



PLUMBING SERVICE FRANCHISES

Pipe up: Improving nonresidential construction markets will likely drive industry revenue growth
Jullian Guirguis, November 2021

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ABOUT SUNBELT TEXAS

Sunbelt Texas Business Brokers, purchased in 1996 by Dan Elliott, has expanded from 1 broker to 12 business broker experts in Houston. Our brokers are a talented mix of industry professionals, business owners, real estate experts and community leaders. We have over two decades of business sales history and a great deal of experience working with all types of buyers – from strategics to private equity, and family offices to high net worth individuals.

Sunbelt Texas Business Brokers is the world's largest business broker specializing in the confidential sale of privately held businesses in Texas. We have sold over 600 businesses in the local Houston area alone, creating numerous jobs, helping business owners successfully retire, and giving new buyers the opportunity to achieve their entrepreneurial dreams.

We take pride in providing quality services to all buyers and sellers. This ensures that both the buyers and sellers will be left fully satisfied with the transaction whenever Sunbelt Business Brokers is involved. We've worked with all types and sizes of businesses, in a variety of industries and we walk our clients through the steps of how to buy a business.



ABOUT THIS INDUSTRY

INDUSTRY DEFINITION

This industry operates franchised plumbing service companies. Reports in our Business Franchise collection focus solely on the operation of franchised outlets and exclude non-franchise data. They show the total number of franchise outlets, total franchise revenue and the average profit margins earned by franchisees.

MAJOR PLAYERS

Roto-Rooter Plumbing and Water Cleanup
Mr. Rooter Plumbing
Benjamin Franklin Plumbing

MAIN ACTIVITIES

The primary activities of this industry are:

- Drain construction, cleaning or repairing
- Repair of installed plumbing
- Septic tank installation
- Gas plumbing
- Solar hot water systems installation
- Steam fitting and piping contracting services
- Interior and outdoor sprinkler system installation
- Hot water systems installation

The major products and services in this industry are:

- General plumbing contractors
- Lawn sprinkler installation
- Mechanical contractors
- Steam and pipefitting contracting



EXECUTIVE SUMMARY

PIPE UP: IMPROVING NONRESIDENTIAL CONSTRUCTION MARKETS WILL LIKELY DRIVE INDUSTRY REVENUE GROWTH

The Plumbing Service Franchises industry includes franchised outlets that provide services such as installing and maintaining plumbing fixtures, fittings and equipment. The industry's performance is directly linked to building construction markets and consumer spending levels. The industry also benefits from stable demand from homes and businesses that need repair and maintenance of water delivery systems. Maintenance work accounts for a sizable share of demand and is a stable source of revenue when construction markets fluctuate. Consequently, increases in residential construction activity and private spending on home improvements have benefited industry operators. In fact, the substantial reduction of interest rates amid the COVID-19 (coronavirus) pandemic has been the driving force behind growth in the residential construction sector. However, despite favorable interest rates, nonresidential construction projects were halted and postponed due to government mandated establishment closures and restrictions. Still, increased demand throughout the majority of the five years to 2021 has benefited plumbing franchises. Consequently, industry revenue is anticipated to rise an annualized 2.5% to \$1.4 billion during the five-year period, including a 2.4% increase in 2021 alone as the substantial rise in housing starts propel demand for new plumbing work.

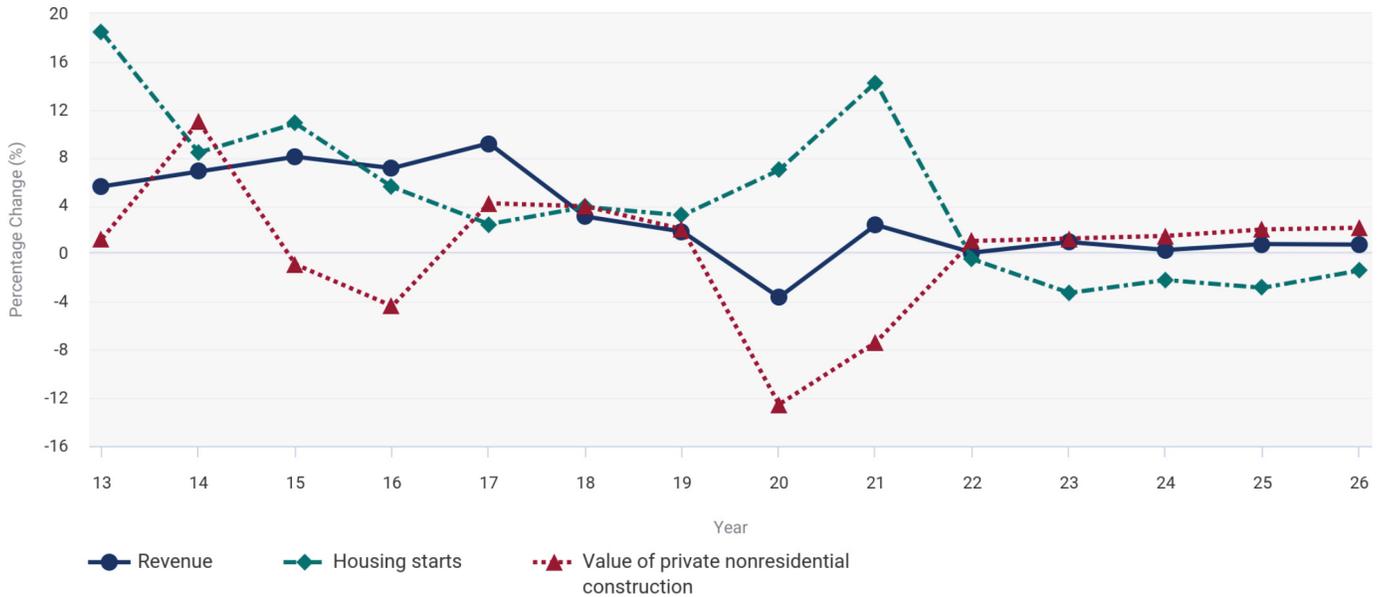
Plumbing franchises are able to gain market share from independent plumbing operators due to higher advertising power and increased brand name recognition. Plumbing franchisees benefit from efficient operating systems, group buying power and vendor rebates that often enable them to compete more effectively than independent service operators. These competitive advantages also enable plumbing franchises to be more profitable than independent service operators, with industry profit, measured as earnings before interest and taxes, is anticipated to account for 5.6% of revenue in 2021, up from 5.3% in 2016.

The industry is expected to continue expanding over the five years to 2026, albeit at a decelerated rate. Nonresidential construction is anticipated to rebound and grow strongly as rising consumer spending encourages businesses to expand facilities. However, residential construction activity is anticipated to decline due to rising interest rates, muting industry growth. As a result, industry revenue is expected to rise an annualized 0.6% to \$1.4 billion over the five years to 2026.



INDUSTRY PERFORMANCE

Key External Drivers 2013–2026



KEY EXTERNAL DRIVERS

Housing starts

Industry revenue is derived from work on new single-family homes. As the number of houses built per year increases, demand for the installation of plumbing and related work increases. Housing starts are expected to increase in 2021, representing a potential opportunity for the industry.

Value of private nonresidential construction

This industry is sensitive to the cyclical fluctuations of investment in nonresidential building construction, since plumbing services are required for the installation, repair and maintenance of water delivery systems in office buildings, retail centers, schools and hospitals. An increase in the value of private nonresidential construction typically benefits plumbing franchisees. The value of private nonresidential construction is expected to decline in 2021, posing a potential threat to industry operators.

Value of residential construction

The industry derives a significant portion of its revenue from the housing construction market, including work on new housing construction (e.g. the installation of venting and drainage, bathroom and kitchen fittings and



INDUSTRY PERFORMANCE

appliances and water, gas and sewer pipes). Therefore, movements in the level of residential construction spending directly affect the industry. The value of residential construction is expected to increase in 2021.

Private spending on home improvements

The level of investment in home improvements determines demand for replacements or upgrades of existing plumbing equipment. Growth in household disposable income stimulates demand for household spending on alterations and maintenance to household fixtures and installation of new plumbing appliances. Therefore, an increase in private spending for home improvements benefits the industry. Private spending on home improvements is expected to increase in 2021.

30-year conventional mortgage rate

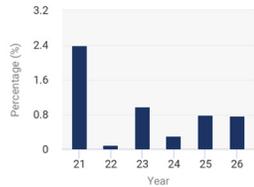
The 30-year conventional mortgage rate represents the average interest rate offered on a mortgage by commercial banks. As the 30-year conventional mortgage rate increases, so too does the cost of buying a home. In 2021, the 30-year conventional mortgage rate is expected to decrease.



INDUSTRY OUTLOOK

OUTLOOK

Industry Outlook
2021-2026



Following the economic fallout related to the COVID-19 (coronavirus) pandemic, demand for the Plumbing Services Franchises industry is expected to continue rising over the next five years, albeit at a decelerated rate.

Resurgence in commercial construction activity, due to the economy completely reopening post-recession and subsequent decreases in unemployment, is expected to bolster demand for new installation services. However, activity in the residential market is expected to decline due to the gradual rise in mortgage rates, greatly muting industry growth. As the economy stabilizes and work in all sectors return to normal, the Federal Reserve will likely raise interest rates to maintain a substantiable level of economic growth. Overall, industry revenue is expected to increase at an annualized rate of 0.6% to \$1.4 billion over the five years to 2026.

DOWNSTREAM DEMAND

Over the next five years, the 30-year conventional mortgage rate is projected to increase 1.7 percentage points, reaching an estimated 4.8% in 2026.

Since home building and renovation projects take a relatively short amount of time to complete, the level of activity within the residential building market is highly susceptible to the price of financing. Overall, the value of residential construction is expected to decrease at an annualized rate of 0.9% over the next five years, underlining the muted growth potential associated with housing markets. Similarly, private spending on home improvements is anticipated to follow the overall residential market and decline at an annualized rate of 0.6% over the five years to 2026. As financing becomes more expensive, people are less likely to refinance and make renovations to their homes. Nonetheless, a market that appears promising for industry maintenance and repair services is the multifamily residential market, consisting of condominiums and rental units, where contracts with property managers can also guarantee regular work.

Aside from residential market potential, demand from the nonresidential sector is forecast to reverse negative trends of the previous five-year period and return to significant growth. Overall, the value of private nonresidential construction is projected to increase at an annualized rate of 2.7% over the next five years. In general, increased consumer spending, anchored by rising incomes and recovering national unemployment, will encourage many businesses to expand. This is primarily the result of companies having a surplus of cash that can be used to reinvest in businesses by expanding operations. As businesses increase capacity through new facilities, expansion in commercial construction



INDUSTRY OUTLOOK

INDUSTRY STRUCTURE

activity will fuel demand for plumbing installation services. In tandem, plumbers will also be called on to fill long-term maintenance contracts and renovate existing structures' plumbing systems to reflect the increasingly ecofriendly priorities of the business world.

Over the five years to 2026, industry operators are expected to benefit from an expanding economy and improvements in nonresidential construction activity.

Since established franchises provide potential customers with an expected level of quality service and efficiency relative to independent providers, plumbing services franchisees will continue to gain market share, especially within niche residential markets, such as drain cleaning. Consequently, IBISWorld anticipates that the number of industry establishments will increase to meet rising demand, albeit slightly decelerated from the previous period, growing at an annualized rate of 5.6% to 3,927 franchise locations.

Franchise brands that provide franchisees with operating systems that help plumbers better manage customer relationships, schedule appointments and deliver services more efficiently, will continue to attract new franchise owners. The higher advertising power and brand recognition of franchise brands will also help industry operators attract more customers and achieve higher sales than independent owners. Combined with an increase in demand from expanding nonresidential construction markets, industry operators are expected to increase their labor forces to effectively service clients. Consequently, over the five years to 2026, IBISWorld expects that total industry employment will rise at an annualized rate of 2.2% to 8,147 workers.

Franchise benefits, including vendor rebates and group-buying power, especially pertaining to advertising, are also expected to enable the industry to operate more profitably than independent operators over the five years to 2026. Additionally, the industry's largest companies will benefit from the trend toward customization among commercial clients, which are expected to seek out efficient and automated systems designed for particular structures, which command higher installment fees. Additionally, across the industry's spectrum, operators will be better able to raise prices due to favorable economic conditions among downstream clients. Consequently, the average industry profit margin, measured as earnings before interest and taxes, is anticipated to account for 5.7% of revenue in 2026, up from 5.6% in 2021. However, this marginal increase is likely due to increased competition, as the overall plumbing services market is mature and highly saturated with many nonemployers, causing intense competition on the basis of price, advertising power, range of services provided, name recognition,



INDUSTRY OUTLOOK

availability of emergency services, speed and quality of customer service and service guarantees.

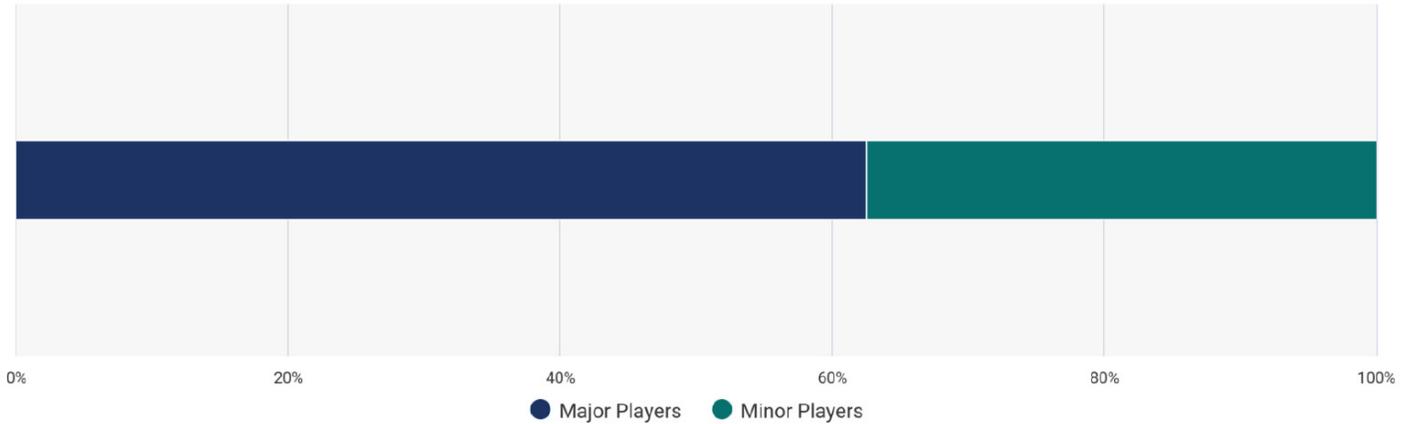
Performance Outlook Data

Year	Revenue (\$m)	IVA (\$m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand (\$m)	Industrial production index (units)
2021	40,766	15,303	17,958	17,487	238,637	N/A	N/A	12,466	N/A	365
2022	41,736	15,768	18,053	17,555	242,026	N/A	N/A	12,667	N/A	261
2023	41,910	15,904	18,022	17,514	242,347	N/A	N/A	12,691	N/A	231
2024	42,338	16,068	18,040	17,518	244,098	N/A	N/A	12,790	N/A	224
2025	42,849	16,226	18,123	17,586	246,567	N/A	N/A	12,925	N/A	229
2026	43,263	16,353	18,185	17,636	248,498	N/A	N/A	13,031	N/A	237
2027	43,673	16,480	18,275	17,716	250,473	N/A	N/A	13,138	N/A	242



COMPETITIVE LANDSCAPE

Market Share Concentration



MARKET SHARE CONCENTRATION

Concentration in this industry is **MEDIUM**

Sunbelt Texas estimates that in 2021 the top three players are expected to account for 62.5% of available market share, giving the Plumbing Service Franchises industry a moderate level of market share concentration. Over the past five years, the industry’s concentration has increased. As the US economy (and particularly the construction market) rebounded many major plumbing service franchises expanded franchise locations and embarked on strong advertising campaigns to increase brand awareness among prospective clients. With franchise system-wide revenue base continuing to increase, the top three players in this industry are expected to maintain a leading foothold over the five years to 2026.

Sunbelt Texas identifies 250 **Key Success Factors** for a business. The most important for this industry are continued on the following page:



COMPETITIVE LANDSCAPE

KEY SUCCESS FACTORS

Proximity to key markets:

It is important for industry establishments to be conveniently located near key customer markets.

Business expertise of operators:

It is critical to have experience and skills in managing and operating all aspects of a small business to achieve financial success.

Aggressive marketing/franchising - given the high level of competition:

The industry is extremely competitive and the more successful players will find success through ad campaigns.

Having a good reputation:

Having a good reputation for a high level of technical knowledge of the services and end user needs can be a competitive advantage.

Ability to vary services to suit different needs:

The capacity to supply total facilities management enhances the prospects of success in this industry. Facilities management involves the delivery of multiple services (electrical, plumbing, communications) on maintenance and operational contracts.

Ability to accommodate environmental requirements:

Industry operators must have the capacity to adapt to market demand for environmentally friendly construction techniques that ensure water and energy efficiency.

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