

BY CLAYTON DEKORNE

Local Hero: A Conversation With Tom Kelly

Bigger isn't always better. In houses, it can impair building performance, but in business, it's usually preferred and almost always admired. In the remodeling world, the biggest firms are typically specialty firms that deal in a specific product line, like windows, siding, or bathroom facelifts. But a number of remodeling firms are able to scale high-quality renovation and design work, and Neil Kelly, a design-build remodeler and custom builder in the Pacific Northwest, has long been in that group of top firms. Still, I was surprised when Neil Kelly landed in the top position for design-build firms (and at No. 61 of all remodeling businesses) on *Qualified Remodeler's* "Top 500" ranking of the largest companies. Though a bit different from when I learned Elon Musk had become the richest person in the world, I found myself asking the same question: How did that happen?

On the eve of his retirement (later this summer), I connected with Tom Kelly to discuss this and the arc of his career as a whole.

Your father started the business in 1947. How did you come into the business?

I come from a big family, but my dad, even though I was one of the younger ones, identified me as the kid he wanted to have involved in the business. And so I worked summers with some of my siblings and drove delivery trucks and did cleaning-up jobs—all that sort of stuff. After college, I started in the company doing carpentry work and cabinetmaking. Toward the end of my college days, I did do one internship, in Washington, D.C., for a congressman from Oregon. But other than that, I have worked at Neil Kelly my whole career, my whole life.

I engaged in the leadership part of the company at the end of 1976. I was production manager, and in 1979, my dad had a couple of serious heart attacks, so I took over as president. That seems like a long time ago.

Your son Garrett is now working in the company, also on the production side. Was it intentional that you put him in production to follow a similar path?

You know, that's where he wanted to be, and I certainly didn't have any objections based on my own history. He's more of a natural production person than he is a salesperson. You play to people's strengths when you can. Currently, he's vice president of production. He's got a pretty big job in the company, there's no question about that, but he's 31, and I wasn't ready to move him into the leadership of the company, even though I was younger when I took



At 71, Tom Kelly is retiring from Neil Kelly, the company his father started in 1947.

over. It's a more complex company these days. Really, I look back at that: I was 27, and I'm just amazed that we managed to survive those years, when I was so young and inexperienced. Now we have four locations and 220 employees, and in those days, when I took over, we probably had 60 employees. But we were still a going concern.

Certainly, 60 employees is a huge success by a lot of measures. To me, it is amazing that you're now the largest design-build remodeler in the country but also one of the best, in terms of quality. I don't necessarily equate large with quality in the building business.

Largest by gross remodeling sales. But I think largest in the category is a fleeting moment because there's a lot of consolidation going on in our industry.

You and I both sat in on a recent session of the Harvard Joint Center for Housing Studies, which had a panel that focused on that consolidation. I was surprised you were not on the panel when I learned while preparing for this interview that some of your growth came from the acquisition of smaller kitchen and bath companies. Or is that different from the consolidation happening now?

These days, what's happening is big investment firms are starting to acquire remodeling companies—mostly specialty businesses, like siding or windows. Those companies are dynamic kinds of businesses that are different from how we typically work. We were never trying to do anything beyond being a regional company. Our business is localized. To try to be a national brand is not something we ever had any intention to do; I think it's almost impossible for a design-build firm, with its complexity, to be national. There are so



Neil Kelly has made home performance a centerpiece of its organization. It started in the 1970s doing subsidized weatherization work, but these days, the company's solar division does more work.

many great aspects to the business, but it's sometimes challenging to maintain communication in a large organization. As it is now, with four locations, it's a challenge for each location to get our DNA, to get what we're about. It takes constant attention. Though, of course, I do think we are doing pretty well.

I read in a Building America case study that the home-performance side of your business helped lead you out of the last recession. How big has home performance and energy been to your business, and is it accurate that it led you out or helped with the challenges of the Great Recession?

At the time, that was a fair statement. It started in the '70s: We had what we called our "insulation division." There were a lot of state and federal incentives then, and we had seven trucks running crews insulating homes. All the federal tax incentives went away when Ronald Reagan became president, but I've always been interested in the energy efficiency aspect of our business, and in 2005, we started an energy retrofit division. So when the 2008 debacle hit, ARRA [American Recovery and Reinvestment Act] funds helped stand up an energy retrofit industry in Oregon that was quite phenomenal. That lasted until about five years ago. We had a viable division doing energy retrofits with about 40 employees in it. The state funding slowly dissipated, and the state organization that was leading all that folded.

Since then, we have purchased a solar company. So if you call us today, we will still do home performance—we still use blower doors and have cultivated a number of people with great expertise. But now that sort of work is mostly solar. We love that part of the company, but in the Northwest, those kinds of projects are relatively few compared with other remodeling work. Homeowners won't do energy retrofits unless there are financial incentives, which is too bad. I strongly believe that energy retrofit work is a much better thing to do for climate change. Better than solar, though, of course, they're both good. Hopefully, we may see some of that come back.

That's a good segue: I want to ask you about becoming a B Corporation, which is hard to get. How did that come about for Neil Kelly and what do you think that's done for business?

We have a long history of being a progressive business organi-

zation, particularly connected with climate. We first became active around the time of the 2008 recession with the international organization called The Natural Step [a nonprofit focused on a scientific, systemic, and strategic approach to achieving sustainability, in part by aligning with "future-fit" organizations and role models for sustainable business in communities; thenaturalstep.org]. A strong contingent of businesses in Oregon were affiliated with The Natural Step, including Rejuvenation, a light fixture company that my younger brother had. Through that, he and I both became intrigued by B Corp. As a family, we are politically progressive people who care about the environment, care about reducing climate change. It helped that Oregon was pushing that and trying to get ahead of the climate. Oregon's a small enough state that it's possible to know the governor, and we all worked—a whole lot of other people working toward a network of businesses aiming at "people, planet, profit," that kind of stuff.

For me, B Corp was a wonderful tool to think about implementing into the organization—to develop corporate bylaws that measured our environmental and social impact and that we could stand behind. It is a lot of work. We have to renew every three years, and it's not a rubber stamp; you've really got to be committed. But it's a good way to get all those values buried into our company DNA. I expect that to be there long after I'm gone. So that was why it was such an easy decision for me to take that on.

Certainly, there is a B Corp community, but I would never recommend anyone do it as a marketing campaign. It hasn't necessarily brought a lot of business. That is not why we do it. But I will say it turned out to be a great recruitment tool: You attract people who share those values. They are intrigued by you because you're a B Corp, and that is so important. From the HR recruiting perspective, it's fabulous, and that is a real business benefit, especially in these times.

Another perfect cue, as I want to touch on the lack of skilled labor: The whole construction industry has been in this labor crisis for at least a decade. I have always been intrigued that besides being a B Corp, Neil Kelly is also a union company, which is a rare bird in residential, to be sure. And I have long admired the United Brotherhood of Carpenters



Neil Kelly's handyman division booked around \$9 million last year; it's the most profitable part of the company.

for the training it offers through the apprenticeship program.

Yes, our carpenters come from the union. Here in the Northwest, the union is mostly commercial oriented. We're the only union shop in Portland that does residential work, and we have a separate agreement, separate from the commercial companies; we couldn't afford to be union if we had to pay commercial rates.

If a young carpenter goes through the apprenticeship program, the training is pretty good, but there's a little bit too much emphasis, in our view, on commercial. So the training aspect is, well, I would give it a C. For what we need, I think they could do a lot better job with the carpenters we have. But the union does help: We pay our carpenters at the union rate, but the union then provides carpenters with their benefits. I was just down in our Eugene office for an employee reception, and a carpenter I was chatting with was raving about how important to him the benefits are. The health benefits, and a nice retirement package, are so much better than what anybody in our company who is not part of the union gets. The benefits package is second to none.

So through this labor period, it's still been hard recruiting carpenters, but we have had to do that less because we've basically been able to keep our staff. But even though we retain them, we still need to think about where the next generation is coming from.

Do you run your own in-house training for carpenters?

We're doing a better job of that. We have what we call Neil Kelly University that covers a whole lot—everything from teaching our design associates Chief Architect and sales and project management, and so on. And we now have a person whose main job is just training, and her next project is to develop a more complete carpenter training program. So we are improving. But already—I probably sound like I'm bragging—I think we have probably the strongest training capability in a modern company.

Training and retaining employees is a big part of it, but there are many aspects to how we build our production excellence. We're a

team-based organization, which has been a big part of our success. We developed our team program back in the '80s. This is different from what a lot of remodelers are doing; many are still doing some version of the lead carpenter program.

Our teams are made up of a couple of designers, a project manager, and then a design assistant, and everybody else on the team is a carpenter. They work together all the time; in some ways, they're like a small remodeling company.

I can't overstate how keeping that team together, working as a unit, is important because on every project, there is continuity from sales and design through production. If somebody were to ask me to list all the reasons why we've been able to get as big as we are, I would say that the team system we have is the most important.

Help me understand why a team is better than having a lead carpenter who is on the job all the time.

I think there are companies that have made the lead carpenter system work. But in my opinion, it's a limit to growth. We haven't been able to get skilled carpenters who are also skilled project managers, and that is necessary to make that system work. I think you're asking too much of one person. We do have a lot of carpenters who become project managers in our company, but we have a lot of carpenters who never will be.

This makes a big difference in how contractors can grow. It allows us to have a flat organization with fewer management layers. Keeping to a team structure, we have better coordination and communication. That is very different from a company that has a completely different organization chart.

Are those teams running multiple, or overlapping, jobs?

Yes. Our project manager might be running somewhere between three and eight projects. We do all sizes of jobs, even custom homes, but a lot of our jobs are smaller, in the \$200,000 range. That project manager is probably working with two sales designers and likely has somewhere between two and five carpenters on the team.

We are somewhat fluid; we share work around the teams. If one team is getting too busy, then we share work to another team. In Portland, for instance, we have around 11 teams. The project managers report to the vice president of production. And then we have a design director, who functions largely as the sales manager, and the designers report to her.

That's all on the full-service side. You also have a handyman division, right? How is that going?

Yes. I read an article last year by a contractor who was saying, don't do handyman, it's not profitable, just something to get better work, and that sent me into orbit. We billed somewhere around \$9 million worth of business last year. It's our most profitable division.

Does it drive sales for bigger jobs?

To an extent, but that's never been why we did it. I think it's important that each division is profitable. You should run every part of the business with the intention to do it well and make it profitable.