

# ECONOMIC CENSUS

## Focus on Painting Contractors

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Coatings manufacturers consider virtually all U.S. households and businesses as potential customers, selling coatings as consumer goods to individuals through a wide variety of outlets, and selling products to producers of durable goods, virtually all of whom use coatings in their manufacturing operations.

However, the painting contractor has always been viewed as a key buying group. Much of the extensive network of paint stores—both company-owned and independent dealers—count the contractor as the central component of their business models, frequently focusing their store operations and assortment on the contractor's needs. Given that they are a key customer group, understanding the structure of the contractor market is critical.

As discussed in earlier articles (*CoatingsTech*, February and April 2011), the various federal statistical agencies gather a great deal of information about painting contractors, most notably in the Economic Census conducted every five years. However, other agencies, such as the Bureau of Labor Statistics (BLS), also capture important information on the contractor market that often parallels that published by the Census. While the

Census most recently collected detailed information on painting contractors for 2007,<sup>1</sup> and much has changed in the U.S. economy since then, the insight its data provide into the structure of the painting contractor business can still be quite useful once adjusted to the dramatically different construction business climate as it exists in mid-2011.

The 2007 Economic Census reported that there were 35,569 painting and wall covering contractor business entities, employing 233,138 persons that year. Of course, since the professional painting business is intimately tied to the overall construction market, the dramatic decline in construction has caused employment among painting contractors to drop significantly since the Census benchmark year of 2007. Recent BLS figures show that while painting contractor employment averaged approximately 241,000 during the course of 2007, employment has dropped over one third

<sup>1</sup>While the Census collects detailed information on the U.S. economy for years ending in 2 and 7, as a result of the time required to capture these data in the year following the Census year, along with the extensive verification and analysis done by Census, the data are not fully released for one to two years following the end of the Census year.

since then, falling to slightly under 160,000 in 2010.<sup>2</sup> Moreover, in line with recent construction data, painting contractor employment during 2011 continues to show a decline of over 7% on a same-month basis from 2010 levels.<sup>3</sup>

The Economic Census also provides insight into state level activity. California, of course, represented the largest single state in terms of contractor activity, with over \$3 billion in contractor revenue. However, when weighted by population, the highest level of painting contractor business took place in Hawaii, followed by the District of Columbia, Nevada, Missouri, and Washington State. The lowest states, in terms of per capita painting contractor activity, were Iowa, South Dakota, Tennessee, and Arkansas, with West Virginia in last place. This certainly relates to the overall level of construction activity, but is also influenced by such things as the makeup of the painting contractor workforce (e.g., a union-dominated workforce) and other factors driving up costs (transportation costs in the case of Hawaii, for example). Labor costs, including wages, salaries, and fringe benefits, represented roughly 42% of 2007 gross revenues.

Painting contractor employment is a very good proxy for the architectural coatings market with architectural gallons generally moving in tandem with contractor employment, as shown in Figure 1. It is not an absolute predictor of demand for architectural coatings, however, since contractor usage constitutes approximately half the demand for architectural coatings, a proportion that varies with eco-

nomie conditions and the structure of demand. For example, a strong market for new residential or commercial construction will drive contractor usage, since painting in that segment is almost exclusively done by professional painters. On the other hand, if sales of existing homes fall less than does new construction, that might potentially increase the proportion of the market represented by the DIY customer.

Going beyond the macro numbers, the Census and other data sources give insight into the structure of painting contractor demographics. For example, the Census provides a breakdown of painting contractors by revenue, and details how many employees work for each segment (Figure 2). In 2007,

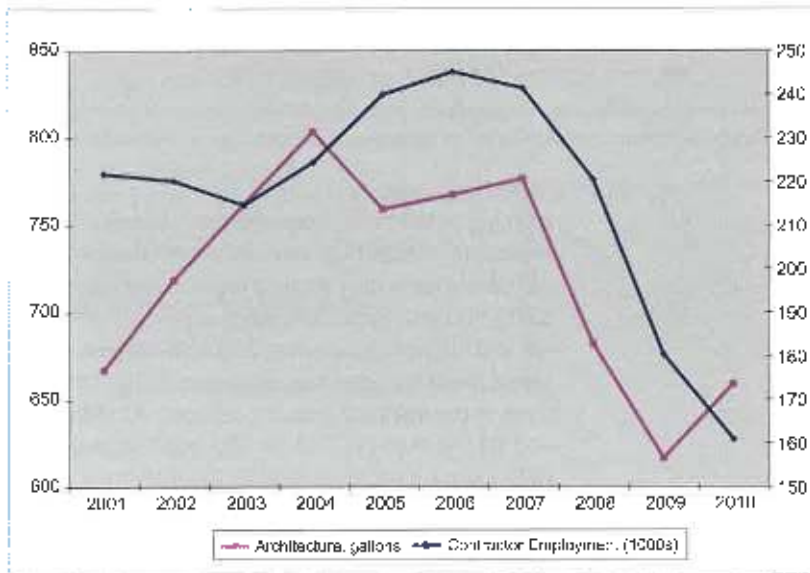


Figure 1—Architectural coatings gallons compared to painting contractor employment.

<sup>2</sup>A different SLS measurement, gauging employment within the occupation “painters and paperhangers” (SOC 47-2140) showed wage and salary employment in this field of approximately 247,000 in 2008. BLS also indicated that there were an additional 200,000 or so “self-employed and unpaid family workers” under this occupational code. Although the number of workers reported by the Economic Census is generally consistent with the occupational data captured by BLS, the activity represented by self-employed painters does not appear to be captured in the Economic Census data. However, Census separately collects information on the economic activity of those who are self-employed in a different economic series entitled “Nonemployer Statistics” which is largely based on IRS data. Although Census does not publish data for these persons to the same level of detail as in the Economic Census, it does so for a next higher aggregation, “Building Finishing Contractors” (NAICS 2383), which includes, in addition to painting contractors, such groups as flooring contractors. In 2007, this sector consisted of 700,000 persons with revenues of over \$33 billion. Given BLS estimates of roughly 200,000 self-employed painting contractors, it is clear that this group represents a significant piece of the “pro” market activity.

<sup>3</sup>According to BLS’s Current Employment Statistics survey, employment in this sector peaked in August 2006 at over 289,000.

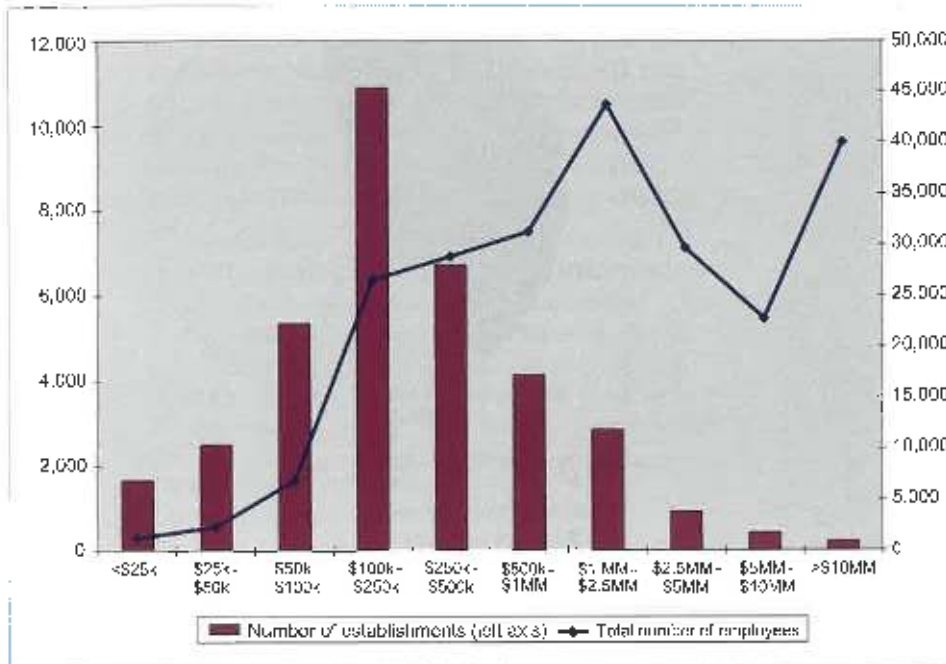


Figure 2—Contractor firm demographics (firms segmented by revenues and total number of employees).

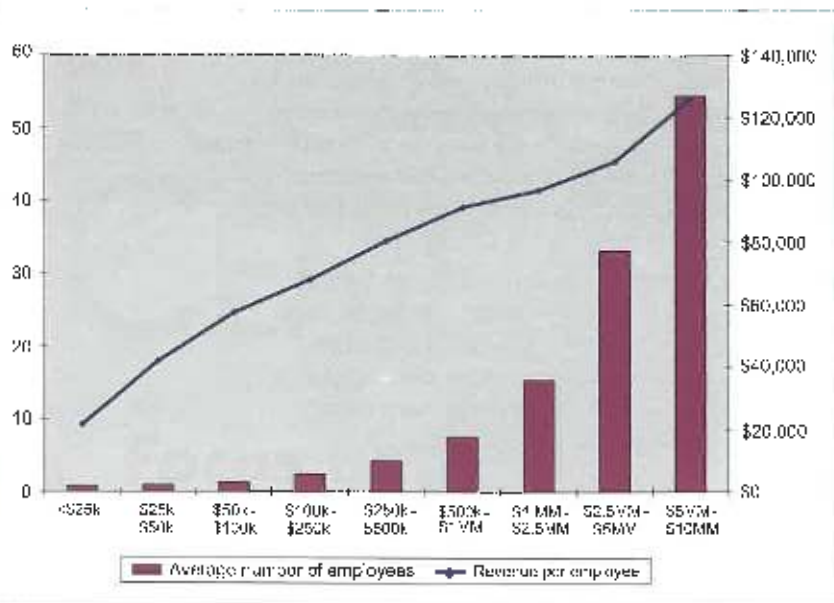


Figure 3—Employees and average revenue per employee, by size of firm.

painting contractors' mean revenues were approximately \$625,000, with the largest number of contractor firms having gross revenues between \$100,000 and \$250,000. While a plurality of firms fell into that category during 2007, the largest number of painting contractor employees worked for firms in the segment grossing between \$1 million and \$2.5 million (43,761, or 19% of all employees), with nearly as many working for the 416 firms reporting gross revenues of over \$10 million (40,065).

A significant portion of painting contractor businesses have revenues under \$100,000. Moreover, 31% of all painting and wall covering contractor firms reported themselves to be individual proprietorships, and another 7% were self-reported as partnerships.<sup>4</sup> Firms grossing less than \$100,000 reported having fewer than one employee on their payrolls (not including the owner-manager or proprietor). In fact, of the nearly 36,000 painting contractors counted by Census in 2007, over 25,000 reported having five or fewer employees on their payroll.

Of course, the professional painting business offers relatively few barriers to entry—at least for residential repainting, which has neither high capital requirements, nor does it require extensive training or certification (painting contractors who specialize in industrial and infrastructure painting projects do, of course, require expensive equipment and specialized training). As a result, there are likely to be a number of individuals and small painting contractor businesses that operate outside the purview of government statistical agencies and who sometimes work on a “cash” basis. The overall activity represented by these players is likely to be relatively small, but potentially important in certain segments and markets. Similarly, BLS employment

<sup>4</sup>These figures also omit the self-employed painting contractor (see footnote 2).

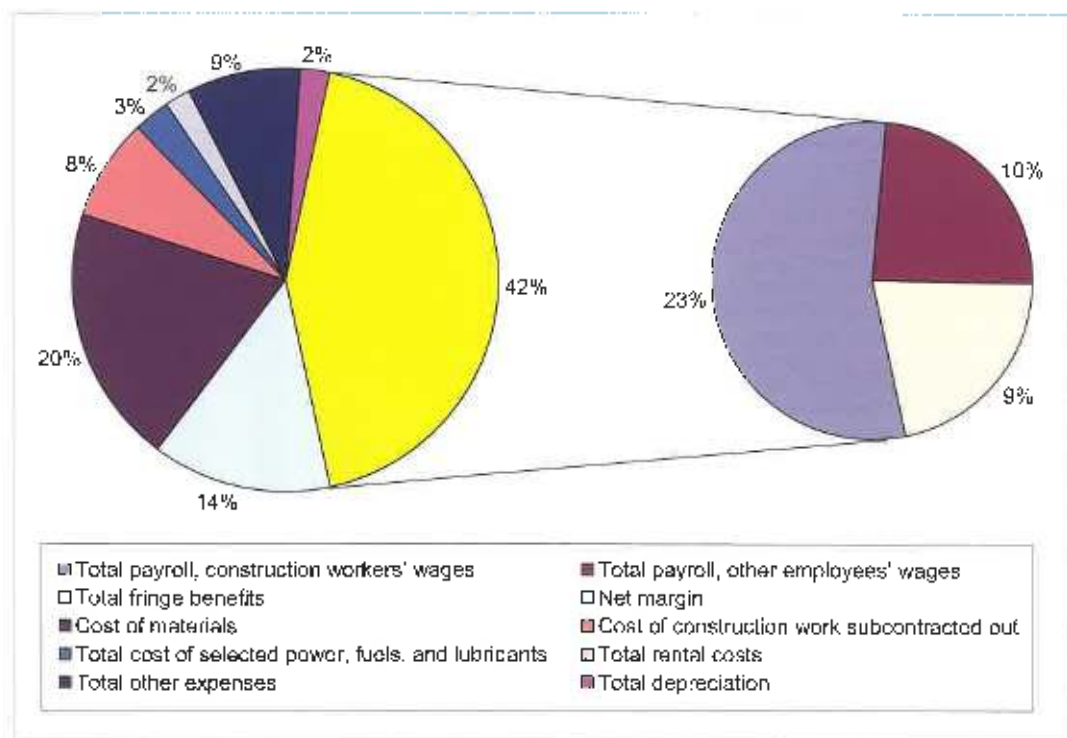


Figure 4—Allocation of costs, painting and wall covering contractors.

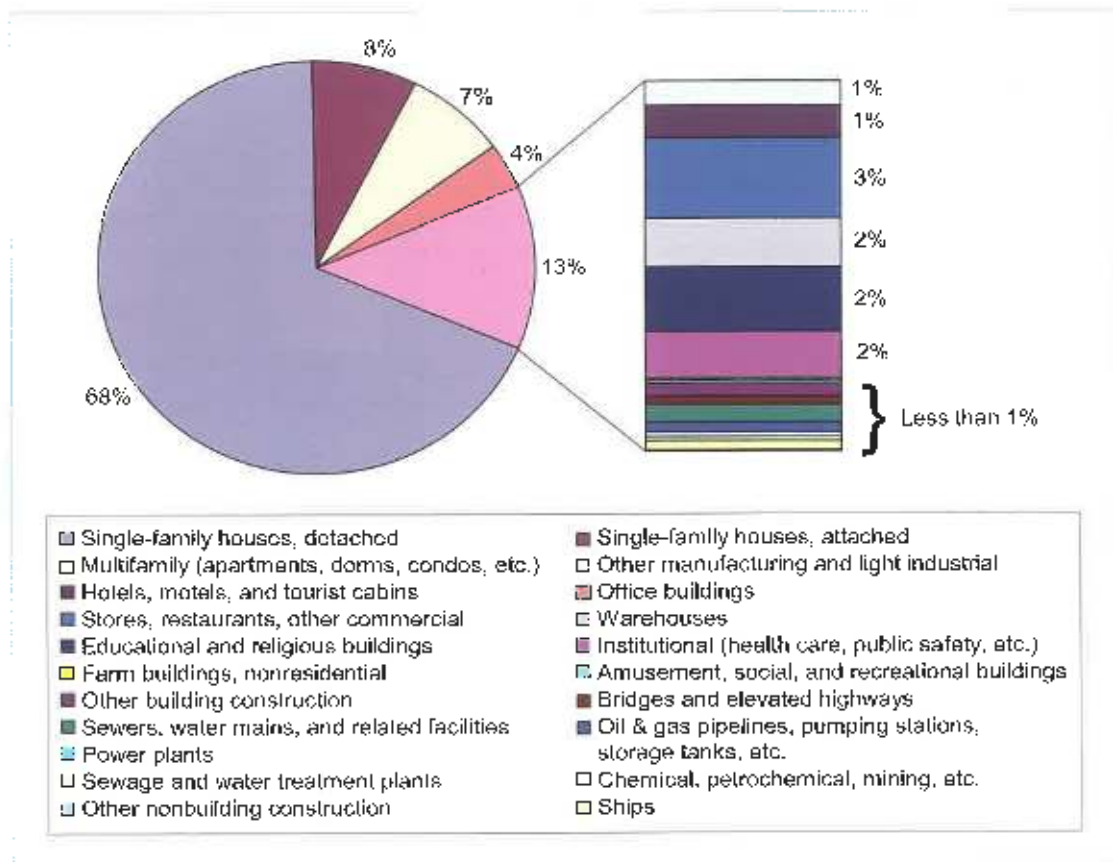


Figure 5—Specialized firms by market segment (number of entities).

statistics are unlikely to fully account for the impact of the "day labor" market, where contractors hire temporary workers from a formal or informal hiring site, often on a cash basis.<sup>5</sup>

On the other end of the scale (as shown in Figure 3), firms grossing between \$5 and \$10 million during 2007 reported having nearly 60 employees on average (while a small number of firms grossing more than \$10 million, not shown here, averaged 184 employees). Moreover, as firms grow larger, it appears that each employee becomes more productive, with revenue per employee steadily rising as firms' revenues increase. This could be explained in part by the greater proportion of more lucrative commercial and industrial work acquired by firms as they grow larger and more capable.

The Census also reveals a great deal about the cost structure of the roughly \$22 billion (in 2007)

painting contractor industry (Figure 4). Total operating costs, including personnel costs, depreciation, and cost of materials and other inputs, were slightly over \$19 billion, leaving a net margin of approximately \$3 billion, or approximately 14%. Personnel expenses (wages, salaries, fringe benefits) accounted for half of total costs, with construction workers' wages accounting for one fourth of total costs. The cost of materials, which would include the paints and sundries that certainly comprise the overwhelming majority of materials expenses, accounted for nearly \$4.4 billion, or 23% of costs.<sup>6</sup>

The Economic Census also provides significant detail on the degree to which painting contractors focus on particular markets. For example, of the over 35,000 painting contractor entities in business during 2007, nearly 80% reported that they "specialized" (i.e., they devoted over 50% of their activities to a single market segment, such as office buildings), and nearly 40% of all painting contractors (13,955)

<sup>5</sup>For example, one 2006 study found that day laborers are primarily employed by homeowners/renters (49%) and construction contractors (43%). The top five day labor occupations are construction laborer, gardener and landscaper, painter, roofer, and drywall installer (with 80% of day laborers reporting being employed as a painter at some point). See "On the Corner: Day Labor in the United States," January 2006, [www.sscnet.ucla.edu/issr/csup/uploaded\\_files/Nat\\_DayLabor-On\\_the\\_Corner.1.pdf](http://www.sscnet.ucla.edu/issr/csup/uploaded_files/Nat_DayLabor-On_the_Corner.1.pdf).

<sup>6</sup>As shown in footnote 2, this does not represent the entirety of professional painter demand, since it does not include purchases made by self-employed painters captured in "Non-employer" statistics. Nor does it account for incidental painting activity done by other tradesmen, general contractors, or facility maintenance personnel.

spent 100% of their time working in a single end use segment. Figures 5 and 6 show the degree of specialization among painting contractors.

However, the revenue pie looks quite different. While firms specializing in residential painting represent almost three-quarters of the specialist firms, they account for only 45% of the revenues. On the other hand, painting contractors specializing in office

painting (approximately 4% of all firms), take away over 10% of revenues (Figure 6).

Finally, while firms engaged in the painting and wall covering contractor business obviously derive the overwhelming portion of their revenues from painting (approximately 80%), they report engaging in a number of related activities. Most of this is characterized as other construction (such

Figure 6—Specialized firms' share of revenues, by market segment.

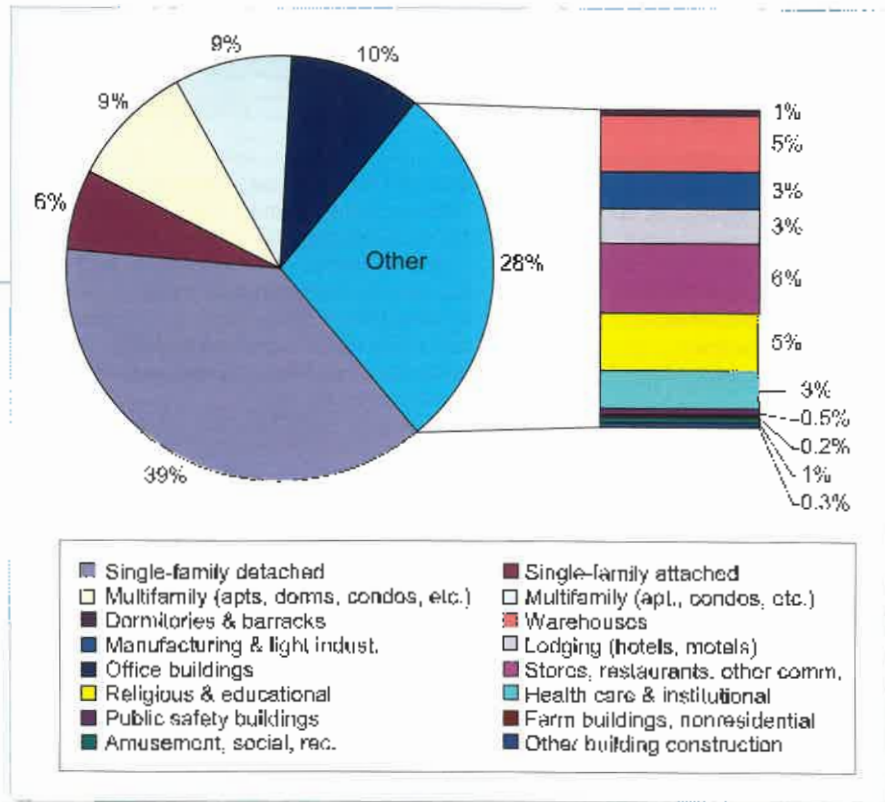
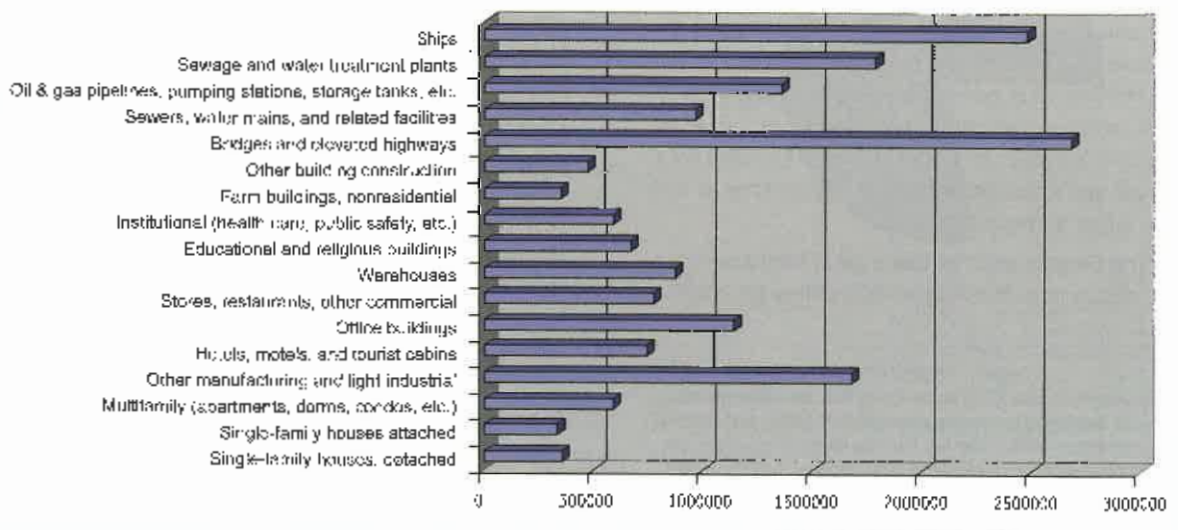
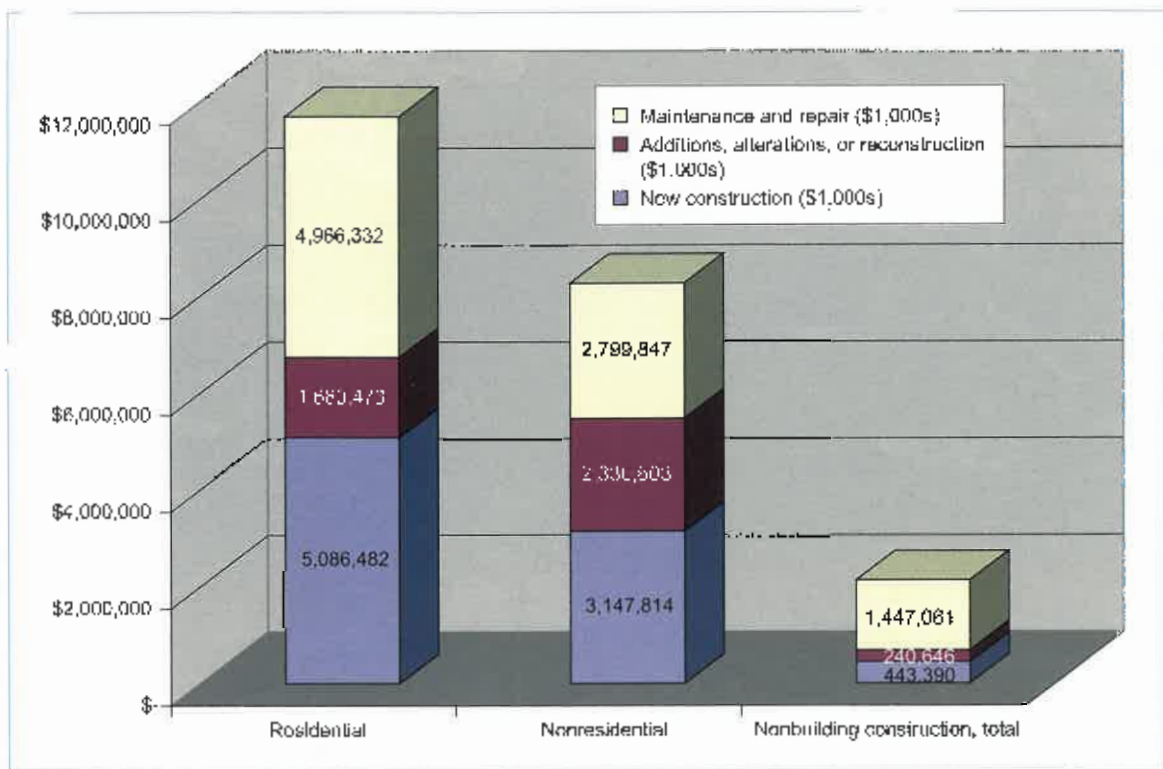


Figure 7—Specialized firms; mean revenue, by segment.





**Figure 8—** Breakdown of painting work by type (2007 data).

things as drywall installation, plastering, plumbing, etc.) Surprisingly, given that the full designation of this segment under NAICS<sup>7</sup> is “painting and wall covering contractors,” the wall covering or removal portion of the industry represented less than 4% of revenues, which perhaps suggests a decline of wallpaper’s popularity relative to paint.

As most industry observers would guess, the segment comprised of painting contractor firms that focus on single-family homes (both detached and attached) is by far the largest, both in the number of companies specializing in this area (74% of all companies), and in gross revenues (42%). However, as shown in Figure 7, the average revenues for firms specializing in residential painting were, along with non-residential farm building painting, the lowest for any specialized firms during 2007, with firms in these areas of specialization garnering average revenues of less than \$500,000 annually. A large portion of the small painting contractor firms are focused on the residential market (predominantly engaged in maintenance painting, as opposed to new construction). On the other end of the spectrum, firms that specialized in painting industrial structures and major infrastructure projects were the largest by revenue, with earnings of over \$2.5 million (bridges and elevated highways), and revenues for the small number of firms that

specialized in painting power plants (not shown) averaged over \$18 million.

Common ways of segmenting the industry consider whether the work is new construction or maintenance painting (repaint), or whether the work is residential, non-residential, or non-building (typically relating to infrastructure construction). As shown in Figure 8, the largest segment during 2007 was residential, and that segment was driven in roughly equal portions by new construction, and maintenance and repair (with additions, etc. making up a small portion). Non-residential, on the other hand, saw a much more even split between the three types of work. Finally, in the relatively small non-building segment, the largest portion of the work, by far, was in maintenance and repair, which represented roughly two-thirds of the value of the segment.

As noted, there have been substantial changes in the construction economy since these data were collected, and the painting contractor business has undoubtedly seen significant changes—particularly the dramatic decline in new construction since 2007. However, with appropriate adjustments, the government data can still provide useful insights into this key end-use market. ●

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<sup>7</sup>NAICS is the North American Industrial Classification System. NAICS replaced the less detailed Standard Industrial Codes, or SIC.