

THE ENVIRONMENTALISTS: Ten Years Later

It was ten years ago this month that the Environmentalists, the contract dealer network owned by Invista, was dismantled. A decade earlier, in the 1990s, several of the flooring industry's large manufacturers had ventured into the commercial flooring contracting business by acquiring privately owned, preexisting commercial contracting firms and rolling them into their large corporations. The Environmentalists was the largest of these, but Interface and Shaw, under the names Resource and Spectra, respectively, created similar contracting divisions. However, the nature of the commercial contracting business, which requires involved leadership and quick action, proved to be a challenge for Invista's corporate ownership, and ultimately it could not be sustained.

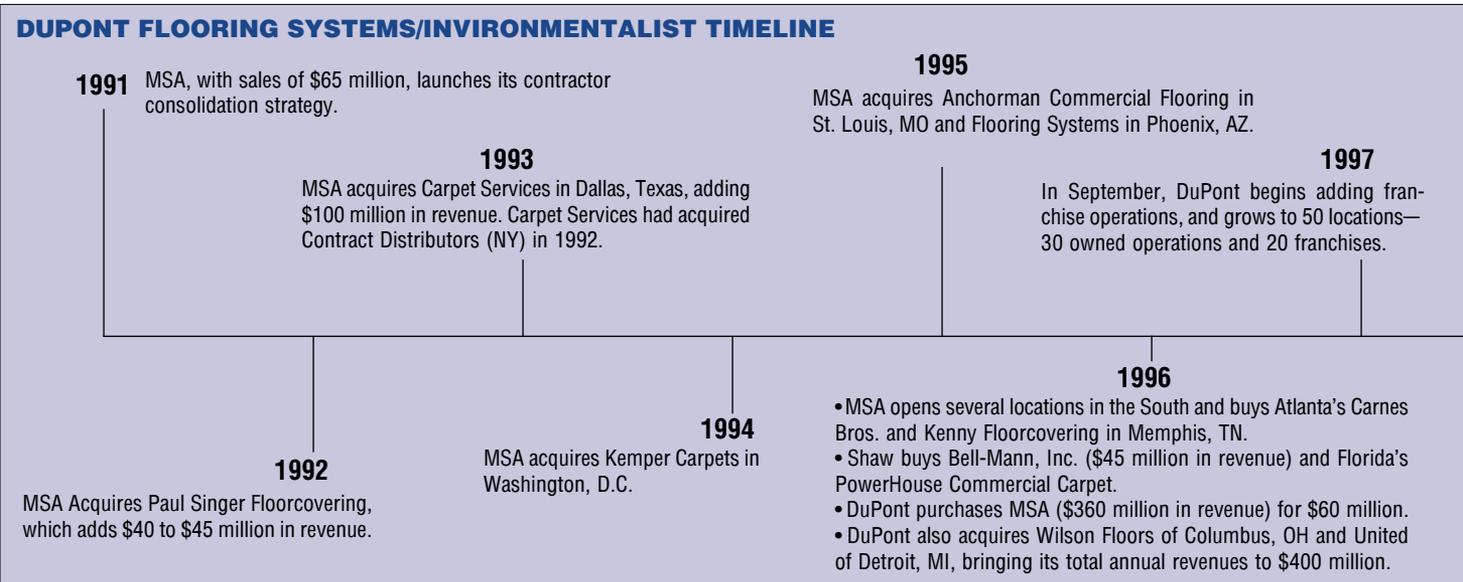
What appealed to these large corporations about internalizing the commercial contracting business? Through their eyes, buying up the "middleman" meant that they could guarantee the specification of their products and also make money off the installation and possibly even capture some ongoing maintenance business.

ENTREPRENEURIAL OPERATIONS

That view, however, was shortsighted and failed to consider the necessarily entrepreneurial nature of running a commercial contracting business, a hands-on operational business that calls for the sort of nimble action that large corporations have difficulty managing. Eventually Invista sold its commercial contracting businesses back to the sort of private, entrepreneurialism

that founded them in the first place, and many of them are now thriving again under the type of leadership that isn't afraid to get in the trenches and make decisions.

There is also the complexity of contract dealer operations and its many moving parts. When a commercial contractor wins a job, they purchase the flooring and installation materials out of their own funds. Most manufacturers require that invoices be paid on 20-day terms, and often, because of routine construction delays, the product hasn't even been installed by the time the bill comes due. Commercial contractors also have to pay the laborers to install the flooring as the work is being done. Most flooring contractors have warehouses, forklifts and delivery trucks, so they've got overhead to cover as well.





DFS Flooring, with six locations in the West, including this operation in Van Nuys, California, was formerly part of the Environmentalists.

Throughout this process, the commercial flooring contractor must leverage a significant amount of cash up front and hope for timely payment by the general contractor after the job is completed. Even at that point, the general contractor is allowed to hold back 10% in retainage fees until the project is completely finished. For this reason, many commercial contracting firms are forced to operate on a negative cash flow basis. Based on the thin margins that most commercial contractors work within, the bulk of the profit is tied up until the retainage is paid.

EARLY DEVELOPMENTS

The level of risk involved has always been a challenge, and strategies for overcoming that risk played a role in the early development of the Environmentalists. In 1991, father and son Monroe and Barry Schneider, owners of Monroe Schneider Associates (MSA), a contract dealer based in San Francisco, devised a strategy to minimize the negative cash flow issue. They began acquiring regional flooring contractor firms and

rolling them under the MSA umbrella. The arrangement allowed the company to offer the benefits of flexibility and customer service typical of smaller entrepreneurial flooring contractors with the stability of solid financial backing.

MSA's goal was to create an umbrella under which the smaller businesses it acquired could continue to operate as before, similar to Starnet's model today, except that the regional businesses would all be part of one MSA company. For the next five years, MSA purchased companies all over the U.S., buying up some significant commercial contracting firms, including Paul Singer Floorcovering of Sherman Oaks, California; Carpet Services of Dallas, Texas; Kemper Carpets of Washington, DC; and Anchorman Flooring of St. Louis, Missouri.

In 1995, Ron Rose, then president of MSA, was asked to start his own branch of the company in the Southeast. Rose moved to Atlanta, Georgia and approached John Bell of Bell-Mann, Inc., considered at that time to be the premier commercial carpet contractor in the Southeast, about acquiring his com-

1999

DFS reaches its peak of \$750 million in revenue, with \$250 million coming from its franchise operations.

2003

In December, DFS changes its name to the Environmentalists.

2004

- In April, Koch Industries buys Invista, DuPont's nylon fiber business, for \$4.4 billion, a sale that includes the Environmentalists.
- In June, Koch starts to divest itself of the Environmentalists. Today, most of the businesses that were divested are thriving.

CONTRACT DEALERS: LEVERAGING EXPERTISE

Contract dealers install commercial flooring, but their value runs much deeper than that. Working with every variety of floorcovering good enough to be specified, contract dealers bring a breadth of product knowledge that is both vast and generally unbiased.

Their expertise also extends to the site, including both the physical processes of product installation, logistics and sub-floor preparation, and the bureaucratic requirements in terms of contracts, process, scheduling and coordinating work flow. Those technical skills also include knowledge of LEED and other sustainability practices, along with comprehensive understanding of maintenance procedures and warranty issues.

Ultimately, contract dealers are ideally positioned to be the coordinating entity between manufacturers, A&D, general contractors and end users. However, because their skills are insufficiently appreciated and generally undervalued, their roles are often limited, to the detriment of the project and the players involved.

pany. Negotiations progressed. However, the same day MSA was scheduled to complete the acquisition of Bell-Mann, Bell changed his mind and sold the company to Shaw Industries.

CREATING DUPONT'S NETWORK

In the mid '90s, DuPont's nylon business was the largest supplier of fiber in the carpet industry. The company decided that one way to gain more marketshare with its Antron branded carpet fiber was to acquire a network of commercial flooring contractors, which would, in turn, give the firm more control over the type of carpet that was specified across the country.

DuPont set its sights on MSA, since, over the course of two years, MSA had grown from \$60 million in revenue to \$360 million. MSA agreed to sign a non-disclosure agreement, giving DuPont first right of refusal to purchase MSA. Shaw Industries was also interested in purchasing MSA and offered more than DuPont was willing to pay. Because of the non-disclosure agreement, MSA was committed to selling to DuPont.

In 1996, DuPont paid \$60 million for MSA, and DuPont Flooring Systems, or DFS, was established. Over the next seven years, DFS grew its operation through acquisitions and by opening franchise locations. By its peak in 2003, the company had around 50 locations, 30 of which it owned. And it was grossing \$750 million in revenue, a third of which was coming from franchise member companies. In 2003, DFS changed its name to the Invironmentalists, billing itself as a full-service, large-scale commercial flooring operation, offering everything from interior assessment to installation, maintenance and reclamation.

Though DuPont had plenty of cash on hand, the large corporate environment simply couldn't deal efficiently with the day-to-day issues of the flooring contractor business, so the venture was not as lucrative as DuPont had hoped.

In 2004, the Koch brothers, who today own the second wealthiest capital group in the U.S., bought Invista, DuPont's nylon business—which included the Invironmentalists—for \$4.4 billion. Within two months, the Koch brothers determined that the Invironmentalists commercial contracting business was not in line with the firm's core competency and began divesting itself of that division. Koch retained Rose to negotiate the sale of all

the individual flooring contractors under the Invironmentalists umbrella. The 43 locations in existence at that time were sold off in a total of 26 transactions over the next 12 months, with the franchise operations joining Starnet and the DFS operations sold to outside buyers. The Koch brothers actively avoided over-negotiating in the process of divesting itself of the Invironmentalists, and some businesses were sold for much less than they were worth. During negotiations, the Koch brothers would ask how much a company was worth and then offer it up at a substantially smaller asking price. Firms like RD Weis, initially concerned that the scales would be tilted against them in negotiating with a giant like Koch Industries, ended up purchasing their operations from Koch for nominal consideration.

Weis says that the Invironmentalists business was DuPont's attempt to apply corporate rules and strategy to cottage industry operations, which simply won't work. "This [commercial contracting] is a boots-on-the-ground business," Weis says. "Flooring contractors are not sitting in strategic planning meetings every day—they're much more action-oriented."

Richard Friedman, who was CFO of the Invironmentalists before the Koch acquisition, acquired the original Paul Singer Floorcovering location in Los Angeles during the ensuing divestment and kept the DFS name. According to Friedman, another of DuPont's missteps in creating the Invironmentalists was moving top salespeople into management positions. In doing so, the company created poor management and simultaneously eliminated its very talented sales staff.

Friedman also points out that DuPont was certain it had enough brand equity with its name alone to make a corporate flooring contractor business a success. It became clear, however, that customers care more about service than they do about the name on the truck.

WHAT'S IN A NAME

The name Invironmentalists has been attributed to a couple of different origins. In a press release to the public in 2003, Mike Papparone, then CEO of Invironmentalists, said the name was a combination of the words "interior" and "environments," intended to highlight the company's focus on the health and productivity of the interior environment. Another source says that it is a combination of DuPont's Invista brand name and the word "environmentalists." Still others have said that the name Invironmentalists was never formally agreed upon by Invista's upper management; originally, the term was supposed to be a tagline as part of an overall marketing strategy, but it was used instead as the company's name in an 11th-hour decision by the marketing team.

The Invironmentalists was the first conglomerate commercial contracting business to be split up. Shaw's Spectra, though still in existence today, also sold many of its individual flooring contractor affiliates, while Interface divested entirely.

Interestingly, many of the contract dealers divested by Invista, such as the Invironmentalists businesses sold to RD Weis and Friedman's DFS business, are quite successful now that they are back in the hands of entrepreneurs. Today, RD Weis has six locations throughout the northeastern U.S., and DFS has 200 employees in six locations in the West, with sales of over \$50 million annually. ■