EXECUTIVE INSIGHTS

Targeting Geographies for Residential Services Growth

For many providers of residential services such as roofing, restoration, HVAC, landscaping and more, geographic growth is a key component of their expansion theses. But while many such businesses target the obvious markets — namely, larger metros with above-average income and/or population growth — a more precise approach is needed to unearth the less obvious, and potentially more lucrative, opportunities for both M&A and greenfield expansion. For example, L.E.K. Consulting recently worked with a client that found its business performed best in markets with lower home values but higher income and used that information as the basis for its expansion strategy.

To start, residential services providers that are looking to expand their platforms need to develop an index of what drives demand for their services. Dozens or even hundreds of variables can be evaluated using data science techniques to assess the market potential for building services in regions across the U.S. and serve as catalysts for more-targeted growth and sales efforts. Targeting local opportunities is critical, as variations in financial capacity, service demand and operational attractiveness are what propel increased residential remove-and-replace spending in specific areas. Granular analysis, meanwhile, can highlight both in-fill opportunities in existing markets and attractive subregions in potential expansion markets.

Core elements of a geographic targeting index

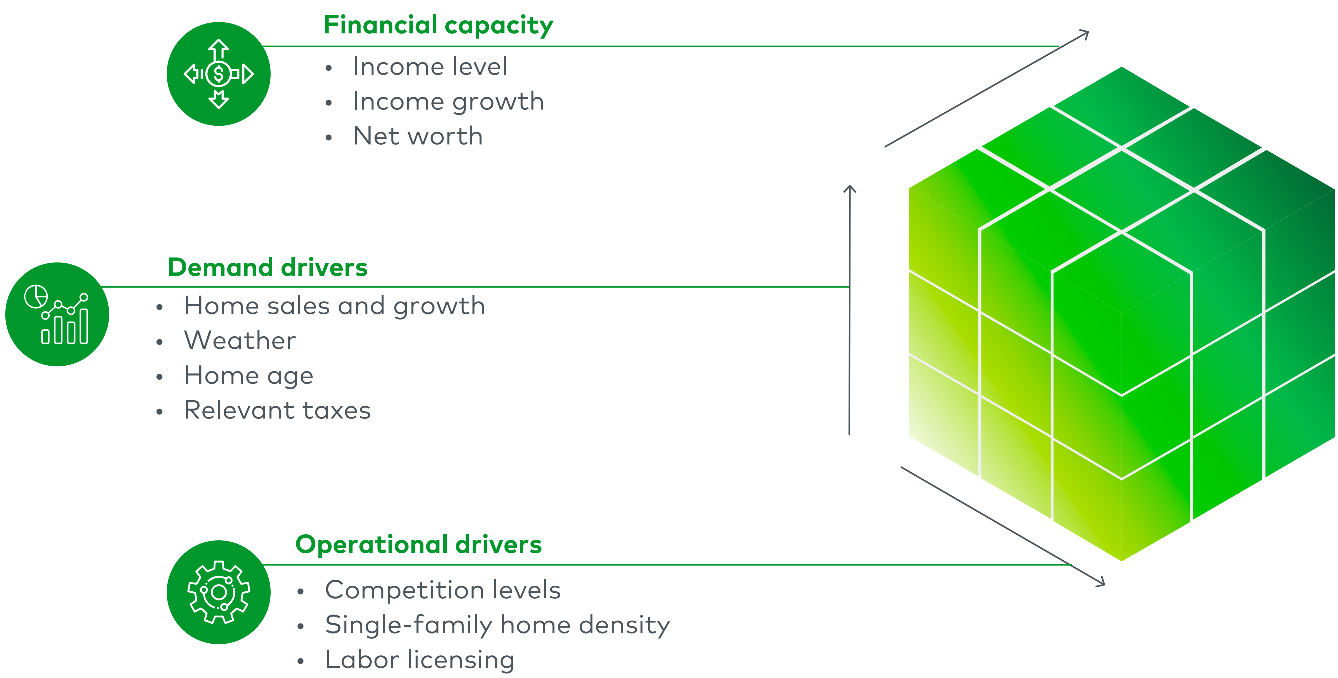
Every provider of residential services needs to develop its own index of the variables that it deems most important to the business. And while every residential services business is different, all their variables will fall into one of three essential categories, which can be identified by answering one or more related questions:

1. **Demand —** What are the key drivers of demand for the specific residential service: home age, home sales, weather and/or other local factors?
2. **Financial capacity —** To what extent does the geography feature homeowners with the growing means to pay for residential services?
3. **Operations —** To what extent does the geography allow a residential services business to act on demand drivers and serve homeowners with the ability to pay? How dense (i.e., within easy access) are the properties that would be served? What level of competition and execution barriers does the geography have?

A composite of prior approaches used by residential services providers surfaces some common variables (see Figure 1).

Figure 1

Residential example attractiveness paradigm

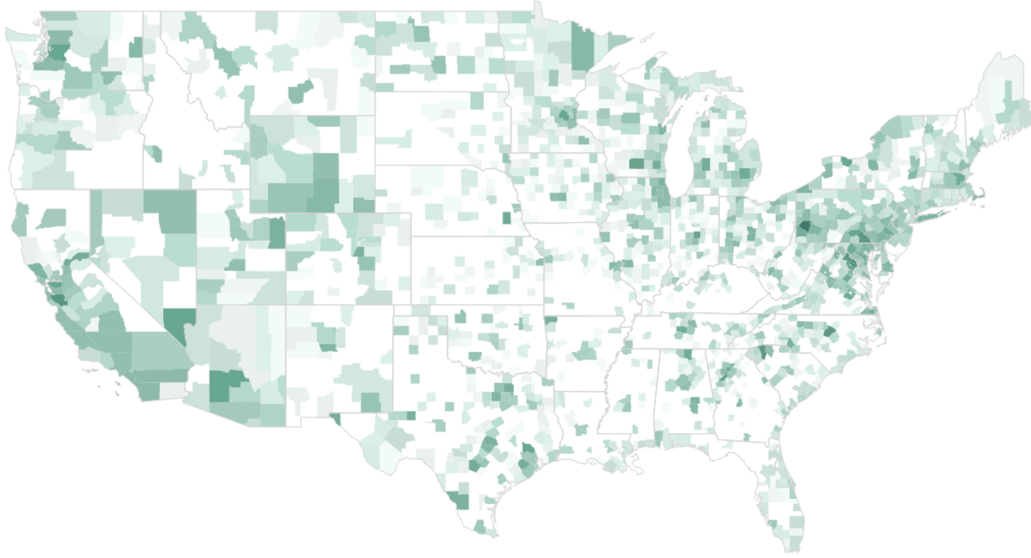


Source: L.E.K. research and analysis

Applying these variables to assess metropolitan statistical areas across the U.S. makes clear that attractive growth geographies exist in multiple markets (see Figure 2).

Figure 2

Residential example target geographies



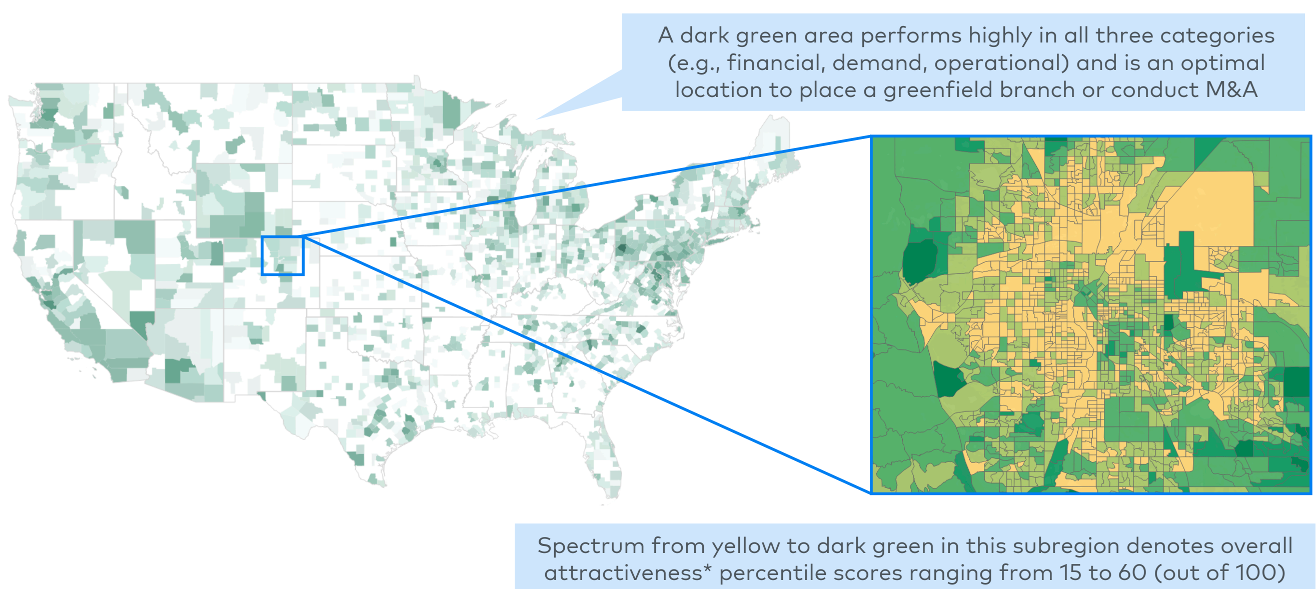
Map key: Low overall attractiveness — High overall attractiveness

Source: L.E.K. research and analysis

A review of specific geographies reveals opportunities within metros, all the way down to the ZIP code level (see Figure 3).

Figure 3

US residential services attractiveness, by ZIP code (2024)



U.S. Map key: Low overall attractiveness — High overall attractiveness

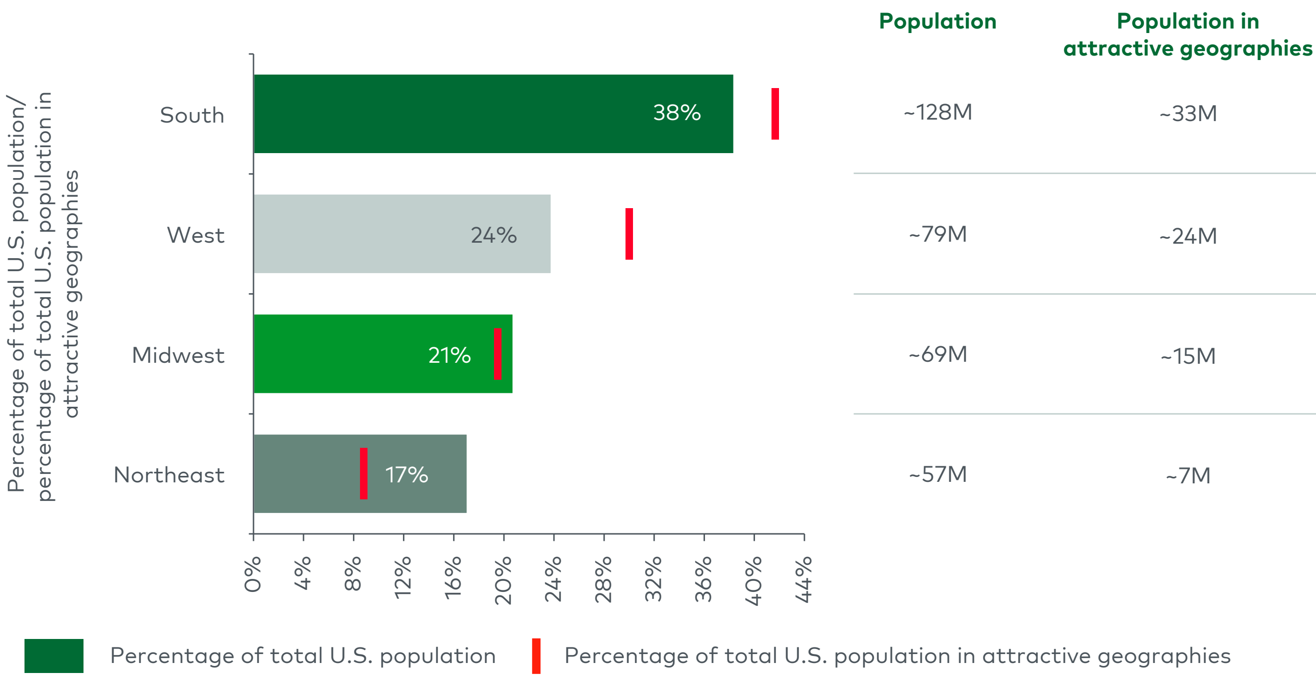
*"Overall attractiveness" is an L.E.K. metric calculated by combining demand, financial and operational scores

Source: L.E.K. research and analysis

The map surfaces some important findings and actionable insights. To start, there are 132 geographies that are 75-plus on the 1-100 attractiveness rating scale, representing an estimated 79 million people — roughly 24% of the total U.S. population. Unsurprisingly, the most attractive geographies are in the South: The South Census Region accounts for 38% of these geographies and contains 41% of the overall population living in attractive geographies (see Figure 4).

Figure 4

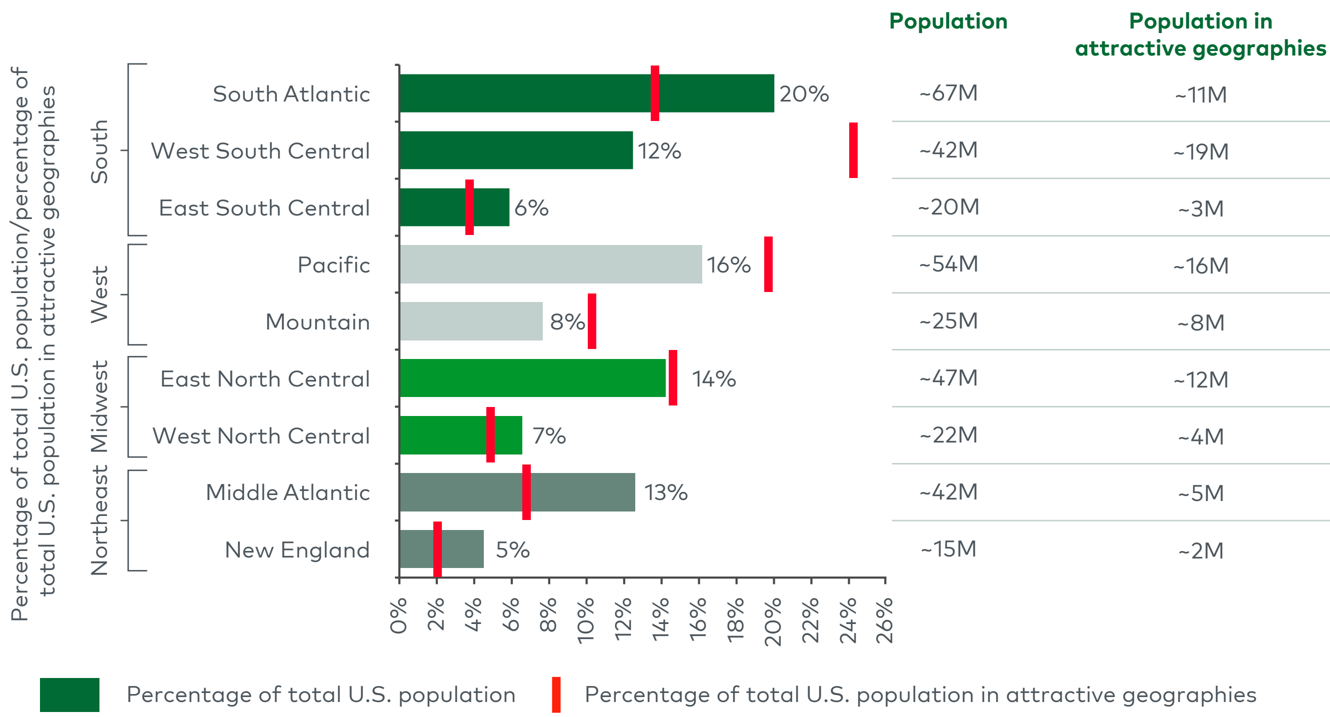
US residential services attractiveness, by Census region (2024)



Source: L.E.K. research and analysis

That said, even within regions one will find a wide variety of geographies, both attractive and unattractive. For example, while the South Census Region contains the most attractive geographies, the East South Central Division contains just 4% of the population living in those attractive geographies (see Figure 5).

Figure 5
US residential services attractiveness, by Census division (2024)



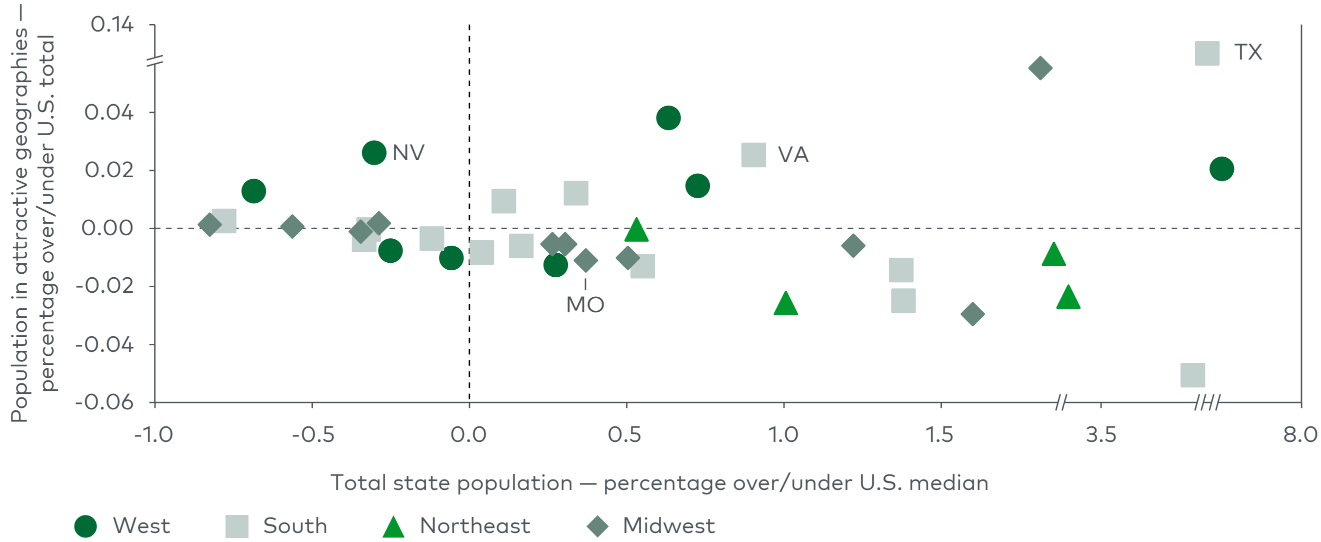
Source: L.E.K. research and analysis

Similarly, when analyzing attractiveness at the state level, pockets of opportunity can be found across regions.

Notably, population does not equal attractiveness. Some states have a comparatively lower population but a high level of attractiveness, whereas some higher-population states have a low level of attractiveness. Roughly 2 million people live in attractive geographies in Alabama, for example, which is a comparatively lower-population state given its population of about 5 million people (see Figure 6).

Figure 6

US residential services attractiveness, by state (2024)

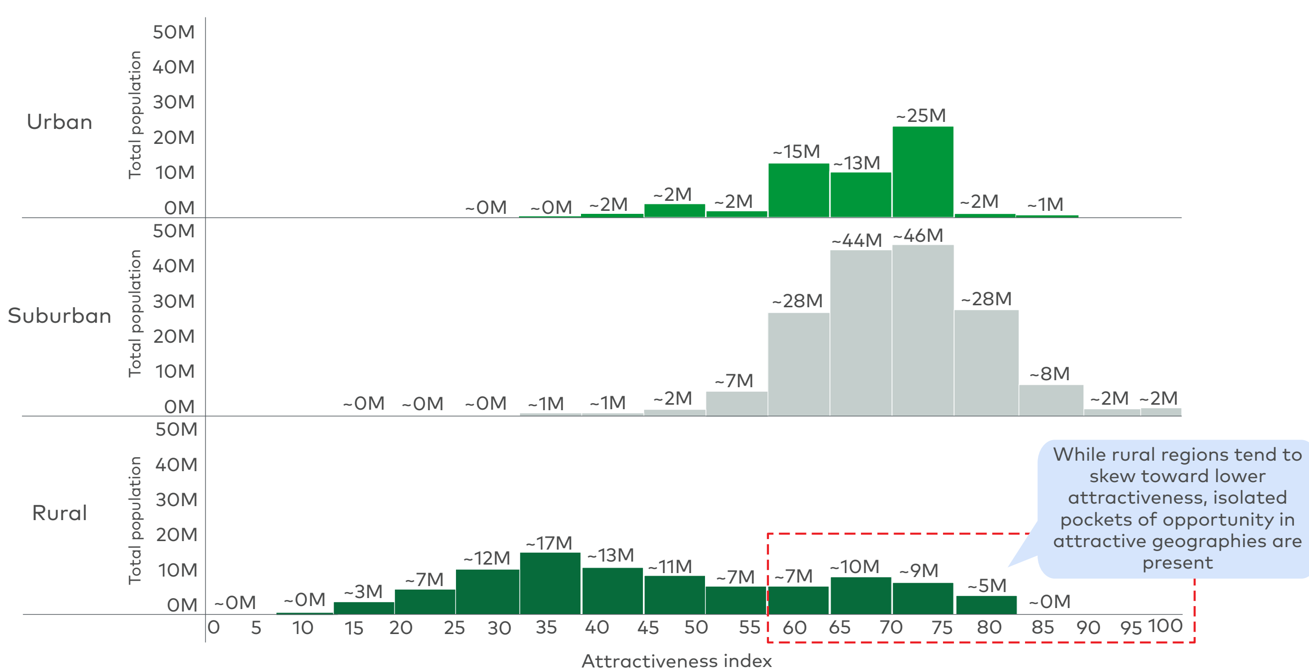


Source: L.E.K. research and analysis

And attractive geographies are not all urban. While urban geographies tend to skew toward higher attractiveness, opportunity still exists in more-rural regions. For example, some 40 million people live in rural geographies that score 50-plus on the attractiveness rating scale (see Figure 7).

Figure 7

US residential attractiveness, by urban, suburban and rural regions (2024)



Source: L.E.K. research and analysis

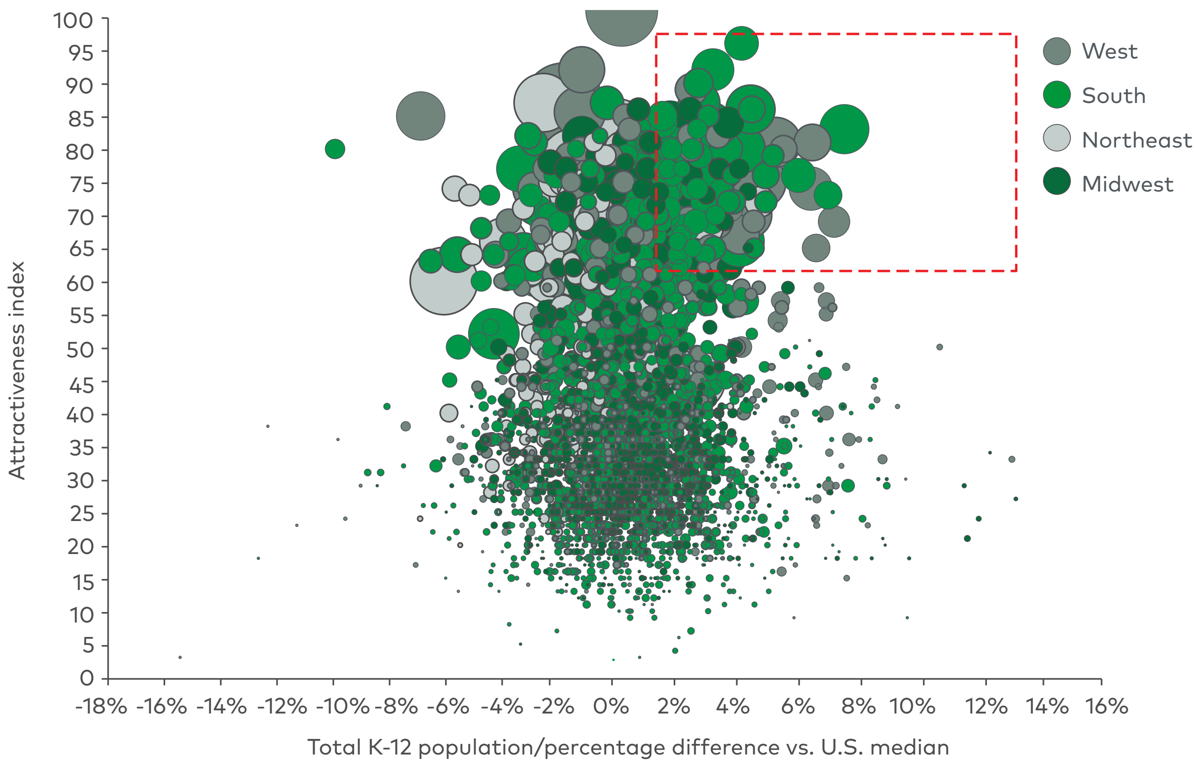
How to create a geographic targeting index

While the above analysis is based on a set of variables that are relevant to most residential services businesses, each business will want to develop its own index.

For example, a services provider might find that an effective predictor of a successful geography for its business is the percentage of the population that's enrolled in K-12 versus the U.S. average. The provider can then compare that metric against the geographic attractiveness index (see Figure 8).

Figure 8

Total K-12 population vs. attractiveness (2024)

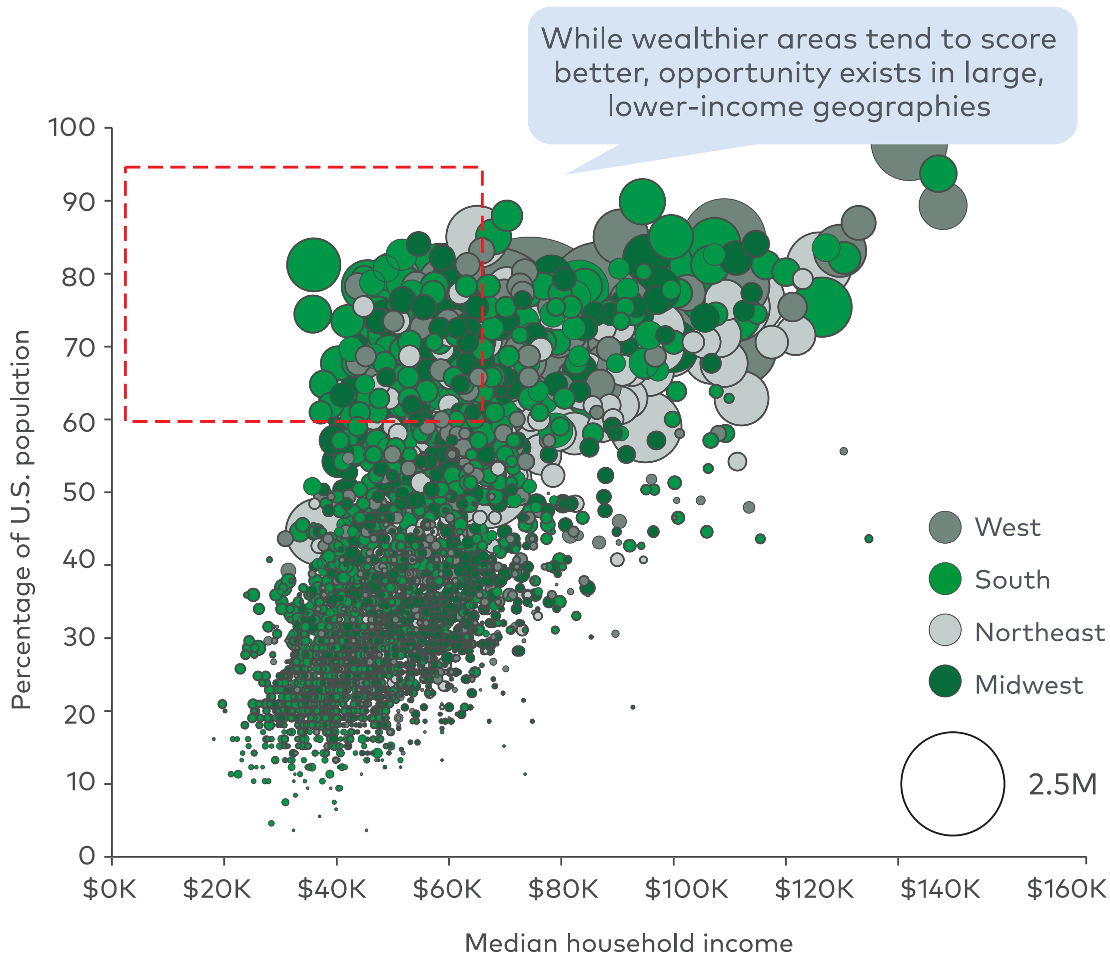


Source: L.E.K. research and analysis

Once again, the analysis shows that while wealthy geographies score higher, but there is still promise in lower-income areas. (see Figure 9).

Figure 9

Wealth distribution in attractive areas (2024)

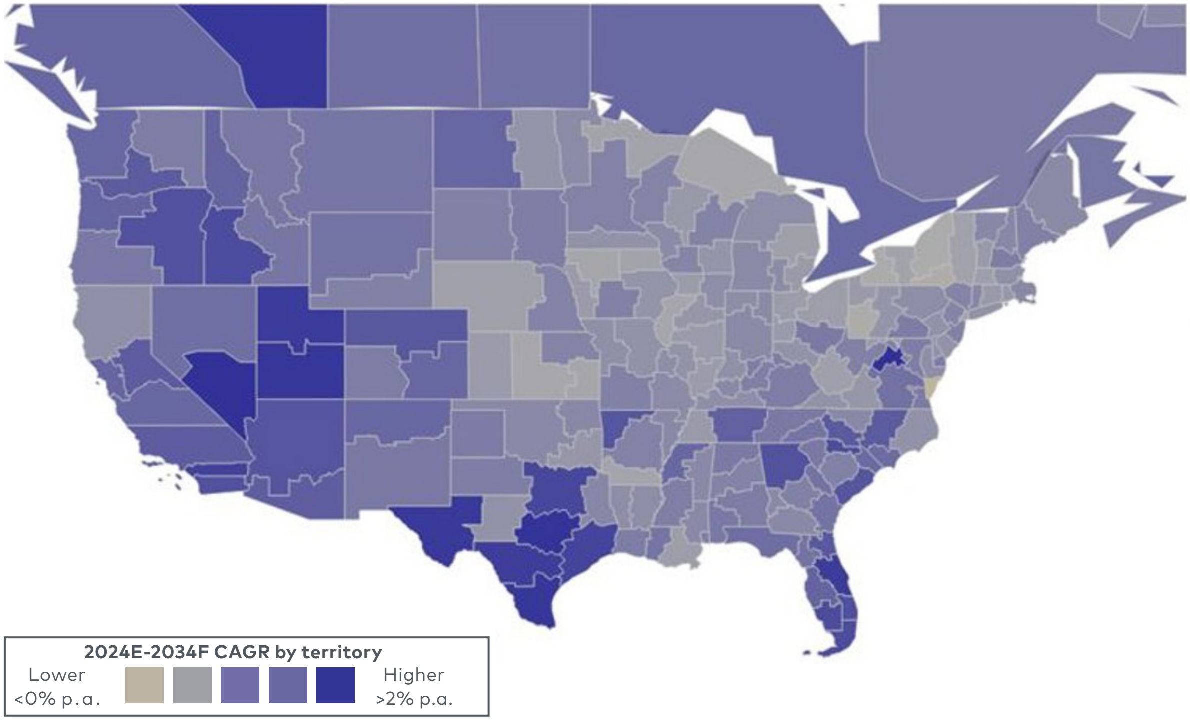


Source: L.E.K. research and analysis

In another example, a services provider might be most interested in an older and more financially stable population, which aligns best with the provider's current go-to-market approach. Population growth in the 55-plus bracket highlights clear pockets of opportunity, most acutely in the South (see Figure 10).

Figure 10

US age 55-plus population growth by territory (2024-2034F)

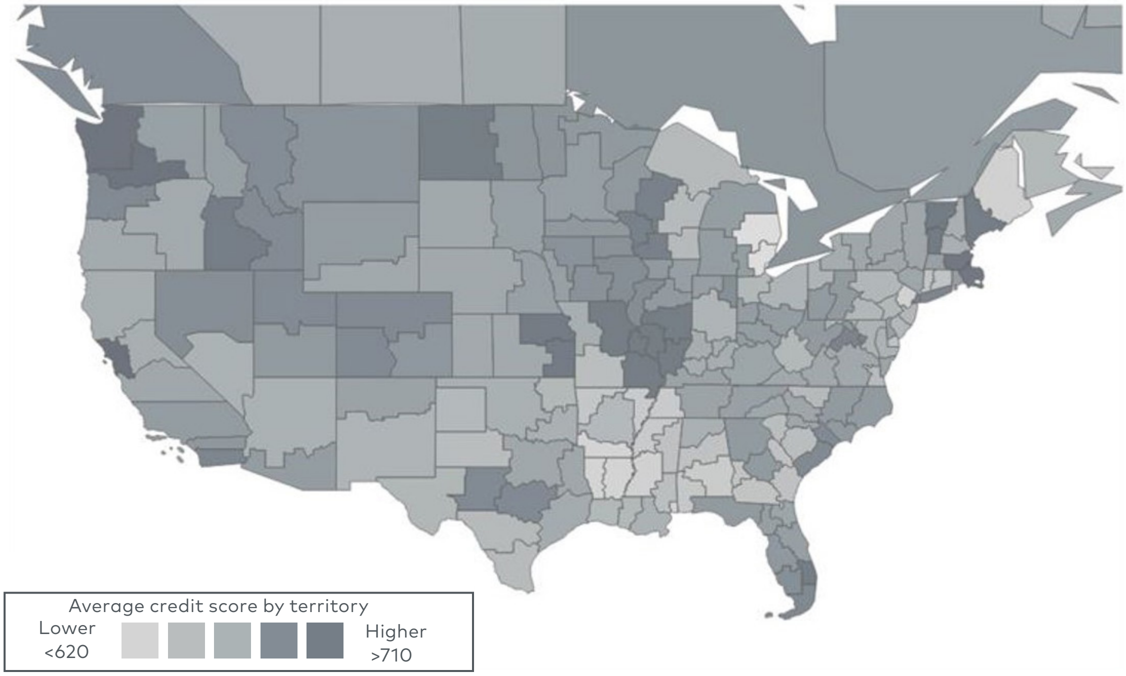


Note: CAGR=compound annual growth rate
Source: L.E.K. research and analysis

But when overlaid with key financial stability metrics (e.g. , credit score, share of home equity), it becomes clearer that the opportunity is most pronounced in Florida (see Figure 11 and Figure 12).

Figure 11

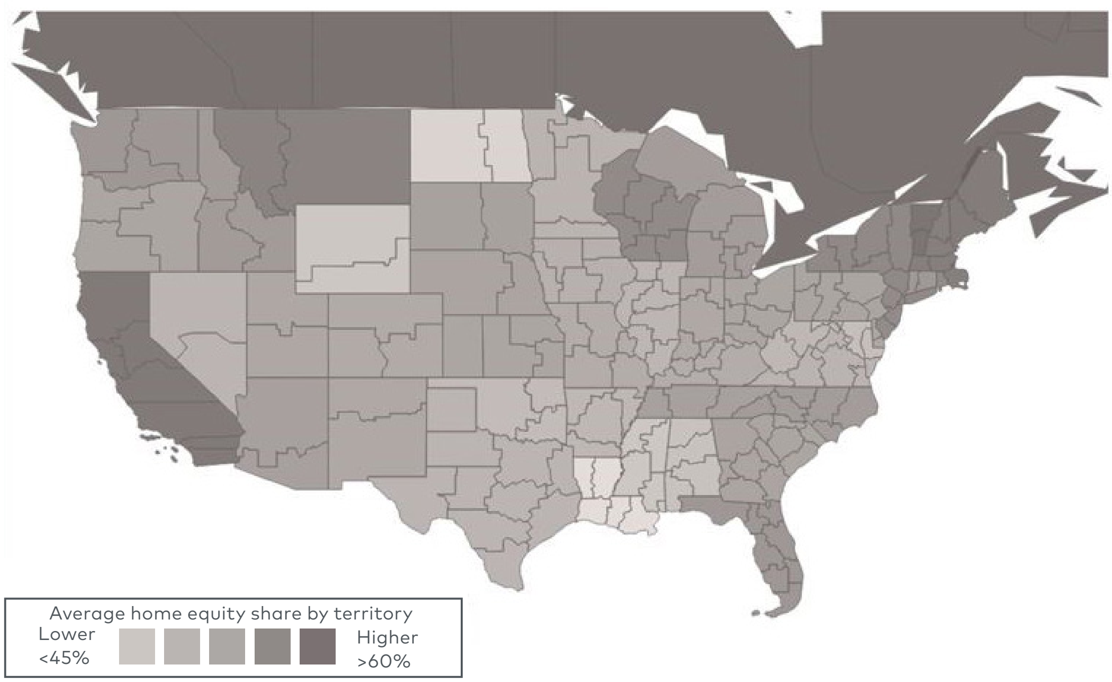
US average credit score by territory (2024)



Source: L.E.K. research and analysis

Figure 12

US share of home value as equity by territory (2024)



Source: L.E.K. research and analysis

A geographic targeting index in action

We worked with a residential and commercial services company that provides a building repair service and had used geographic analysis to target rural markets, specifically those close to distribution centers that would give it faster access to its installation product.

As we quickly identified, the company's then-current footprint captured only 19% of demand; there was significant white space left over.

In order to evaluate areas into which the client could expand its services, we performed a robust regression analysis to identify new markets with attributes similar to those of its highest-performing existing markets. In doing so, we discovered that our client performed best in high-income markets with lower median housing values, low vacancy rates and a high concentration of suburban families with young children. We subsequently determined which of these attractive markets were within a reasonable drive time from the company's regional headquarters and its suppliers' distribution centers.

With our help, our client was able to prioritize a near-term pipeline of 10-15 new markets that would give it access to an additional $1.2 billion to $1.4 billion in market demand. We also built out a longer-term pipeline of markets that added an incremental $3.5 billion to $4 billion in market access for the company.

As a result of our work, our client has already started entering these new markets with a lot of success, and is considering opening new regional headquarters to help facilitate its entry into markets in other parts of the country.

The world is only getting more competitive, and the residential services space is no exception. That's why, for providers of residential services, geo-targeting is a necessary component of growth. Getting smarter on data can help companies find the right target in a market that may otherwise not be appreciated.

For more information, please **contact us**.

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Paul Bromfield is a Managing Director and Partner at L.E.K., focused on the Building and Construction and Industrial Distribution sectors within the firm's Industrials practice. Paul has more than 20 years of experience, with a strong record of helping companies across the value chain accelerate growth, including in service innovation, multichannel strategy and M&A.

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