

COMPANY DEEP-DIVE

President at '58 Foundations Believes Majority of Homes Will Need Basement Waterproofing and Sees Google as Key Marketing Channel

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PRIMARY COMPANY	OTHER COMPANIES
ANGI	SIREN LTD

Summary

A client spoke with the President and Co-Owner at '58 Foundations about the basement waterproofing, crawl space encapsulation, and foundation repair sectors. The President estimated that 60% of revenue comes from waterproofing basements and crawl spaces, 30% from foundation repair, and 10% from mold and radon mitigation. They also discussed the average job sizes for waterproofing and encapsulation, with waterproofing having better margins. The conversation touched on lead classification and marketing channels, with Google being the majority at 60%. The President recommended separating leads by the type of work and only offering them to contractors with the capacity to do that specific work. The President also noted that 85% of homes with basements will need waterproofing at some point, and 25% of homes are currently leaking.

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EXPERT BIO

INTERVIEW TRANSCRIPT

Client ▶ 00:00:00

Hello. Thank you so much for taking the time to speak with me today. So I'm basically trying to learn as much the possible about basement waterproofing, crawl space encapsulation, foundation repair in order to sort of analyze this as a sector.

Expert ▶ 00:00:15

Yes. I would say that the bar is very low with certain competitors because we do a lot of beta testing. So I will call myself to Angi's or to one of the other companies that are third-party sources. And we are always confused at who gets the lead first, how do you get the lead first, how many people they're actually selling the lead to, we use automated software so that as soon as we're notified that we have a lead, we jump on it immediately.

But even when we do it ourselves, like I said, I will beta test HomeAdvisor. And I'll get calls from three of my competitors before I get a call to myself and it's always a head-scratcher because when we call them and ask them about that, sometimes they'll even send names of companies that aren't even on the list of people that we said we wanted to hear from. So we've had not a very good experience with them.

Client ▶ 00:00:56

Well, on one hand, I'm glad to hear that. On the other hand, the fact that you had direct experience, but important factor in our deciding to have this conversation with you because we're certainly interested in your first-hand experience. But before we discuss a little in particular, I would like to learn from you more about sort of the trade. So for us, it's important to

understand not only the marketing side of the business, but the business side of the business and what is important for the contractor.

So if you don't mind, I would like to start with your company. I saw on your website that you sort of are present in four business lines. First one is basement waterproofing, then crawl space encapsulation, foundation repair, and mold remediation. So I would be curious to know what is the split between the revenues in terms of these four business lines? Like what's your core business and what is additional services for you in a certain way?

Expert ▶ 00:01:53

Sure. So for us, it's a little more difficult to answer because we're in nine different states. But on average, in the Southeast, you're probably talking about 60% of your revenue coming from waterproofing basements and crawl spaces, which includes encapsulation and then probably 30% for foundation repair and about 10% from mold mitigation and radon mitigation.

One of the things to realize though is that prior to us being called '58 Foundations, we were called B-Dry waterproofing for about 20 years. And so as we've changed the name to include the word foundation repair over the last year, my growth in foundation repair has been about 3x what my growth has been in waterproofing, if that's helpful.

Client ▶ 00:02:30

Interesting. And why is that some sort of reflection of the industry growth? Or is that something particular why yours is so much more in foundation repair?

Expert ▶ 00:02:39

So I think that foundation repair, it's a faster growing segment of the industry. There are some pretty big players in the industry that spend a lot of money like Groundworks and Basement Systems on trying to educate the consumer on foundation repair. If you think about it, if you're basement is leaking, you know you have a problem. But just because you have a crack, you don't know you have a problem unless you're educated. So there's more money and time being spent educating the consumer on the structural side than there is on the waterproofing side.

Client ▶ 00:03:06

Interesting. So I want to make sure, I got the numbers right. So you mentioned 60% is basement waterproofing and crawl space. Why these two together?

Expert ▶ 00:03:17

So ultimately, when you say encapsulation, that's just the buzzword that people use this for putting plastic in the crawl space and up the walls. But a lot of times, the crawl space also has a water problem. So you also have to put a waterproofing pipe underneath that. So basements get a pipe, crawl space get a pipe and some crawl spaces get encapsulation, which is trying to separate the soil from the living space and to add better air quality in the home. So when I say

waterproofing, I normally mean basement and crawl space. When I say encapsulation, I only mean the air quality control and moisture control in a crawl space.

Client ▶ 00:03:50

That's clear. And so these two services usually go together. Would that be correct to say that if a company or if a contractor is offering basement waterproofing, therefore, sure offer also crawl space waterproofing or encapsulation?

Expert ▶ 00:04:05

So most of the time, it works that way. If you're doing a basement waterproofing, then you have the technology to do a crawl space, but it doesn't work the other way. So there are a lot of people that just do crawl space but don't do basements.

Client ▶ 00:04:17

Perfect. And what would be the story with the foundation. Would any company that does for waterproofing also do foundation repair and the other way around?

Expert ▶ 00:04:27

No. So there are a lot of people that are just waterproofers and there are a lot of people that are just structural repair companies. The issue, though, from a weather standpoint is that when it's raining, your basements are wet and your crawl spaces are wet. But when it's dry, you don't have any basement or crawl space work. So when it's dry, the soil shrinks around your home and your home settles. So most smart business owners are doing both services so that they're able to keep their crews busy all year round.

Client ▶ 00:04:53

Interesting. But what I'm hearing from you is kind of the skills and the technology and the equipment or whatever goes for the trade of the foundation is pretty much different from what.

Expert ▶ 00:05:03

Totally different.

Client ▶ 00:05:04

It's a different business in a way.

Expert ▶ 00:05:06

Yes. It is totally different. So the foundation repair sides the barrier to entry is much more expensive. You need expensive equipment, you need lifting equipment, you need to buy products that are much more expensive. In waterproofing, you can go to Home Depot and buy some

downspout pipe and dig a hole all the way around the house inside or outside and bury the pipe and say you're a waterproofer. So the barrier to entry for waterproofing is very easy, especially in a crawl space. You just take a shovel and dig a trench all the way around the perimeter, put the pipe in the ground and run it to a pump, and now you're a crawl space waterproofer.

Client ▶ 00:05:39

Right. I kind of intuitively sense from your description is that basement waterproofing or basement plus crawl space waterproofing is a bigger industry than foundation repair. Is that correct perception?

Expert ▶ 00:05:52

I think it was, but I think the foundation repair industry as a whole is growing at a much faster rate than the waterproofing industry. So I would say that. And also, the quality of construction is pretty poor nowadays. And there's a lot of homes that are aging in the environment, which means there's a lot more things taking place. Weather conditions have changed. You have much wetter seasons and much drier seasons than you used to have in the past. And so all those things really affect the structure of the home, the stability of the home.

Client ▶ 00:06:19

Very interesting. Can you recommend any source where that you consider reliable for the industry estimates? Like one of the factors or indicators which you're usually looking at when we evaluate an industry is the total size. And we've been struggling a little bit to get secondary research for basement waterproofing industry size because somehow it's not covered. Is anything that equates to you? You can point us to know like how many billions is waterproofing and how many billions total is for example, foundation repair?

Expert ▶ 00:06:50

So you can probably reach out to like the Basement Health Association. They may be able to give you some data, and there's also the Deep Pile Association, which may be able to give you some good information on foundation repair. The other opportunity would be, as you could probably call some of the larger foundation repair manufacturers because they manufacture the products that are installed and they could probably give you some pretty good data.

Client ▶ 00:07:12

That's also a good idea. And what would be that material to look for?

Expert ▶ 00:07:16

They're called push piers and helicals.

Client ▶ 00:07:18

And that's kind of this type of plastic that you referred to previously that you use for waterproofing?

Expert ▶ 00:07:23

That's for foundation repair. Yes, foundation repair is easier for you to find the information now because it's regulated. The products that are being installed are all very similar. Most stages they requires permits. So to follow the data would be easier on that waterproofing because you have a lot of guys that can just do it in a truck, like a single guy with a couple of people, that's going to be harder to get the data. But I have seen some industry reports. The problem with most of them is when they talk about waterproofing, they also talk about the exterior waterproofing like when they build a house, and they put that material on the walls. And so that really skews the numbers.

Client ▶ 00:07:58

Right. So are there any services within basement waterproofing that you would differentiate as more common or more rare for the contractor to offer. Well it's like everybody is everything.

Expert ▶ 00:08:08

Yes, I think most of the services are going to be around some pumps, drainage on the outside, drainage on the inside. There's multiple different ways to fix a basement or a crawl space. We do everything on the inside, but there are some companies that do it on the outside. They'll do grade drains, which are drains that are just open on the top, like you may see around a swimming pool or you may see going into a parking garage where all the water runs into that open grade, but it's all fairly vanilla.

Client ▶ 00:08:33

And within the crawl space encapsulation, are there any kind of sub-services that not everybody would be able to offer? I'm asking all these weird questions because I'm trying to understand how standard the services are from the perspective of the lead offering like are there any kind of trench or rare services that should be excluded?

Expert ▶ 00:08:52

For sure. You want to exclude roof leaks because people think that's waterproofing. You want to make sure that you exclude plumbing leaks because I don't want to do plumbing. When it comes to settlement for foundation repair, you want to make sure that it's a single-family home or if it's a condominium, it's much harder to get everybody who has to be involved. So you have to decide who the ownership is. Also different areas of the country have a lot more foundation repair than other areas of the country.

Client ▶ 00:09:16

Yes. But that's kind of very reasonable. Does the consumer actually know what he needs to do when he just has wet basement or if you just say, I need a basement waterproofing company they decide what to do whether it should be from outside, from inside, with some pumps or some other techniques? What's your take?

Expert ▶ 00:09:35

I would say maybe 10% or 15% of the people know and the rest of the people depend on the salesperson to educate them. They think they know, but the rest of the people have no idea.

Client ▶ 00:09:44

Great. So I'm more interested in the kind of industry averages. Job sizes for basement would be in the range of?

Expert ▶ 00:09:52

Between \$7,000 and \$15,000.

Client ▶ 00:09:55

And the main drivers of the pricing, apart from the size of the home.

Expert ▶ 00:09:59

Right. The square footage or the linear footage of the home and also accessibility.

Client ▶ 00:10:03

And accessibility, you mean accessibility to the house or accessibility to the basement?

Expert ▶ 00:10:08

Accessibility to the basement and to the house. If you're removing a lot of debris and you have to bring it to your trucks. So if you have to park your truck far away, it's more expensive. And like in a crawl space, if the opening to the crawl space is very small or it's very low, that makes it more difficult.

Client ▶ 00:10:24

So will it be different in average, if we separate it basement waterproofing from crawl space, waterproofing or encapsulation in terms of average job size?

Expert ▶ 00:10:34

The average job size in the waterproofing is probably pretty similar. Encapsulation is probably in the \$10,000-plus range.

Client ▶ 00:10:41

Does that mean that like for the same square footage and say, like other things equal, encapsulation would be a little bit more expensive than waterproofing?

Expert ▶ 00:10:49

In a crawl space, yes.

Client ▶ 00:10:51

And for the foundation?

Expert ▶ 00:10:52

The average ticket is probably closer to \$12,000 to \$15,000 or \$16,000.

Client ▶ 00:10:58

So it is even a little bit more expensive. How long on average does each of these three types of jobs take waterproofing, encapsulation.

Expert ▶ 00:11:07

Yes, the average job is about three days, in general.

Client ▶ 00:11:10

And like if we take an average job size of \$10,000, for example, what percentage would be materials versus labor versus gross margin for the industry?

Expert ▶ 00:11:20

I'd rather not discuss too much of that, the gross margin should be in the 50% to 60% range.

Client ▶ 00:11:25

And is there any like a fundamental difference between waterproofing or crawl space encapsulation versus foundation repair, any of this kind of jobs is inherently more attractive in terms of margins or they are more or less the same?

Expert ▶ 00:11:39

Margins are better in waterproofing than foundation repair.

Client ▶ 00:11:42

And do you know what percentage of revenue do companies working in that space spend monthly?

Expert ▶ 00:11:46

I think a company that's been around for a long period of time that has good brand recognition is probably in the 8% to 10% range and companies that are newer trying to build a brand as high as 14% or 15%. And I've seen it for both sides because I have B-Dry, which had been around for 63 years, and then we changed the name to a company that nobody knew. So I saw a big difference in how Google treated us and what my expenses were from a marketing perspective.

Client ▶ 00:12:11

Interesting. So what percentage of your leads come from third parties? And when I say third parties, I mean companies like Houzz or HomeAdvisor.

Expert ▶ 00:12:20

Not including like Google AdWords, correct?

Client ▶ 00:12:22

Exactly not including Google AdWords, yes.

Expert ▶ 00:12:26

I would say 25% or 20%. It varies. We haven't had a really good experience with a lot of the companies just because you're paying for a lead and then you're ultimately just competing against all the other people that are getting the same leads. So I really don't like the process.

Client ▶ 00:12:39

Correct. Yes, that's very understandable. And may I ask you which companies you had experience with?

Expert ▶ 00:12:46

We use every company that's out there. I mean we use Angie's List.

Client ▶ 00:12:50

CraftJack, Handy?

Expert ▶ 00:12:52

No, we don't use that.

Client ▶ 00:12:53
Thumbtack?

Expert ▶ 00:12:54
No.

Client ▶ 00:12:55
CraftJack?

Expert ▶ 00:12:56
No.

Client ▶ 00:12:57
HomeAdvisor?

Expert ▶ 00:12:58
Yes.

Client ▶ 00:12:58
Houzz?

Expert ▶ 00:12:59
Yes.

Client ▶ 00:12:59
So it's pretty much Angi, HomeAdvisor and Houzz. So let me ask like how long ago did you have experience with these companies?

Expert ▶ 00:13:08
We use them currently.

Client ▶ 00:13:09
Perfect. I'd be really interested to hear how the leads are classified in terms of like waterproofing leads separate from crawl space and from foundation. Are they kind of

segmented further in subgroups?

Expert ▶ 00:13:21

So ultimately, we have a call center. The leads come in, any digital leads come into the call center, the ladies and gentlemen there, they will prequalify the customer based on age of the home, source of the problem. They will also find out if it is leaking in one area, leaking at multiple areas? Is it a small structural crack? So we will classify them based on size. Also based on geographic location. There's only so many areas we'll go to.

But we try to really minimize these qualifications. We want to make sure that when we send one of our consultants out there, that is a problem that we have the technology to fix. Otherwise, they're commissioned salespeople. They don't want to be sent out on a job, that's something we can't fix.

So we do a pretty good job of qualifying them. One thing I can tell you for sure, even from my own experience is after you've been reached by two or three providers like myself, if I call in and I do a test, the first two or three people that call me, those are the people I'm going to set an appointment with. After that, the rest of the people, I'm not going to waste my time because I don't want 14 people coming to my house.

Client ▶ 00:14:23

Do you mean in terms of number of quotes that you get?

Expert ▶ 00:14:25

Yes. So when I get a number of quotes for me personally and for most of our customers, they're getting between three and five quotes.

Client ▶ 00:14:32

And do you know how fast is the decision-making process for a typical homeowner?

Expert ▶ 00:14:36

So if it's waterproofing basement or foundation repair, they seem to want to get it repaired faster because most people don't even think of the crawl space as part of their home. They may tend to take a little bit more time. But most people, if they're going to spend their time and have you come out there, if they can afford it, they're going to get it done.

Client ▶ 00:14:53

So it's usually a decision-making process. So going back to the lead classification. So the lead that you're receiving, are they earmarked for any specific job or do you have a generic lead for basements, let's say?

Expert ▶ 00:15:06

Yes. Each one is specific lead for whatever the problem is the customer has because I have my consultants, certain people can run certain types of leads.

Client ▶ 00:15:14

And do you recall how many types of leads, for example, are you buying currently?

Expert ▶ 00:15:19

Well, we buy for basement waterproofing, crawl space encapsulation, foundation repair, radon mitigation, mold mitigation. We also buy for some pump replacement, indoor air quality. So we buy for quite a few different subject matters.

Client ▶ 00:15:33

And is the price of each type of this lead different or it's the same price per lead?

Expert ▶ 00:15:38

Most of the prices are pretty similar, but it's also based on demand. So just like with Google, if you have a lot more people searching the price is going to go higher, the price is dictated by how many people are bidding on that source. Like the more you bid with Angie's List and these people, the more you're willing to pay, the faster you're going to get your lead.

Client ▶ 00:15:55

So would you be able, on average or do you track on average, how much you're paying for a lead?

Expert ▶ 00:16:01

I don't break it down on an average for a third party. I only break it down for leads in general across the board.

Client ▶ 00:16:06

And can you share that average?

Expert ▶ 00:16:08

It's in the \$250 to \$350 range.

Client ▶ 00:16:11

I just want to make sure that if we're talking about the same thing. Is that per lead? Or is that the cost of sales, the cost of all the leads that you pay for to get a job?

Expert ▶ 00:16:21

So we look at it differently. So I take all of my leads, every lead that comes in and I divide it by everything that I generate and my average cost per lead is in that range I just gave you.

Client ▶ 00:16:30

Understood. So you don't really track third-party leads separately.

Expert ▶ 00:16:35

Not that I know of. We may. I have a whole marketing department, so they may, but in my position, I don't deal with the day-to-day of that.

Client ▶ 00:16:43

I understand. And so in addition to third-party leads, and you've also mentioned Google AdWords, what other marketing channels are you aware of that your marketing people are using?

Expert ▶ 00:16:53

So we're using Home Shows. We're using Grassroots approaches where we're going in and doing lunch and learns and educational seminars for realtors and home inspectors and people that are in the same space we're looking for. We do a lot of referral business. So we'll get customers that refer to us because of the good work that we did for them, they'll refer us to somebody else. We market on our trucks, and we put yard signs out, uniforms. We try to do anything we can to brand ourselves. We'll do billboards. We'll do newspaper and we'll do TV.

Client ▶ 00:17:22

And in terms of percentages of lead that comes through each channel, which one would be the most important, you mentioned that third party, which reflect 20%, 25%. I was wondering like what percentage would come through, for example, through Google and through sort of more traditional sources.

Expert ▶ 00:17:40

Google is probably our majority of our leads. So probably in the 60% range.

Client ▶ 00:17:45

Makes sense. I would be really interested to talk about the performance of those leads, but when I say performance, I'm talking about very specifically about conversion rates, like what percentage of leads turn into appointments and what percentage of the appointments turn into sales. Do you recall these numbers? You mentioned that you don't know what this will be for third-party leads, but at least like for all of your leads in general?

Expert ▶ 00:18:09

Yes. So in general, we have what we call a raw-to-set, which is the raw leads that come in, that get converted into set and they're at about 85%. Our goal is 90%. And then from set-to-sold is probably in another 35%. So all the leads that we run, we probably sell about 35% of those.

Client ▶ 00:18:28

These are pretty high percentages like set is the appointment that has been confirmed? Or is the appointment that took place? Confirmed?

Expert ▶ 00:18:36

That's appointment that's been confirmed, and there are some cancellations. So the number would be higher than the percentage I gave you, but we consider if it goes on the consultant's calendar, it's a lead. So because I do net lead, what they call NSLI, net sales lead issued. Once it's issued, it counts against their stats.

Client ▶ 00:18:53

So your raw-to-sold is like 25%, that's huge.

Expert ▶ 00:18:57

Well, raw-to-sold, but our set-to-sold is higher than that, yes.

Client ▶ 00:19:02

Well, your set-to-sold is 35%. So if I do a quick math, and essentially, from all the roles you get, you sell 25%. That's a very, very high percentage. Do you know if it is typical for other companies? Or is just for some reasons.

Expert ▶ 00:19:19

I think the average in the industry probably across the board is in that 30% range from set-to-sold for the bigger companies. There's a lot of smaller companies that don't get close to that. But if you have a good brand recognition, you have a good Google rating, my average sales guys, we'll see 10 customers a week and they'll sell three to four customers every week.

Client ▶ 00:19:37

Interesting. You mentioned that you have a call center. I'd be really curious to know what kind of questions do they ask in order to disqualify certain leads. For example, I think you mentioned already it has to be a homeowner. It has to be a single-family house. What else do they disqualify, for example, mobile homes or manufacturing homes or projects covered by insurance? What would disqualify at the level of the call center?

Expert ▶ 00:20:05

Yes. I mean we have a whole call center script. We primarily ask how old the age of the home is, whether or not they're the homeowner, how long the issue has been taking place. We don't want to over-qualify, but we want to make sure that the issue is something that we can take care of for the customer.

Client ▶ 00:20:20

Would you disqualify homes of a certain age?

Expert ▶ 00:20:22

We just want to make sure that the home is at least a year old, so that they're not trying to go after their builder. Because if it's less than a year old, they may be trying to go after their builder. And so they're not going to spend money with us.

Client ▶ 00:20:33

Do you take insurance work? And how common.

Expert ▶ 00:20:36

There's very little insurance work, almost zero.

Client ▶ 00:20:39

And do you take it if it happens? Or is it something that you recommend us to disqualify?

Expert ▶ 00:20:44

For us, I would disqualify it. I mean, I've been doing this for years and years, and saw a few people have ever qualified for insurance.

Client ▶ 00:20:52

Is there anything related to building height or size or type of a landscape that would disqualify a customer? And you would be able to detect it on the phone.

Expert ▶ 00:21:01

Probably not. If it's a slab on grade instead of it having a basement, it doesn't have a basement, it doesn't have a crawl space, and they're still getting water than most of the time that is usually just the soil or the dirt or the landscaping around the home that needs to be modified, that's not something we do.

Client ▶ 00:21:15

Right. But the customer probably wouldn't be able to give you that information.

Expert ▶ 00:21:20

Well, they'll be able to tell you they don't have a basement and they don't have a crawl space. So they should definitely know that part.

Client ▶ 00:21:26

I have a couple of questions here about the consumer. Do you have any specific criteria for targeting in terms of home value or household income or any other socio-demographic characteristics apart from a ZIP code, that's kind of a given that you only take services within your area?

Expert ▶ 00:21:42

Yes. But even in your area, you may know that there are certain areas inside that area that from a demographic standpoint, may not be a good fit for the business model. But primarily, we don't ask anything about any of that until the actual salesperson is in the home because we have so many creative ways of financing and customers nowadays are very creative in the way they want to pay for things. We try not to do that.

Ultimately, we want both decision-makers to be there, if possible. Husband and wife, wife and wife, husband and husband, whoever that is, the people that own the home together, co-owners, we'd like them all to be there because this is something that's detailed and to depend on somebody else to explain it to another third party makes it very difficult.

Client ▶ 00:22:22

I'm actually surprised to hear that you don't disqualify people based on home value or household income.

Expert ▶ 00:22:28

We don't. The reason is, I'll give you a great example. Just two weeks ago, I was at a house and the house was probably worth \$50,000, maybe \$55,000, a very two-bedroom, one-bath older home. They needed \$20,000 worth of waterproofing and bought it on the spot. Very hard to prejudge people. You don't know if they've saved up a lot of money, they just got an inheritance, they are

selling the house. If you're selling the house, you have to have some of these things done because the inspector is going to find it, so it has to be done. So there's other triggers also.

Client ▶ 00:23:00

So you also don't discriminate people because they are moving out.

Expert ▶ 00:23:03

We don't.

Client ▶ 00:23:04

That's actually very good news. And do you offer third-party financing?

Expert ▶ 00:23:09

We do third-party financing, yes.

Client ▶ 00:23:11

And do you recall what percentage of the customers actually take advantage of your offer?

Expert ▶ 00:23:16

It's going up. As interest rates increase, people are getting smarter. So probably in the 25% range. And we do all different types of financing. We do 12 months payments cash. We'll do small payments. We'll do no interest, no payments. We'll do 120-month long-term regular loans, almost everything we do, though, is nonsecured signature loan like a credit card. So people don't mortgage their homes to do this unless they're getting a HELOC on their own and they're using their own funding.

Client ▶ 00:23:44

And do you know if your competition also to offers financing?

Expert ▶ 00:23:47

Absolutely.

Client ▶ 00:23:48

So out of every 10 companies, would you say how many offer financing?

Expert ▶ 00:23:52

I would say everybody offers some type of financing. I mean if they're a small mom-and-pop, maybe they don't, but anybody that's of scale or a decent size has to offer financing. These are expensive items. Nobody wakes up in the morning and is prepared to spend \$10,000 or \$20,000 on waterproofing or foundation repair of a home, they're going to need to finance.

Client ▶ 00:24:12

Interesting. And you talk to decking contractors or sunroom contractor, they very seldom offer financing and like single-digit percentages of people take financing despite the fact it's like a much more expensive project.

Expert ▶ 00:24:25

Yes. The reason that is, is all of those other sources that you're talking about, they're not need-based. They're want-based. And if you have a hole in your roof and you don't have the money to fix it, you're going to finance to get it fixed.

If you have a basement with water coming in it, you're going to do whatever you have to do to get it fixed, whether it's financing, if you don't have the money and you don't offer financing, very quickly, you'll find that you'll lose a lot of your marketplace 25% or so of your business because those people just can't afford it.

There's so many people nowadays that are just payment buyers. They don't even care what the price is. It could be \$100,000 as long as it's only \$800 a month and they can pay that. They don't care if it's for 50 years as long as it's a specific payment they can afford.

Client ▶ 00:25:07

Absolutely. That's probably the main difference of this industry. It's like 100% of the jobs you do is need-based.

Expert ▶ 00:25:16

Absolutely. And it's interesting, we both say that, but that's not 100% true because about 10% of all the waterproofing we do in basements is for people that are going to finish their basement, but they're afraid that the potential is going to be there that it could leak in the future.

So it's dry today, but they know they're going to spend a couple of hundred thousand dollars fixing up their basement. It's in their best interest to spend \$10,000, \$20,000 less than 10% to make sure that what they do doesn't have to be removed. If you imagine putting hardwood floors down and new drywall up in bathrooms only to find out six months later that you have a leak and all that has to be removed.

Client ▶ 00:25:50

Absolutely. I wouldn't imagine that you actually would be able to give the percentage to only 10%, but it's very good explanation, yes.

Expert ▶ 00:25:59

Yes. A lot of people may have just a little area in the corner, and they're going to finish their basement and then they say, "You know what, I got to do the whole basement because it wasn't leaking here two years ago, now it's leaking. I think there's just a lot of risk of putting all those things in place only to find out that it's an investment that has to be redone and nobody wants that."

Client ▶ 00:26:17

Yes, exactly because it ends up being anyway 10% to 20% of what it ultimately cost you to refinish your basement.

Expert ▶ 00:26:24

Correct.

Client ▶ 00:26:25

It brings me to my next kind of set of questions about your customers. I'd be interested to know like what's the frequency with which like a typical home would need to waterproof their basement? What is the trigger of all this that you start having water in your basement like how else can you target or foresee that, okay, this type of house would need eventually a basement waterproofing?

Expert ▶ 00:26:46

Yes, that's an interesting question. So 85% of all homes in their lifetime will need waterproofing, 85% if they have a basement. 25% of homes are leaking today. So the other thing that's unique is the soil that homes are being built on today is not as good as the places they were building on in the past. So let's say you're near a lake. 50 years ago, the soil for the best homes, the best locations, that's where they were building houses. 20 years ago, they were still doing the same thing.

But as the economy gets bigger and more houses get built, now they're building houses in places where they're having to bring in soil or they're having to compact soil or they're having to do things because the best lots have been sold like here in the Southeast and places like that. They're building in places where they would have never built before, but because they need to continue building houses, they find the best areas they can.

Ultimately, that's the same in the rest of the world. So the quality of construction has gone down over the years. As far as the size of a two x four is no longer a two x four or what they do to prepare the ground, that technology hasn't changed very much, but the type of ground they're building on, they're much less particular.

So this industry is not going anywhere. As they continue to build and nobody has figured out yet how to build a basement that doesn't leak because if you know how a basement is built, it's very, very difficult to stop the water. Most people spend a lot of money putting coatings on the outside of the wall, hoping that the water that's coming sideways isn't going to get in the basement, but that's not really where most basements leak. They actually leak because the water underneath the house rises above where the floor and the wall meet and the water forces its way through that crack. That's where the majority of water comes from.

Client ▶ 00:28:21

Interesting. So if 25% of homes are leaking today, you mean like out of total 90 million single-family houses in the U.S..

Expert ▶ 00:28:30

Yes.

Client ▶ 00:28:31

That's a huge market. At least once every four years, you pretty much especially with a newer construction, once every four years, you have to do something to your basement. Does that make sense?

Expert ▶ 00:28:43

Well, you're only doing it once. If you do a solution like most of the people offer, it's a lifetime solution. So when you offer it, it's good forever.

Client ▶ 00:28:51

Do you offer a guarantee?

Expert ▶ 00:28:53

Yes. I offer a guarantee. I'm one of the only companies I offer a guarantee for my services, and I also offer money back. So if what I do in your basement doesn't work and I can't fix it, I'll give you all your money back.

Client ▶ 00:29:05

Is that an exception for your industry?

Expert ▶ 00:29:07

That is an exception, yes. I'm the only one that does that. Everybody else offers a lifetime warranty. But the problem with a lifetime warranty is it just means they can come out there as

many times as they want to try to fix it. Well, who wants a basement that leaks every year, you don't know what day of the year it's going to leak, but you want to fix it and you spend all this money, but it leaks one time this year, one time next year, one time the next year, they can do that forever because they're meeting their legal requirements by saying, if it leaks, we'll fix it.

Client ▶ 00:29:36

Yes, but they would be losing money.

Expert ▶ 00:29:38

That's right. So at what point will they continue to do that. That's the question.

Client ▶ 00:29:43

But what I'm still hearing from you is that offering a lifetime warranty is a common thing for that industry for basement waterproofing.

Expert ▶ 00:29:50

It is. Yes. And the same for foundation repair. Usually, based on what they're doing, most places are offering a lifetime warranty.

Client ▶ 00:29:59

And the same for crawl space, encapsulation of crawl space.

Expert ▶ 00:30:03

Yes. Not for radon. I mean not for mold though. Just saying mold is different because they have to control the humidity down there. They have to make sure the environment doesn't allow the mold to grow. So it's totally different.

Client ▶ 00:30:15

Different story. If we're talking about these three categories, basement/crawl space waterproofing, crawl space encapsulation, foundation repair, where do you think the attention should be at in terms of sort of a preferred sector to start with, like where there is more interest from the contractors in terms of getting lead or the market.

Expert ▶ 00:30:35

I think the foundation repair side of the market is definitely bigger. And the price per job is more. So they may be willing to pay more for the leads. But based on waterproofing and crawl space encapsulation, it's still a very lucrative business.

Client ▶ 00:30:48

So would you recommend someone to separate these three types of leads or offer them all together with the same pricing and offer them to the same contractors?

Expert ▶ 00:30:56

Well, I would only offer to the contractors that have the capacity or the ability to do that specific work. Like I said, a lot of foundation repair people don't do waterproofing, a lot of waterproofers don't do foundation repair. And also it matters what you're charging for the lead. And if you're only offering it to one contractor from a revenue standpoint, doesn't that hurt you?

Client ▶ 00:31:16

I mean, let's say as an example, on average, the lead would probably be more expensive than what Houzz and HomeAdvisor offers. Although it's very hard to compare the pricing. Let's say for example, it's not paid for performance in the sense that there isn't a charge for percentage of sales, but the value proposition is that over time, if the contractor stays, it sort of guarantees that their cost of marketing would be a certain percentage of their sales.

Expert ▶ 00:31:42

Yes, that's huge. So I think there's a couple of different ways of looking at that and so let's assume for a moment, you're charging \$100 a lead as an example. I think if you limited it to three people and you charged each person \$50 a lead, you'd still make \$50 more. And if there was only three contractors, they might be happy. With me, what makes us upset is when we have seven people that get it or 10 people, even though they say they're only giving it to a small amount, they're not really honorable about that.

They're going to sell it to anybody possible. I've even gone online myself, started to fill out the information and then stopped halfway through and still receive those leads. Even though I didn't even fill out everything, once I put my e-mail address, they had people e-mailing me. They have people calling me, even though I stopped doing the service.

So I think what you need to figure out is what is the pain threshold for a contractor like myself. If it's two people and even if you were charging \$100 a piece, but you charge each of us \$75 a piece, that might be palatable. So you might want to try to figure out what is the financial flexibility of what a lead is based on the fact that you're not selling it to six or eight or 10 people.

Client ▶ 00:32:46

Good idea. So foundation repair part, that's quite clear. And would you offer kind of basement waterproofing, basement/crawl space waterproofing and crawl space encapsulation as one lead or you'd still have them as two separate leads?

Expert  00:33:01

I would have basement waterproofing and crawl space waterproofing as one lead. I would have crawl space encapsulation as a second lead, and I would have foundation repair as a third lead.

Client  00:33:10

That's great. Well, thank you so much. We learned so much from this conversation, it was such a great call. Thank you so much for your time. Have a wonderful day.