SD: We are in a unique position, I believe, in this forum. We are a wholesale distributor of ceramic and porcelain tile as well as a fabricator. Our tile sales were down for 2007, but our fabrication shop has done well, posting a double-digit increase over 2006.

No layoffs have been conducted or are planned. Let's hope all continues to go well.

Dan Riccolo, Morris Granite Co., Morris, IL: We have not laid anyone off, and our business is steady thanks to a more even growth pattern in our market areas. As Ron Hannah stated earlier, the mix has changed from mostly new construction to 50/50 remodel versus new (for us). We cover a large geographic area, which helps in tighter times, except for the high price of gas. We have experienced amazing growth in the previous years, so a little downtick still puts us way ahead in the long term. The big picture is to plan, execute and profit.

Fred Hueston, NTC Stone, Asheville, NC: From a training perspective we have seen a slow down of new fabricators getting into the business and a slow down in existing fabricators seeking training. However, what is interesting is that we are getting an increase in those going into the restoration business. I have seen this trend before back in the 70's. There were a lot of fabricators who were looking to diversify when their business slowed.

Dan Dauchess, SFA, Signature Stone, Williamsburg, VA: The construction industry slowdown has affected Eastern Virginia. Production homebuilders have reduced starts in the face of growing inventories. However, we were able to grow our business 5% in 2007 versus 2006. We attribute this success to a few things:

* We have never allowed a single contractor to be more than 15% of our total revenue. As a result, we were not relying on volume from a few production homebuilders.

*Homeowner remodels have always represented at least 50% of our business. The real estate market definitely drove people away from buying new and remodeling what they already have.

*Our successful builder partners were building three to seven custom homes per year for contracted customers. Those homeowners are still relocating to the area (retirement, government contracts, etc.) so this market segment has been steady. 2008 has already started strong and we have a great outlook for the year.

Here's a wrinkle on the discussion. I just received a price list/update from one of my slab distributors. It appears that the increasing value of the euro and the rising cost of transportation are beginning to be reflected in slab prices.

I'm struggling with the problem of either raising prices or absorbing the cost. I'm seriously considering cutting out the middle man to maintain margins. In addition, some larger distributors are becoming more attractive for the "staples." My local warehouses may lose volume to these shops.

Matt Lansing, Stone Innovations, Inc., Plover, WI:

2007 was a mixed year for us. We started strong with a good volume of sales at a nice profit margin. We ended up losing one of our largest customers at the same time as some competitors were moving into the area, pushing the pricing 20% lower on average. So we had to scramble to replace the volume, tighten up our efficiencies and look for new markets.

We finished up 2007 only about 10% off our volume from 2006 through some hard-earned diversification, aggressive advertising and a determination not to sit back and just let the competitors have what they want.

2008 is starting off strong -- with sales starting off like they did in 2007. I am looking forward to tightening the efficiencies even more and giving our competitors something else to think about.

New construction is off quite a bit, but remodel has picked up well. The low-level customer is almost non-existent now. The high-end customers doing a kitchen and multiple bathrooms are still there, but they are getting harder to find.

Steven Hauser, CIRCA, Inc., Taylors, SC: Sales volume was up in 2007 by 14%; however, as Ron and Matt said, we were aggressive. We changed our product mix from new home construction to remodels, multifamily and commercial work.

The fourth quarter of 2007 saw a complete volume drop, but 2008 is starting strong. We project volume to go up 15 to 20% over 2007 in 2008.

I hope that the recession being spoken of is mild or non-existent. Finally, like Dan, we dramatically increased our coverage area.

Scott McGourley, Kasco Stone, Tampa, FL: We divide the market into four groups: commercial, retail, builder and wholesale. Commercial work such as restaurants, offices and banks have remained steady. Retail is doing well, as people are staying in their homes, and remodeling is at the forefront. Wholesale -- such as cabinet shops, designers, custom builders -- is also doing well, as it follows the retail market. Builder or tract home work however is non-existent.

The Tampa Bay tract home market has all but collapsed. This is indicated by a number of larger players either failing or going into bankruptcy protection. Those that rely on this type of work are trying to diversify, but as we all know, the retail market is a different animal. It is difficult during a slowdown such as this for a large shop to remain profitable. As usual, a number of smaller shops have closed as well. We attribute this mostly to mismanagement and the inability for them to "cherry pick" jobs. Jobs are getting harder to find, and service is coming into play. As a very small shop, we are slower than last year, but remain steady due to our constant focus on providing a quality product at a fair price. We have actually raised prices during this slowdown, and we have been able to keep a full schedule. Since our market is at the bottom in terms of pricing, we are now seeing service and quality coming into focus. We are optimistic about competing on merit instead of price.

Miles Crowe, Crowe Custom Countertops, Inc., Atlanta, GA: Our sales were almost identical in 2007 as in 2006. We are seeing the same trends as Mark Meriaux. A lot of lower-end fabricators that usually only service the new construction market are being forced into our (retail) market.

I have taken a somewhat different approach. I have decided not to dig in. I've decided to be very aggressive with marketing and new equipment purchases. I know it is a gamble, but when the market is tight, I feel it makes more sense to differentiate yourself from your competition.

We bought a Northwood 257 SawJet. So far, the response has been incredible from prospective customers. We have doubled our advertising budget. I have hired a new (and expensive) sales manager, who has a history of producing.

I'm hoping to increase sales by 25% in 2008. So far, December 07 and January 08 are up significantly over the previous year, so I'm hopeful.

Ken Lago, Granite Countertop Experts, LLC, Hampton, VA: Every year gets better and better. The trick is to always get paid for the work you do -- meaning, charge for any upgrade, edge detail, bumpout, radius, etc. Don't give anything away. There will always be work for us who provide the best service and workmanship. Good customers know that, and they will keep you busy. Business is good, and we are busy as ever.

Brian Briggs, Granite Guys, Inc., Ft. Pierce, FL: We definitely felt a slowdown in new construction. However, re-models are up, and our high-end clients are as steady as

always. Fortunately, we are a small company and can service the high-end builders and designers as they expect to be serviced.

As for machinery, we held off in 2007. We were about to purchase a CNC and stopped due to the impending market crunch. However, in 2008 we plan to purchase a Fab Center (or similar machine).

Jeff Leun, The Stone Haus Inc., Chattanooga, TN: We were down 25% in December, which is usually a hellish time of year, but was rather calm. It was nice to not be running 100 miles an hour non-stop, but it comes with a price. We have been either extremely busy or almost dead over the past six months. It has been hard to keep cash flow with the slow-pays and no-pays.

I equate a few reasons for the slowdown. The economy slowing down and mortgage woes are a no-brainer. There are still shops opening in this time period -- three in the past five months. That was a puzzle to me, until Brian Briggs and I were talking the other day. The fact that large shops are slowing down and laying off is spawning new shops that think they can do it cheaper -- based on what they were making when employed. This compounds the problems of an ongoing race to the bottom pricing.

I think those that can make it through 2008 should emerge from the ashes no worse, but there are tough times ahead for lots of folks who can't hold on. All we can do is stand tall and watch them fall, and hope we aren't one of them.

Jim Marshall, SFA, The Beveled Edge Marble & Granite, Westminster, MD: We are taking steps to continue to grow every year. Even though the housing market is having negative effects on our industry in general, using the marketing strategies in our business plan allows us to continue to have marginal growth. The recent move of our shop and offices created needed exposure to our local retail and commercial customers and helped bring new jobs into the shop. We will also be implementing other unique marketing plans to maintain a strategic growth pattern for the new year. Our shop is still considered to be a relatively small shop, so controlling the cash flow might be easier than if we had more overhead. There has been a lot of talk about large fabrication shops having major financial troubles lately. As a result, I think fabricators are becoming more interested in how to make the "small shop" work using less people and a minimal amount of machines. During the current economic downturn, a business model such as this seems to be becoming more and more attractive.

Nick Patrona, Palm Beach County, FL: I am in one of the worst housing markets in the country. Home prices have dropped to 66% of their value a short time ago. That is almost half, and I strongly feel that the "bottom" is another 10 to 15% away, making for a 50% decline in three years.

A majority of my work comes from people that do six- to seven-figure renovations, with checks paid from money management accounts. "Average Joes" make up about 45% of customers, but less than 20% of gross. We had our best year last year -- up about 25% gross, but it was an increase in bigger-dollar renovations, not "Average Joes," that made that happen. I fear for next year if the market falls down. We can only do a better job than the next guy and hope that the phone rings.

Kevin Noel, Century Stone, Sanford, NC: Our local market is coming to a slowdown as far as new construction goes. We are new to the market, and we have not grown dependent on new construction, so 90% of our business is remodel in a retirement community. I am a manual, non-digital shop and can simply send people home if things get bad.

I am sitting on the edge and wanting to go into "hyper-shop" mode -- all digital -- and we may still take the risk early this spring. My need is simple because the available workforce is slim, and I cannot get the quality I need from adding more people. I will probably take the risk, but it will be an all-or-nothing solution.

I agree that inflation is knocking at our door, and I think the currency conversion (Euro) will soon take a correction. Europe will see to it since they can no longer sell their product here if it is not corrected.

Dan Toy, USA Stone, Oxford, MI: The housing market is adjusting -- just as the stock market does when it becomes overvalued. Housing prices increased in value in the last 10 years more than any other period of time. If you bought a house late in the rush, you will probably lose money.

Now is the time to purchase the big items. Real bargains are out there, both in houses and equipment. Take the contrarian approach to investing; real value exists there. I do get to travel around a little, and it looks very similar most places. The housing market is soft to terrible and competition is brutal; you have to choose your battles and fight to win. Look outside the housing market. Be diverse, learn and try new things.

Darryl Miller, Acoustical Specialties and Supply, Inc., Baton Rouge, LA: In the Southeast Louisiana area, housing is down as well. We did go through a post-Katrina boom, but that has burned out mostly. I have one contractor that I do granite and cultured marble for. In 2006, we did in excess of 50 houses in one subdivision alone. At the end of 2006, he had 33 houses unsold. In 2007, we did less than 10 for this same builder. In the last four months, our monthly sales volume has dropped by \$70,000 per month. I grew up in construction. It rises and falls. Baton Rouge was recently rated Number 21 among the strongest housing markets in the U.S. But, I have a lot of builders that are hardly doing any new construction. I do believe it is going to turn around; I don't know when.

The majority of my work comes strictly through referrals. I do not seek spec homes, although I do a good many of them. Housing prices have dropped sharply. I focus on retaining my high-end builders. I also have the strong profit margins of our cultured marble operation to carry us as well.

Mark Lauzon, Stoneworks, Hubbard, OR: Here is some food for thought:

The economy is like a person. If a granite guy wakes up in the morning and says "I feel lousy today," they might simply have a lousy day. Say that enough times over and over again, and they will make others around them feel lousy. They will believe that there is a real problem.

Then a guy in a bar declares that night, "Wow, I was at such-and-such granite company, and everyone there felt lousy. I have been hearing that from my other friend as well."

Then the local media steps in: "This is Jane reporting from Portland, OR. There is a buzz on the street that construction in Oregon is heading for rough seas." Jimmy Homeowner

reads this and says, "Phew, I'd better sell my house now instead of in the fall."
Meanwhile, Susan and Mike think, "You know? Housing prices are dropping. I am going to wait to buy. They will fall more."
Housing prices begin to fall. Construction slows, and folks get laid off (I have laid off 12 this year). They have less money, and things slow.
Then the national media reports: "The American construction industry is heading into the toilet." Susan and Mike think: "Why would we buy a house now when the value might go down?"
All of this because someone woke up and felt lousy. This goes on and on, and I am not going to fan that fire any more than I have to. It is bad energy. Yes, I understand that it was a hay ride, and the U.S. is overbuilt. Let's not make it worse.

Brian Briggs, Granite Guys, Inc., Ft. Pierce, FL: I agree the media has a lot of the blame in the current market. Unfortunately, people listen. If the media says housing is down, no one buys, making the situation worse. Unfortunately, there is very little foreseeable change in the way the mainstream media reports.
Many large shops in my area are hurting bad. It is not because they have equipment or high overhead. It is because they overextended themselves and charged too little for what they do. Why did they charge so little? Many did so because they had to due to their quality and service. Others did so because they thought they were making money, since they were turning over so much work. Now that the floodgates have closed, they see that their prices are lower than what their overhead requires. But to be fair, tract homebuilders always look for a lower price; it is their nature (even when the market in Florida was astronomical). If your company does great work and has great service, fair lead times and great quality, you will survive.
The upside to the current situation is that many of the low-ball hacks will not survive this downward trend. Companies that offer the service and quality at a fair (not CHEAP) price will survive and reap the benefits later.