Market Progress Evaluation Report

Super Good Cents®
Manufactured Housing

prepared by

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THE SUPER GOOD CENTS® MANUFACTURED HOUSING VENTURE

AN INITIAL PROGRAM AND MARKET PROGRESS EVALUATION REPORT

Final Report

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The Northwest Energy Efficiency Alliance

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Executive Summary

This report discusses program and market progress toward increasing the penetration of *Super GOOD CENTS*® (SGC) manufactured housing and accomplishing the general goals of the *SGC Manufactured Housing Venture* (Venture), an initiative funded by the Northwest Energy Efficiency Alliance (Alliance). The primary focus of the report is on market indicators and program accomplishments that will help assess and measure program success, which includes the development of a market-based, self-supporting program to support energy efficient construction and installation of manufactured housing in the Alliance region.

To determine the current status of the market, Pacific Energy Associates, Inc. (PEA) interviewed a variety of key market and program actors, including most of the housing manufacturers located in the Northwest and their respective industry associations. A survey of 86 manufactured housing retailers was conducted as well. PEA also reviewed and analyzed current market data prepared from multiple sources by the Northwest Research Group.

Highlights of program activities and accomplishments are also presented in this Report. To develop the program progress highlights, PEA reviewed the Venture's *Annual Report* and interviewed key program staff.

Summary of Key Findings

1. **Shifts in market structure and corporate influence are creating a difficult operating environment for the Venture.** The manufactured housing industry is in a significant state of flux. New manufacturers have entered the region and acquired existing companies, and more manufacturers are engaging in retail distribution through purchasing independent retailers and opening new factory retail outlets. Personnel movement is high.

2. **Price competition continues to be a dominant trend in the industry.** Approximately 80% of the retailers surveyed projected market growth in the low- and low-to-middle- price manufactured housing. SGC can still play an important role in a more price - competitive market, but price pressures may drive the industry to more standardization and products with fewer features.

3. **The Venture's marketing effort is beginning to make an impact at the retail level.** Nearly half of the retailers surveyed reported their sales staff had attended SGC training within the past 12 months, and two-thirds of those said it encouraged or helped them to sell more SGC homes. Manufacturers also noted the increased activity by state energy offices and indicated this could have a positive impact on SGC sales if the effort is sustained.

4. **The erosion of the market for SGC manufactured housing appears to have slowed.** Despite some indications that the Venture is making progress in marketing the SGC program to manufacturers and retailers, production and sales data are giving mixed signals. The percentage of SGC production increased slightly during the second quarter of 1998, but then decreased for the third quarter. The absolute number of SGC homes manufactured during the second quarter of 1998 increased, but the percentage of SGC homes sold decreased during the same timeframe due to overall production increases.

5. **Fundamental changes to the Venture's structure and/or its program offering will likely be needed to allow for a market-based, self-supporting program.** Although increasing SGC production is the number one goal for the Venture, increasing production and program revenues per home will not result in a self-supporting venture; program costs must be cut substantially. On the positive side, based on survey responses, it appears that retailers may be willing to pay fees for value. Manufacturers do not appear to support additional fees.

6. **The Alliance and the U.S. Environmental Protection Agency are reviewing technical issues and opportunities pertaining to aligning the SGC program with the *ENERGY STAR® HOMES* program.** As of early November 1998, the technical analysis being conducted by EPA's contractor was not complete and the implications for the technical standards for the two programs had not been fully resolved. EPA said that the resolution of this issue was a priority for them and that their preference is that it would resolve in favor of being able to co-brand manufactured homes in the Northwest, if that strategy is pursued by the Venture.

Conclusions and Recommendations

1. **During this period of turmoil in the Northwest manufactured housing market, the Alliance and the SGC Venture should continue to support and promote the program, monitor industry changes, and work to understand the opportunities created by the new market structure.** Manufactured housing accounts for about 30% of all housing starts in the Northwest, and is even more significant in rural areas. While key industry and market actors acknowledge that the changing market structure presents a significant challenge for the SGC program, a solid base of industry support for the program exists. PEA recommends that the Venture continue to work to re-establish the value of SGC to the market and the industry, and consider narrowing the scope of program support to focus on building strategic industry relationships (i.e., work more with identified allies). The planned increase in Venture advertisement and promotion should be noticed throughout the sales channel, and may provide leverage to engage in future planning with the industry.

2. **Developing a Business Plan should be a high priority for the Venture.** The *Venture Business Plan* is the vehicle for transition to the envisioned market-based, self-supporting program for the industry. The *Venture Business Plan* will need to specifically discuss the following in detail:

   - Program strategies to address the key market barriers, trends, and opportunities;
   - Program design and administrative structure (including program cost); and
   - Production and sales projections and corresponding revenue to cover program costs.

   PEA continues to recommend that the Venture consider and examine two business models: a minimal scenario that simply maintains a significant presence of SGC in the marketplace, and an enhanced scenario that attempts to significantly increase market share (as originally planned).

3. **Alliance staff should continue to work with EPA to resolve the technical issues pertaining to a possible alignment of SGC and *ENERGY STAR*®.** The Venture should allow for consideration of a co-branding strategy with a refined *ENERGY STAR*® *HOME* program as part of the business plan.