

Baseline Market Assessment Executive Summary

Super Good Cents[®]
Manufactured Housing Venture

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THE SUPER GOOD CENTS^ã MANUFACTURED HOUSING VENTURE

BASELINE MARKET ASSESSMENT AND MARKET CHARACTERIZATION

Final Report

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Executive Summary

This report discusses the manufactured housing market in the Northwest, with a particular focus on energy efficiency features. This report is designed to establish a baseline of the sale of energy-efficient *Super GOOD Cents[®]* (SGC) manufactured homes and to assess and characterize additional, relevant market conditions. Future reports will discuss program and market progress to increase the penetration of SGC in the market and to develop a market-based, self-supporting SGC certification program, the general goals of the *SGC Manufactured Housing Venture* (Venture), an initiative funded by the Northwest Energy Efficiency Alliance.

To determine the current status of the market, Pacific Energy Associates, Inc. (PEA) interviewed a variety of key market and program actors, including all of the manufacturers located in the Northwest. PEA also reviewed existing literature about the market, particularly including detailed and current market data prepared from multiple sources by the Northwest Research Group. Key findings from the research include:

- υ **The presence of SGC continues to have a positive effect on the energy efficiency of the manufactured home industry.** Almost all manufactured homes sold in the Northwest have significant energy efficiency features above what would be required by Federal standards.
- υ **SGC helps position the industry to better compete with site-built homes, a primary opportunity for market growth.** SGC is also profitable to the industry, as well as being an asset in the in-fill (existing urban/suburban lots) market.
- υ **Sales of SGC houses are eroding.** Combined production of SGC and gas-heated *Natural Choice* (NC) homes dropped from 67% in 1996, to 49% in 1997. The market-share based on sales of SGC/NC houses, which lags production figures by several months, has slipped slightly each quarter of 1997, going from 63% in the first quarter to 58% in the fourth quarter. Preliminary 1998 first quarter sales numbers show a substantial drop to 45% of the market.
- υ **There are additional indications in the market that regaining/retaining market-share for SGC will be difficult.** These include the presence of price-competitive alternatives to SGC, the

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sales/consolidation of manufacturers who had previously supported SGC, and high turnover in the retail sales force.

- ⋮ **While consumer awareness of SGC is still a positive factor in the marketplace, manufacturers believe it is being eroded over time as new buyers enter the market.** Many consumers are exposed to SGC during the shopping experience, but some of the retailers are marketing against SGC.
- ⋮ **While the price of SGC features varies by manufacturer, the average upgrade retail price over base construction is approximately \$1,700.** This is about 3% of the typical sales price for the average home: a double-wide unit costing \$53,500.

Key Issues and Opportunities

PEA=s review of the market indicates that some changes to the Venture's goals and strategies should be considered. Key among the implications for the program are the following:

- ⋮ **The Venture's goal for SGC market share (25% points above baseline) over roughly the next two years is likely to prove unrealistic.** Market share has eroded faster and deeper than the Venture planners had anticipated, and the barriers to increasing the market penetration of SGC are substantial. Regaining that lost ground is probably not possible with the current resource constraints. The base SGC production dropped to 50% before the Venture was operational, implying a SGC marketshare goal of 75%.
- ⋮ **In developing their business plan, the Venture should consider two 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).** The minimal scenario would need to be very low cost, probably planned and operated in conjunction with existing industry associations. Because the presence of SGC in the market raises the bar against which all manufacturers must compete, the savings generated by the minimal scenario may be substantial.

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- υ **Marketing support for SGC will need to hit all levels of the market: manufacturers, retailers, consumers, and the potentially important independent developers.** With the consolidation of some retailers under manufacturers, manufacturers may be the most key audience for marketing support given current marketing resources.
- υ **To help maintain the long-term sustainability of SGC, the Alliance and the Venture should work with the EPA to redefine the *ENERGY STAR*[®] specification for manufactured housing in the Northwest and consider development of a co-marketing campaign.** Over time, the *ENERGY STAR*[®] branding will likely need less market support than will SGC to maintain market share. A strong case can be made that the market in the Northwest is regionally confined and that the SGC standard has technical merit.
- υ **The best and most profitable expansions to the market are at the upper end of the manufactured housing price range, where manufactured housing competes with site-built.** The move away from SGC and the quality it represents is not in the manufactured housing industry's best long-term interest. Whether the industry can convene around some key themes, including energy efficiency, in an effort to expand their market is yet to be seen, and represents a challenge both to the Venture and the industry itself.