



EXECUTIVE INSIGHTS

Building Winning Home Services Platforms

For a growing segment of homeowners, do-it-yourself is out. Do-it-for-me is in.

Professional home services — traditionally the province of local contractors, handymen and homeowners associations — is seeing a surge in demand, and bigger players are tapping in. The result is a market worth around \$660 billion¹ and primed for further expansion.

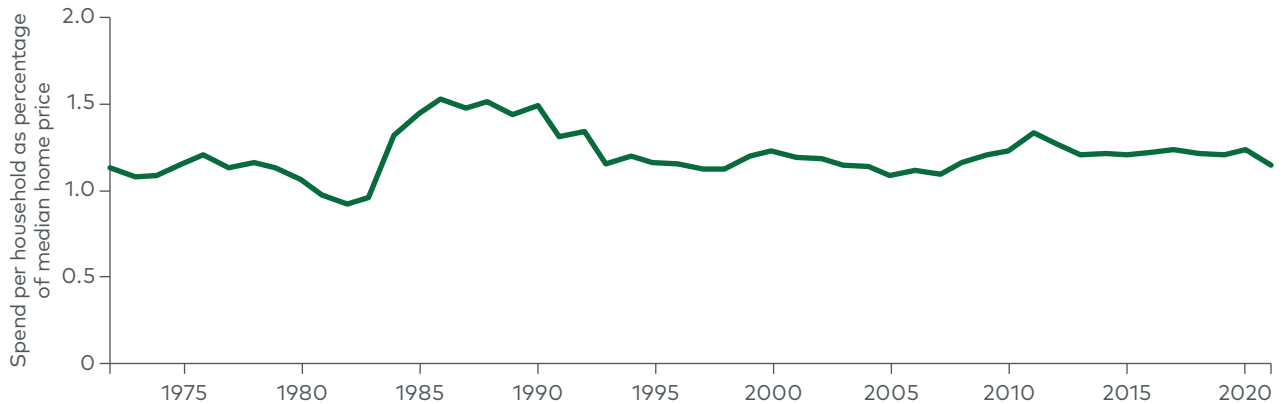
In this *Executive Insights*, we'll unpack the trends and demographic shifts that are giving U.S. residential home services a new level of importance. After that, we'll examine the consolidation opportunities that exist for participants that are able to build scale and arrive at the right delivery model for this promising market.

A disparate market with positive fundamentals

Most residential services fall into three categories. The first is maintenance services for specific parts of the home — think heating, ventilation and air conditioning (HVAC) servicing and carpet cleaning. The next is installation services for new or replacement products like blinds or a kitchen appliance. The last category includes services to provide ongoing property monitoring and management.

All have benefited from the recent housing bubble because house prices are closely related to investment in the home (see Figure 1). In 2021 alone, according to the S&P CoreLogic Case-Shiller U.S. National Home Price Index, home prices rose 18.8%.²

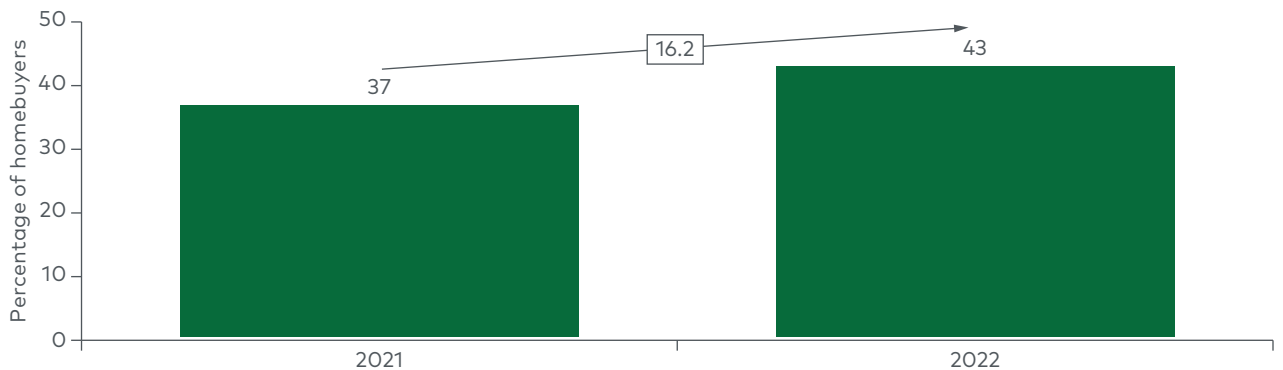
Figure 1
US real household R&R spend as a percentage of real home price (2021)



Note: R&R=repair and remodel
Source: U.S. Census Bureau; HIRI; Freddie Mac; L.E.K. analysis

Demographic momentum is another market driver. Millennials account for a growing share of homebuyers (see Figure 2), and study findings from the Home Improvement Research Institute (HIRI) reveal that millennial homeowners are significantly more likely than their older counterparts to hire services for many of their household needs, given that 33% hire for six or more services versus 18% for Generation X — services such as painting, plumbing and electrical work, among others.³

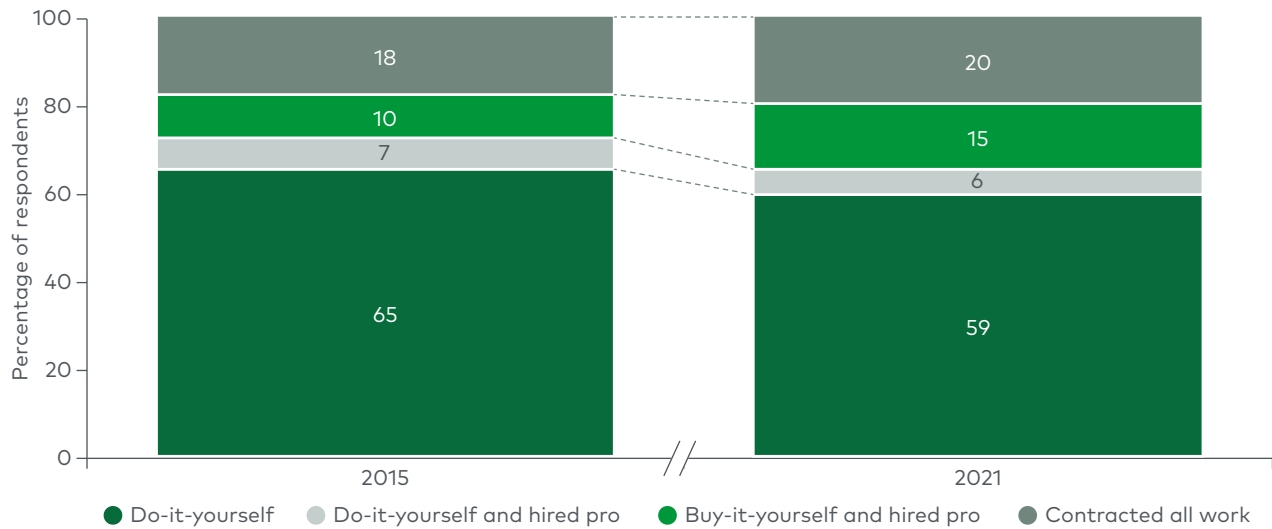
Figure 2
Millennials as a share of homebuyers (2021-22)



Source: National Association of Realtors; L.E.K. research and analysis

One reason: greater availability of services like TaskRabbit, which reduce the need for homeowners to tackle their own repairs (see Figure 3). As though to underscore the trend, a Porch.com survey finds that millennials are the least likely of any generation to have handled most of a list of 21 common home repairs.⁴ Odds are that millennials will only increase their reliance on do-it-for-me services as they grow older and wealthier.

Figure 3
Home improvement project share of work

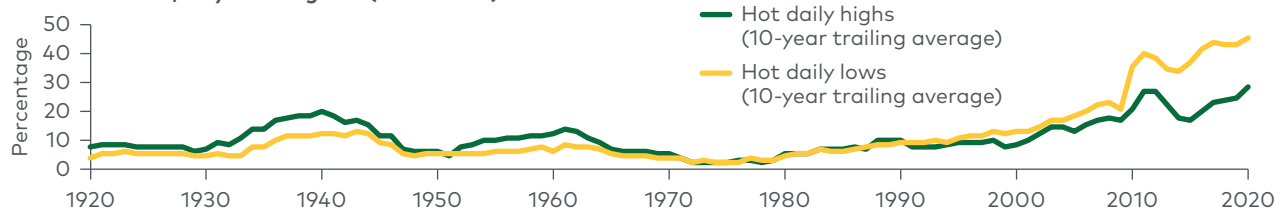


Source: HIRI; L.E.K. research and analysis

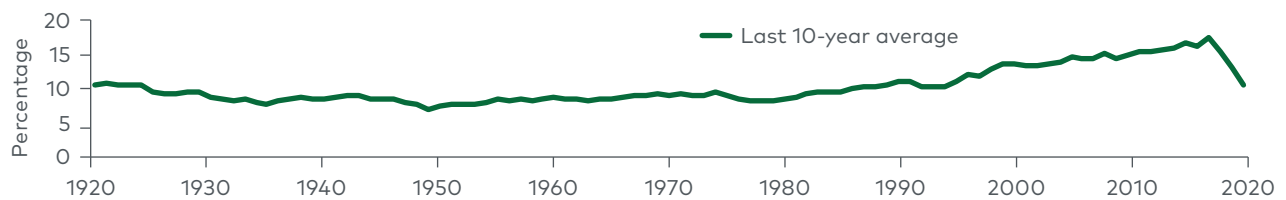
Climate conditions may also be working in home services providers' favor. There is some evidence that the U.S. is facing greater extremes of wet and dry conditions (see Figure 4), which put more strain on roofs, siding, basements and other parts of the home. Climate change could also boost the need for services like pest control.

Figure 4
Extreme wet and dry conditions

Unusual daily high and low temperatures in months of June, July and August* (1920-2020)



Annual extreme one-day precipitation events^ (1920-2020)



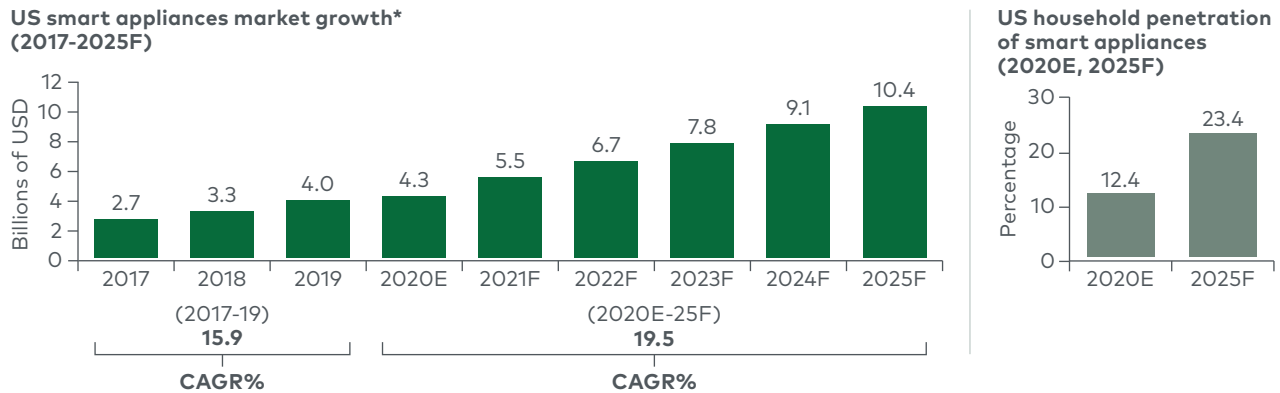
*Top 10% of hottest and coldest daily maximum and minimum temperatures

^Percentage of land area with the highest tenth percentile of precipitation from single-day precipitation events

Source: PwC Global Private Equity Responsible Investment Survey 2021; PwC Consumer Intelligence Series 2021; National Oceanic and Atmospheric Administration; Federal Emergency Management Agency; Environmental Protection Agency; Agriculture & Applied Economics Association; L.E.K. analysis

Partly in response to environmental concerns, most of the U.S. has migrated toward more energy-efficient building codes and standards. This has affected a number of home services, most notably HVAC. Then there's the number of smart appliances, which is expected to grow around 20% per year between 2020 and 2025 (see Figure 5). Smart appliances can be more complicated to repair and integrate with other products, further driving the need for home services.

Figure 5
Growth of smart appliances

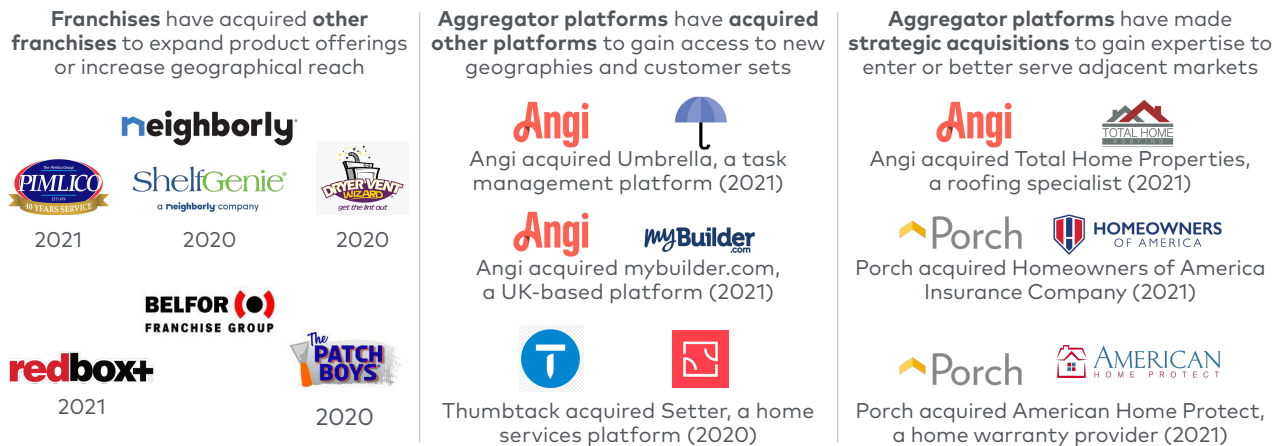


*Forecast adjusted for expected impact of COVID-19, as of August 2020; "smart appliances" refers to connected versions of all household appliances, large (e.g., refrigerators, washing machines, ovens) and small (e.g., microwaves, coffee machines, vacuum cleaners)
Source: Statista; IDC; eMarketers; Digitized House; Residential Tech Today; ServiceTitan; Forbes; L.E.K. interviews, research and analysis

Consolidation opportunities

The home services provider market is highly fragmented. According to research from Angi, 36% of tradespeople are sole proprietors and the average company has 6.4 employees.⁵ But consolidation has started to pick up (see Figure 6).

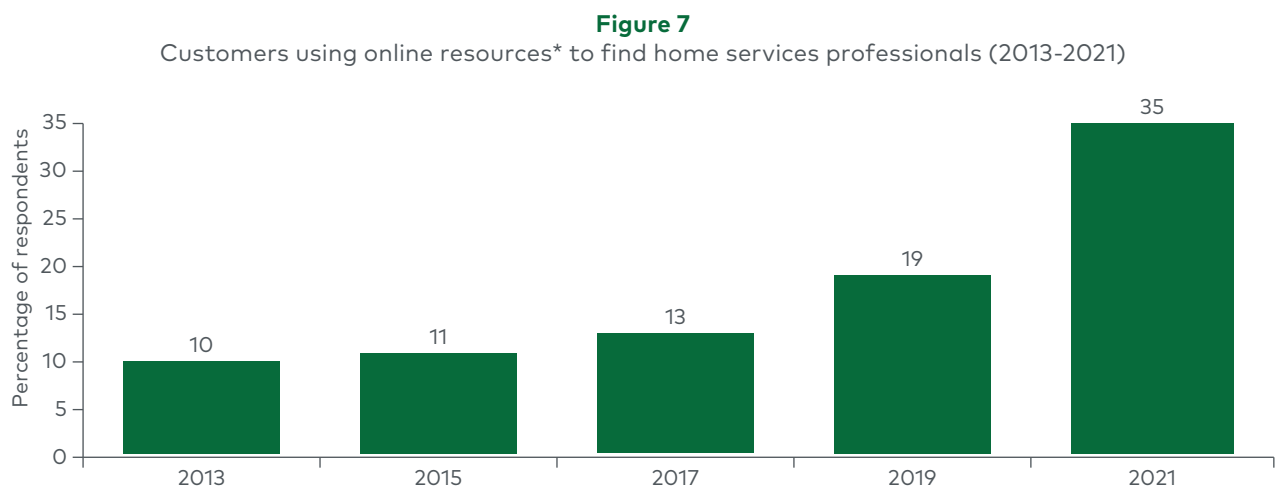
Figure 6
Consolidation in home services



Source: L.E.K. research and analysis

Consolidation is more feasible than it once was due to greater standardization in the industry. More companies are applying a consistent “look and feel” to their websites, uniforms, fleets and other aspects of branding. They’re also developing playbooks for targeting, reaching and upselling consumers. Employee training is becoming more formal, guarantees are getting more common and suppliers are providing more support with customer conversion (like marketing materials and cobranding initiatives).

Digitalization offers another incentive to consolidate. Homeowners are going online to find providers (see Figure 7), a trend that has accelerated awareness of offerings. Digitalization also offers scaled providers the opportunity to create technology-driven models that can be differentiated and win share over small players.



*Online resources include internet websites, social media platforms and smartphone/tablet apps
Source: HIRI; L.E.K. research and analysis

There's still room for improvement. This becomes clearer when you consider how each segment of the value chain – maintenance, installation and monitoring – can benefit from digitalization (see Figure 8).

Summing it up:

- **Online channels** make it easier for businesses to identify, engage and sell to customers.
- **Data analytics** can help providers optimize their network and workflow, predict when customers might need assistance, and understand their customers better.
- **Augmented and virtual reality (AR/VR) applications** can help customers gauge their maintenance needs and help service providers carry out their work more effectively and accurately.

- **Internet of Things (IoT) devices** can monitor customers' homes and quickly identify emerging maintenance and security needs.
- **Automation** can broadly enhance worker productivity and limit the overhead necessary to run a business, in addition to improving overall service quality.

Figure 8
End-to-end integrated digital value chain

	Maintenance	Installation	Monitoring
Online channels	<ul style="list-style-type: none"> • Ecommerce and mcommerce • Search engine and website optimization to maximize digital customer engagement and brand building • Online marketplace engagement 	<ul style="list-style-type: none"> • Ecommerce and mcommerce • Search engine and website optimization to maximize digital customer engagement and brand building • Online marketplace engagement 	<ul style="list-style-type: none"> • Online portals for managing services and engaging with customers • Website optimization to maximize digital customer engagement and brand building
Data analytics	<ul style="list-style-type: none"> • Predictive maintenance for customers • Service and pricing optimization • Network optimization 	<ul style="list-style-type: none"> • Network optimization • Service and pricing optimization 	<ul style="list-style-type: none"> • Optimization of tenant management
AR/VR	<ul style="list-style-type: none"> • Real-time assistance, planning and project estimates • Machine wearables on-site 	<ul style="list-style-type: none"> • Real-time assistance and project estimates • Machine wearables on-site 	<ul style="list-style-type: none"> • Real-time assistance • Real-time monitoring services
IoT	<ul style="list-style-type: none"> • Connected devices to enable real-time monitoring of maintenance needs 	<ul style="list-style-type: none"> • Enabling of connected tools, workers, products and jobs 	<ul style="list-style-type: none"> • Connected assets to enhance and enable real-time security and monitoring
Automation	<ul style="list-style-type: none"> • White-collar tasks 	<ul style="list-style-type: none"> • Warehousing and supply chain • Dispatch and inventory management • White-collar tasks 	<ul style="list-style-type: none"> • Monitoring services • Clerical property management functions

Source: L.E.K. research and analysis

Realizing success as a consolidator

Consolidators can build scale in a number of ways (see Figure 9). To gain share, players can expand regional coverage through new branches in secondary markets. To expand nationally, businesses can replicate their business model across different regions, leveraging the reputation and capabilities they developed locally.

In addition, companies can offer services adjacent to their current capabilities in order to build on their expertise and become a one-stop shop. Still another possibility is to expand the target customer profile to address non-homeowners, landlords and build-to-rent developers. The optimal path will depend on the capabilities and core value proposition of the company involved.

Figure 9
End-to-end integrated digital value chain



Source: L.E.K. research and analysis

Players also have flexibility in the type of business model they choose (see Figure 10).

Figure 10
Home services delivery models



Source: L.E.K. research and analysis

Independent companies can grow by acquiring smaller players or expanding one market at a time. This model is most applicable where local brands and relationships are key, cross-market brands aren't critical, and the service can stand alone at some level.

Local aggregators seek successful local businesses that have established a strong presence in their communities and provide those businesses with added support such as capital, best practice sharing and purchasing economies. Local aggregators can vary, ranging from corporate involvement from aggregators that have established a common playbook among local entities to aggregators that have a lighter touch of best practice sharing.

Franchises can offer additional value to customers by standardizing quality, services, insurance and other offerings across geographies. Once expertise and reputation are developed locally, companies can share these through franchise agreements in order to address a greater share of the market. Some franchises begin with a single location and a limited set of competencies, then cover more locations and services over time.

National brands such as Home Depot and Lowe's often offer installation services with certain products. Although these businesses mainly sell merchandise, installation services complement the sale and can improve the customer experience. These retailers typically contract out the services, giving market participants access to a large set of potential customers.

Aggregator platforms can attract homeowners looking for a selection of service providers. Service providers can become preferred providers with marketing and/or delivery tailored to the needs of the platform and their customers. In return, providers gain convenient access to customers and the option to outsource gatekeeping services such as quality guarantees and payment processing.

Given the options, which way should home services businesses go? It depends on the answers to three groups of questions.

Nature of the business

- Does our business emphasize low-cost or reliable execution, so that we should allow others to generate leads and market for us (national retailer or aggregator)?
- To what extent can business success be understood as a system or method of working that can be licensed to others (franchise) versus one that requires strict control to execute (independent company)?
- Does a particular business service have intrinsic demand, or does demand rely on another product or service (national retailer)?

Customer needs

- Is there a lack of trust in the service and its providers, requiring intermediaries to help reassure consumers and build the market (national retailer, aggregator or franchise)?
- When considering the service, what relative importance does the customer place on the service itself (independent company) versus the reputation or other ancillary aspects of the provider (franchise)?
- Are local relationships and presence most critical in winning consumers' trust and business (independent company or marketing platform)?
- To what extent are diverse customers better served by partnering with local business owners (franchise or national retailer) versus serving them directly (independent company or aggregator)?

Corporate strategy and finance

- Do we want to share the risk and capital of expanding into other markets (franchise or national retailer)?
- Is speed an imperative in building scale, such as to establish brand or footprint before competitors do (franchise or national retailer)?
- Is achieving scale necessary to make capital investments such as digitalization (franchise)?
- Are we willing to invest in partnerships that can generate significant business but that may cause us to become more dependent (national retailer or aggregator)?

Winning models that meet demographic needs

The home services market has always been underwritten by population and household income growth. Now the economics are even more attractive as younger generations turn to outsourcing their home maintenance, installation and other discrete tasks. In response, providers are increasingly professionalizing and digitalizing the service experience, laying the groundwork for further market consolidation. Scaled players that arrive at the right business model and growth pathway can position themselves to benefit from shifts to do-it-for-me.

For more information, please contact industrials@lek.com.

Endnotes

¹"The Economy of Everything Home," Angi, 2022

²"S&P CoreLogic Case-Shiller Index Reports 18.8% Annual Home Price Gain for Calendar 2021," S&P Dow Jones Indices, Feb. 22, 2022

³"Home Services and Do-it-for-me," Home Improvement Research Institute, 2021

⁴"Do You DIY?," Porch.com

⁵"The Economy of Everything Home," Angi, 2022

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