

## **Small Business Case Study**

### Talking long term

# John Bartlo's challenge: Making his customers foam over insulation, with wallets open wide

IN LITTLE MORE THAN A YEAR, John Bartlo lost his job at the Huntley power plant in the Town of Tonawanda, built a new house and started his first-ever business.

The tale of John Bartlo may be a classic small-business case of taking lemons and making lemonade.

It was the construction of his new house that Bartlo decided to form Energsmart Insulation.

It was after the drywall had been installed and the house was nearly completed that Bartlo learned about the long-term cost effectiveness of using a polyurethane foam for insulation instead of traditional fiberglass.

That intrigued Bartlo, so he did more research.

What also caught Bartlo's fancy was the notion of opening his own business, in this case, installing polyurethane foam in still-under-construction homes.

"I knew I didn't want to work for anyone again," he says.

Tapping into his own personal savings as well getting loans from his father and brothers, Bartlo opened the doors in April 2004 for Energsmart Insulation.

Bartlo's experience's serve as guide posts for anyone starting out in business, especially in an economically challenged region like the Buffalo Niagara area.

Start-up costs: "I went from unemployment to owning my own company," Bartlo says.

To do that, it wasn't cheap.

Bartlo was able to marry his own home building experiences with a knowledge of the region's weather patterns and his own research and due diligence on a path that lead him to the creation of Energsmart Insulation.

Bartlo estimates it cost him about \$100,000 to open the doors on his business. Much of that was spent on equipment, training and hiring personnel.

For instance, Bartlo had to buy a 28-foot trailer to house the equipment he and his crew needs to install the insulation.

Bartlo's lead "foamer", the main guy on his three-person installation crew, gets \$23 an hour. That, in itself, was an education.

"It gets scary," Bartlo says. "All of sudden, you realize you are dumping your nest egg and life savings into something that could fail in an instant."

The really early days: Within a few weeks of opening his business, Bartlo had his first customer.

"Hey, this is easy or so I thought," Bartlo says.

The trouble was, Bartlo didn't land his second customer until August. But since September, he and his crew have worked every day but three.

Among his clients are Essex Homes of Western New York, Barden Homes and Heartland Homes.

Heartland used Energsmart Insulation in its Horizons Home Show model. Essex hired Energsmart for two model homes and two direct customer orders.

Revenues: Energsmart made \$129,000 last year, but Bartlo expects revenues to top the \$500,000 mark this year.

What does he sell? Unlike other aspects of the home building process, what Bartlo sells isn't really seen by his customers -- but they can feel its impact.

The foam creates an air tight seal that Bartlo says can save a customer anywhere from 30 percent to 50 percent on their energy costs annually.

The foam has to be installed during the construction process.

Why?

Because once it goes into the frame, it expands by 108 percent. It is that expansion that fills in all the cracks and holes. The product feels like a cross between a nerf football and angel food cake.

"If you did it after the dry wall was installed, you'd blow the dry wall completely off," Bartlo says.

The lone exception is the basement and attic, where walls are often left exposed.

Now here's the rub.

The Energsmart process, initially, costs far more than a traditional fiberglass insulation process. The cost to insulate a 2,000-square-foot home with fiberglass typically runs about \$2,500 while with the Energsmart system costs \$6,250.

The entire process takes a three-man crew three days to install the insulation.

"The payback is your energy bills will drop between \$40 and \$50 per month," Bartlo says. "You can make your payback in four or five years."

Blindsided: Energsmart almost had its knees knocked out just as they started to get going.

The company's insulation supplier, with no warning, filed for Chapter 7 bankruptcy protection, leaving Energsmart in a very precarious position.

"One of my hindsight lessons, is that I should have done more due diligence on them," Bartlo says. "I make no excuses for that."

Bartlo scrambled but found another supplier. To insure the supplier remains solid, Bartlo bought 60 percent of the company and will be moving its sales operations to Grand Island.

Lessons learned: Talk and talk and talk.

"Talk to as many people as possible and never put too much trust in any one company," Bartlo says. "I could have spent more dollars more wisely."

Bartlo says due diligence is essential for any start up business.

As a first-time business owner, Bartlo says he was shocked by how many hidden costs he encountered ranging from the cost of advertising, hiring and training people and, taxes.

"In a way, I feel like I've been blindsided by all the nickel and dime things that you have to pay just to stay in business in New York," Bartlo says. "I never thought about things like unemployment insurance, worker's comp and insurance. I do now."

Changing hands: Among the other lessons, Bartlo has had to teach himself is the hiring and firing of employees. Neither is a fun experience.

In the past year, three employees have either left or been fired.

"We're such a small company that if I lose one guy, there goes one-third of my workforce," Bartlo says. "And, in this business, it can happen at any time. You don't get two weeks notice like you do in the corporate world."

What's on the horizon? Business is picking up.

Bartlo is close to purchasing a second 28-foot trailer, a move that means he will have to hire a second three-man crew.

What about the competition? Bartlo noted when he first began looking at starting an insulation installing company, there was just one local firm that used the polyurethane foam process exclusively. Fiberglass is, and remains, the insulation of choice.

Bartlo admits to compete, he has to sell by talking up his product while damning traditional fiberglass. It's a tough sell, especially with the dramatic price difference.

"You can't market what we sell unless you trash fiberglass," Bartlo says, "and that's a tough one."

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